STOCK EXCHANGE PRACTICES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

SECOND SESSION

ON

S. Res. 84

(72d CONGRESS)

A RESOLUTION TO INVESTIGATE PRACTICES OF STOCK EXCHANGES WITH RESPECT TO THE BUYING AND SELLING AND THE BORROWING AND LENDING OF LISTED SECURITIES

AND

S. Res. 56 and S. Res. 97

(73d CONGRESS)

RESOLUTIONS TO INVESTIGATE THE MATTER OF BANKING OPERATIONS AND PRACTICES, TRANSACTIONS RELATING TO ANY SALE, EXCHANGE, PURCHASE, ACQUISITION, BORROWING, LENDING, FINANCING, ISSUING, DISTRIBUTING, OR OTHER DISPOSITION OF, OR DEALING IN, SECURITIES OR CREDIT BY ANY PERSON OR FIRM, PARTNERSHIP, COMPANY, ASSOCIATION, CORPORATION, OR OTHER ENTITY, WITH A VIEW TO RECOMMENDING NECESSARY LEGISLATION, UNDER THE TAXING POWER OR OTHER FEDERAL POWERS

PART 4

Dillon, Read & Co.

OCTOBER 3 TO 13, 1933

Printed for the use of the Committee on Banking and Currency

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CONTENTS

Testimony of: Page

Christie, Robert E, jr. a member of the firm of Dillon, Read & Co... 1638, 1659, 1691

Dillon, Clarence, of Dillon, Read & Co., New York City..... 1535, 1573, 1617, 1857, 2097

Forrestal, James V..... 2053

Hayward, Robert Otis, a member of the firm of Dillon, Read & Co.. 1891, 1900, 1949, 1993, 2122

Hopson, Howard C..... 2139

Hurley, Hon. Patrick J..... 1752

Kennedy, Leonard..... 2133

Knollenberg, Bernard..... 2076

Strieffler, Paul M..... 2088

Tracy, Ernest B..... 1707, 1719, 1781, 1821

Travis, Charles M..... 1756

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STOCK EXCHANGE PRACTICES

TUESDAY, OCTOBER 3, 1933

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

The subcommittee met, pursuant to call of the chairman, as a resumption of the hearing recessed on July 6, 1933, at 10:30 o'clock a.m. in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Norbeck, Townsend, and Couzens.

Present also: Senator Goldsborough.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; George S. Franklin, Wallace P. Zachry, Warren Leslie, Walter G. Dunnington, Clifton Murphy, John T. Cahill, and Bernhard Knollenberg, counsel for Dillon, Read & Co.; Root, Clark, Buckner & Ballantine, George H. Murphy of counsel, counsel for United States & Foreign Securities Corporation.

The CHAIRMAN. The subcommittee will please come to order. We resume the hearings where we left off on July 6 last, and will proceed from that point on. Mr. Pecora, who is your first witness?

Mr. PECORA. Mr. Clarence Dillon.

The CHAIRMAN. You will come forward to the committee table, Mr. Dillon, hold up your right hand, and be sworn. You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. DILLON. I do.

The CHAIRMAN. You may be seated, Mr. Dillon. And, Mr. Pecora, you may proceed.

TESTIMONY OF CLARENCE DILLON, OF DILLON, READ & CO., NEW YORK CITY

Mr. PECORA. Mr. Chairman and gentlemen of the committee, I deem it only fair to the firm represented by the witness, Mr. Clarence Dillon, to state to you that the members of the investigating staff of this committee have received from Mr. Dillon and his associates in that firm, from the very outset, the fullest possible measure of cooperation, aid, and assistance that we have asked for in our investigation of various matters connected with their business. At no

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time has there been the slightest hindrance or obstacle placed in our path by their office; but on the contrary they have extended every courtesy and accommodation, which has all contributed to facilitate our work of investigation. I think it only fair and just to the witness and his firm that that statement be made by me on the record, and I am very happy to make it.

The CHAIRMAN. The committe is very glad to hear that statement.

Mr. PECORA. Mr. Dillon, give your full name and address to the committee reporter for the record, please.

Mr. DILLON. Clarence Dillon. My business address is 28 Nassau Street, New York City. My residence is Bedminster, N.J.

Mr. PECORA. Will you just raise your voice. This is a large room and the acoustics are not of the best.

Mr. DILLON. Yes, sir.

Mr. PECORA. Mr. Dillon, are you connected with the firm or company known as Dillon, Read & Co.?

Mr. DILLON. I am, sir.

Mr. PECORA. How long has that organization or firm been in existence?

Mr. DILLON. Do you mean the present firm or its predecessor firm?

Mr. PECORA. The present firm, the firm that is called Dillon, Read & Co.

Mr. DILLON. William A. Read & Co., our immediate predecessor firm, became Dillon, Read & Co. in January, the 14th, I think, 1921.

Mr. PECORA. And has continued in existence under that firm name and style of Dillon, Read & Co. since that time to the present time?

Mr. DILLON. It has; yes, sir.

Mr. PECORA. What is the legal form of that organization? Is it a partnership or a corporation?

Mr. DILLON. It is a joint-stock association under the laws of New York, and——

Mr. PECORA (interposing). Has that firm——

Mr. DILLON (continuing). Excuse me.

Mr. PECORA. Go right ahead.

Mr. DILLON. The joint stock association started October 11, 1922. We were a copartnership until 1922.

Mr. PECORA. In 1922 it was organized under the laws of the State of New York as a joint stock association, a corporation, was it?

Mr. DILLON. That is correct.

Mr. PECORA. And who are the stockholders or members of this joint stock company known as Dillon, Read & Co.

Mr. DILLON. I think we have a list.

Mr. PECORA. All right, if you wish to refer to it.

Mr. DILLON. I am the president. The following men are vice presidents: W. M. L. Fiske, Roland L. Taylor, Wm. A. Phillips, James V. Forrestal, Ralph H. Bollard, Dean Mathey, Wm. S. Charnley, Robert O. Hayward, Henry G. Riter, 3rd, and Harry H. Egly. Mr. Robert E. Christie, Jr., is secretary and treasurer.

Mr. PECORA. Are those gentlemen all the holders of stock of this joint stock company?

Mr. DILLON. I do not think all of them own stock. I can give you that list of stockholders if you wish.

Mr. PECORA. If you please.

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Senator COUZENS. Mr. Pecora, ask him the percentage that they own.

Mr. PECORA. Senator Couzens suggests that you also state the percentage or proportions of stock of this joint stock corporation owned by each of the stockholders.

Mr. DILLON. The stockholders are Clarence Dillon, Abbott Trading Corporation, The Beekman Co., Ltd., E. J. Bermingham, Isabelle Bollard, R. H. Bollard, W. M. S. Charnley, W. M. L. Fiske, W. M. A. Phillips, Roland L. Taylor. What was your question, Senator Couzens?

Senator COUZENS. The percentage of stock which each holds in that corporation.

Mr. DILLON. Of stock?

Senator COUZENS. Yes.

Mr. DILLON. I have no objection to giving any information to this committee that you feel will be helpful to you. But I am wondering if a statement of the interests of the various members is something you want me to tell publicly. If you feel it is going to help you in your deliberations, that it be given publicly, I have no objection to doing so; but I would appreciate it if you would consider whether that is pertinent.

Senator COUZENS. So far as I am concerned, if I know who controls the corporation I am satsified, speaking personally.

Mr. PECORA. I think similar consideration was requested by members of the firm of J. P. Morgan & Co. and that the committee at that time accorded them that consideration, by not including in the public record, or the record of the public hearings the apportionment of interest among the various partners that composed the banking firm of J. P. Morgan & Co. The information was given to the committee as I recall it, however, in executive session.

Senator COUZENS. But we did get who controlled the firm of J. P. Morgan & Co.

Mr. PECORA. Yes; insofar as that would be indicated by——

Senator COUZENS (interposing). And we put in the record that Mr. Morgan controlled absolutely the organization. I am asking for the same information as to Dillon, Read & Co.

Mr. PECORA. Well, perhaps——

Senator COUZENS (continuing). And wasn't it put in the record in detail later on? I mean as to the holdings of J. P. Morgan.

Mr. PECORA. It was given to us in executive session, but not put in the record. I mean as to their respective apportionments of interest.

Senator GOLDSBOROUGH. It got to the public just the same, as I recall.

Mr. PECORA. Well, perhaps Mr. Morgan gave an interview.

Senator GOLDSBOROUGH. I did not mean to intimate that.

Mr. PECORA. Mr. Dillon, who is the principal stockholder of Dillon, Read & Co.?

Mr. DILLON. Mr. Pecora, if Senator Couzens and his associates feel that that information is going to be helpful if given publicly, I have no objection to giving it. But, naturally, I prefer not to do so.

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The CHAIRMAN. If you have no objection to giving it I see no reason why it should not go in our record.

Mr. DILLON. I have no objection, Mr. Chairman, to answering any questions whatsoever, and I have no objection at all to answering that question if you gentlemen decide it will help you in your deliberations. But, naturally, there are some things I prefer not to have in the public record. But I am prepared to answer anything you want.

Mr. PECORA. I think, perhaps, if you would give the information Senator Couzens has indicated that he is especially desirous of having as going to the control of this joint-stock association, that would satisfy our immediate purpose.

Senator COUZENS. That would satisfy me, Mr. Pecora. I am not attempting to speak for the other members of the subcommittee, but if he will give that information that will be sufficient for our purposes at this time.

Mr. DILLON. I own the majority of the stock.

Senator COUZENS How much stock is out?

Mr. DILLON. How many shares?

Senator COUZENS. Yes.

Mr. DILLON. I haven't the exact figures here. But there are between 73,000 and 74,000 shares. I haven't just the exact figures but can furnish them later.

Senator COUZENS. That is sufficient.

The CHAIRMAN. What is the par value of the stock?

Mr. DILLON. $1 par value.

Senator COUZENS. How many shares do you own, Mr. Dillon?

Mr. DILLON. We haven't that figure here but we can get it for you.

Senator COUZENS. All right.

Mr. PECORA. Mr. Dillon, what is the business of Dillon, Read & Co.?

Mr. DILLON. Dillon, Read & Co. in the investment banking business.

Mr. PECORA. When you say "investment banking business", are you seeking to draw a distinction in the use of that term between the business of investment banking and the business, we would say, of a private banker?

Mr. DILLON. A private banker may be engaged in any banking business. I was distinguishing rather between investment banking and commercial banking. The field of investment banking as I am trying to make clear would have more to do with long-term investments as opposed to short-term credits, which would be the proper business, I feel, of commercial banking. I think the two fields are distinct in their functions. The commercial banker makes short-term credits more or less in the nature of self-liquidating credits, because he makes them largely with depositors' money, and the depositors may want that money on demand. He would be financing what you might call "consumable goods," things which by their nature would be consumed in a short time and the loan repaid. On the other hand, the investment banker has to do with the financing of credits which would not be immediately self-liquidating and short term but would be devoted rather to durable goods than to consumable goods.

Mr. PECORA. Such as public improvements?

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Mr. DILLON. Yes. For road construction, I should say; the building of factories; the building of bridges and tunnels, and expenditures that in themselves and by their nature are not consumed but, rather, produce other things, the revenues from which would in time liquidate such a loan.

Senator ADAMS. The disregard of that distinction has caused a good deal of trouble in this country, hasn't it, Mr. Dillon?

Mr. DILLON. I think so. That is why I am trying to make it clear. I think those functions are distinct banking functions.

The CHAIRMAN. Mr. Dillon, do you receive deposits?

Mr. DILLON. I think, Senator Fletcher, we may have some small amounts on deposit with us, which are in the nature of sinking-fund moneys, or moneys for payment of coupons. But we do not solicit deposits simply to be held against checks.

Mr. PECORA. Are the deposits to which you refer deposits that are intrusted to your firm as fiscal agents for those making the deposits?

Mr. DILLON. Those deposits are largely in the nature of deposits to cover sinking fund and coupon payments.

Mr. PECORA. They are not the kind of deposits that are payable on demand, and such as commercial banks carry?

Mr. DILLON. No. We do not take those deposits.

Mr. PECORA. You do not take deposits of that character?

Mr. DILLON. No, sir.

Senator COUZENS. May I ask Mr. Dillon at this time to distinguish between his house and the House of Morgan?

Mr. PECORA. I think it would be very enlightening if Mr. Dillon would undertake to do that for the subcommittee.

Mr. DILLON. I would be very glad to describe the business of our firm, and——

Senator COUZENS (interposing). What I am trying to get at is this: You distinguish the nature of your business from that of the commercial banker. Now, J. P. Morgan & Co. are not commercial bankers, are they?

Mr. DILLON. No; but——

Senator COUZENS (interposing). They are private bankers?

Mr. DILLON. Yes.

Senator COUZENS. And an investment house, both?

Mr. DILLON. Yes.

Senator COUZENS. Can you think of anything in the operations of J. P. Morgan & Co. that is a distinguishing difference between your operations and theirs, if any?

Senator ADAMS. Senator Couzens, might I interpose right there: You say J. P. Morgan & Co. are not commercial bankers? Is that correct?

Senator COUZENS. Yes; in the sense that they are not incorporated as a commercial bank.

Mr. PECORA. But that they do what might be regarded as a commercial banking business or something akin to it.

Senator COUZENS. Well, they are not under the law a commercial bank. I think we understand the different factors connected with a commercial bank and the house of Morgan.

Mr. PECORA. I think Mr. Dillon will be glad to make that distinction clear.

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Mr. DILLON. I will be glad to describe my own business. But I think you gentlemen of the committee are more familiar with the business of J. P. Morgan & Co. after your inquiry, probably, than I am.

Senator COUZENS. Mr. Dillon, before you go into that let me make myself clear. I want to know the difference between a private bank and this business of yours. I understand that J. P. Morgan & Co. were described as a private bank.

Mr. DILLON. Senator Couzens, I am not trying to fence with you at all. But I hesitate to attempt to go into a detailed description of the difference between my own business and some other business I may not be familiar with. I understand that J. P. Morgan & Co. do take deposits, which we do not. We do not take them because we have no use for them in our business. It would be money that we would have to pay back to some one on demand, and we have no useful employment for that money in the investment banking business as we conduct it.

Senator ADAMS. Doesn't the confusion come in the use of the term "banking" in connection with your business?

Mr. DILLON. I think so.

Senator ADAMS. Isn't there a misunderstanding when one applies the term "banking" to your busines?

Mr. DILLON. I think so That is why I call it dealing in investment securities.

Senator GOLDSBOROUGH. And isn't it a fact that J. P. Morgan & Co. carry accounts subject to check, while you mean that your house does not do so?

Mr. DILLON. I understand that that is correct. We do not do so. There are none subject to check as I understand. Isn't that true? (Speaking to an associate.) I am told there may be two or three accounts against which checks may have been drawn during past years, but we do not make commercial loans, or issue letters of credit, or deal in foreign exchange, or anything of that kind. Our business is devoted to what I will describe to you if you like as the investment security business. And I shall be glad to enlarge upon that subject so that you may understand it if you wish.

Senator COUZENS. Aren't there three kinds of banks? As I understand, you describe yours as an investment banking business.

Mr. DILLON. Yes, sir.

Senator COUZENS. And it is that kind of banking business which does not accept, in the general sense of the word, deposits.

Mr. DILLON. We do not.

Senator COUZENS. Nor does it honor checks.

Mr. DILLON. No; we do not.

Senator COUZENS. Then there is the private banker, like the Morgan house. And then there is the incorporated bank, either under a State or a national charter. Isn't that so? In other words, aren't there three kinds of banks in the general acceptance of the term "bank"?

Mr. DILLON. I would say two kinds. There is the commercial bank, which I might say deals in short-term credits, and then there is the investment bank, which we may briefly call a dealer in long credits. I think those are the distinct functions. Then you may

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have a house, a private bank, that combines those two things. But I do not mean to describe it as a third function.

Senator COUZENS. In fact it is, isn't it?

Mr. DILLON. It is probably a combination of the other two.

Senator COUZENS. In other words, you have a charter from the State of New York?

Mr. DILLON. We?

Senator COUZENS. Yes; I mean you.

Mr. DILLON. Yes.

Senator COUZENS. And J. P. Morgan & Co. does not as I understand it.

Mr. DILLON. As I understand it that is a partnership.

Senator COUZENS. So that is another distinction between the two methods of operation. In other words, Morgan & Co. do not have a limited liability, do they?

Mr. DILLON. I do not think so, but I do not know.

Mr. PECORA. No; as partners of course each partner is liable for all of the obligations of the entire copartnership.

Senator COUZENS. And, Mr. Dillon, your company does have a limited liability. The stockholders do have a limited liability, don't they?

Mr. DILLON. No.

Mr. PECORA. Senator Couzens, in the case of a joint stock company under the laws of the State of New York the stockholders are distinguished in that important respect. The stockholders have unlimited liability in the case of a joint stock association.

Senator COUZENS. Then what are the advantages, may I ask Mr. Pecora, so I may have it clear, in having a joint-stock company if there is no limiting of liability.

Mr. PECORA. As I apprehend the principal advantage is that it carries with it all the features of a copartnership, plus the additional advantage, if it be considered an advantage, of a continuation of the interest of a deceased partner, in the case of his estate, through stock ownership.

Senator COUZENS. That is the chief advantage?

Mr. PECORA. That is what I consider the chief advantage. Mr. Dillon might speak for himself, but the withdrawal of a stockholder would not necessitate the reconstitution of the firm, such as would have to take place in the case of a copartnership.

Mr. DILLON. I think your counsel, Senator Couzens, has stated it very clearly.

Senator COUZENS. All right.

Mr. PECORA. And Mr. Dillon is a good lawyer, too.

Senator COUZENS. That is a self-compliment. Mr. Pecora says that Mr. Dillon is a good lawyer, too. [Laughter.]

Mr. PECORA. Well, perhaps that remark was a little immodest, Senator Couzens.

Senator COUZENS. All right.

Mr. PECORA. Mr. Dillon, in your answer to one of the questions previously put to you, you stated that Dillon, Read & Co. do not carry any deposit accounts, payable on demand. Has that always been the case?

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Mr. DILLON. At times in the past, we have had substantial deposits that were subject to withdrawal.

Mr. PECORA. And when did your firm—and I shall continue to refer to Dillon, Read & Co. as a firm for the sake of convenience rather than as a joint-stock corporation—when did your firm discontinue the practice of carrying deposit accounts payable on demand for the account of customers?

Mr. DILLON. That has been a gradual process. We take no new accounts, and we have been eliminating our old ones during the last 3 or 4 years. Mr. Pecora, at this point I should like to state that we do have another company, Dillon, Read & Co., Inc., which is a Maryland corporation, of which I own all the common stock. There are some preferred stockholders. That was just formed last year, and is not a very active company. We also have the Dillon Read Corporation, which is a Connecticut company, which conducts our European business. But the former concern that has to do with the period of your inquiry.

Mr. PECORA. Then when you speak of Dillon, Read & Co. it is understood that we have in mind this joint stock company organized under the laws of the State of New York.

Mr. DILLON. That is correct.

Mr. PECORA. And that has been in existence since some time in 1922.

Mr. DILLON. That is correct.

Mr. PECORA. All right. Now, Mr. Dillon, according to information that was furnished to us in answer to a questionnaire that we submitted to your firm, at one time, and I refer specifically to the end of the year 1927, your firm carried deposit accounts aggregating $5,250,907.98, which were subject to withdrawal on demand, those deposits being kept and maintained by various corporations doing business in interstate commerce. So you will see from that, that at one time, a few years ago, your firm did carry some deposit accounts for customers of a rather substantial amount. Would you tell this committee why in more recent times your firm has discontinued this practice of carrying deposit accounts for customers?

Mr. DILLON. In 1927 such deposits were in excess of $5,000,000, as you have read. And there were 17 accounts. In 1928 there were seven accounts with a million and a quarter dollars, roughly. In 1929 there were seven accounts with $3,100,000. In 1930 there was one account with $123,000. And in 1931 there were no accounts of that nature.

Mr. PECORA. And none in 1932?

Mr. DILLON. No; nothing except that I am informed there were a few thousands of dollars someone left there.

Mr. PECORA. Will you tell the committee for what reason your firm discontinued that portion of its business?

Mr. DILLON. That deposit business grew up with no particular solicitation on our part, just as a natural consequence of our business. After 1927 we discouraged that business, because those funds were of no use to us. There was simply the responsibility of holding them. We do not make commercial credits. We do not do foreign exchange or issue letters of credit. We had no use for depositors' money in our business. That was simply a responsibility, the keep-

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ing of it, keeping it always liquid and ready to be paid out on demand. It served no useful purpose for us, and as time went on we became more and more convinced that we did not want demand deposits. As we went through such years as we have gone through recently, we adopted the policy of carrying against deposits only cash and short-time governments, so they were of no value to us. Therefore we have gradually discouraged that business, until today we won't accept it. We do not want it. We feel that it is an entirely distinct business from our security business.

Mr. PECORA. Now, Mr. Dillon, can you give the committee in a general statement the principal features of the business conducted by your firm?

Mr. DILLON. We are not versed in the commercial banking business as such, and we do not want those deposits, because we are not commercial bankers ourselves. We are in the investment business. The nature of our business is the financing as I said before, of the durable industries of this country; and you might be interested in a rough picture of just what the relation of that sort of financing is to commercial financing and short credits. I think I have some figures here which will show that. There was a report prepared by A. R. Tebbutt, of the Harvard University Graduate School of Business Administration, and that material indicates that in this country there was probably produced and distributed as great a volume of consumption goods—that is, the sort of thing that you ordinarily buy in stores—in the depression years of 1930, 1931, and 1932, as in the prosperous years of 1927, 1928, and 1929.

The Federal Reserve Board index of industrial production shows that the consumption of such consumable goods declined about 15 percent in value from July 1929 to July 1933, which more or less corroborates that, while the production of durable goods, which are the goods that we would be financing, declined about 65 percent in value from July 1929 to July 1933. These figures are all compiled, I might say, by Leonard P. Ayres, who is a well-known economist. The census report of manufactures for 1929 will show that the production of industries which the Federal Reserve called durable was equal to about $30,000,000,000, while the production of industries which the Federal Reserve would call consumable was equal to about $30,000,000,000. In other words, the business of the country is about equally divided between the sort of business which would be financed, probably, by commercial credits, and the business which would be financed by the investment banker, with the longer term credit.

Senator ADAMS. Is that even distribution prior to 1929 or subsequent to 1929?

Mr. DILLON. These are the 1929 figures. I have something here which will help you in connection with subsequent figures. I just read the percentages. You may not have heard——

Senator ADAMS. I heard the percentages.

Mr. DILLON. The decline since 1929 has been 15 percent in consumable goods, and 65 percent in what we call durable goods. The census report of manufactures shows that in 1929 there were employed in durable goods industries about 10,100,000, and in consumption goods industries about 3,900,000. By applying to these figures the Federal Reserve index of employment we can get an estimate of

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the present employment in these two groups of industries. This estimate shows that in June 1933 those employed in the durable goods industries were about 4,400,000, or a decrease of 5,700,000, whereas in the consumption goods industries the employment was 3,100,000, or a decrease of about 800,000. This shows that approximately 7 men out of 8 unemployed today belong to the durable goods industries. Those figures may not be exact, but they will give you a picture, I think, according to Mr. Ayres, of the field and the function of the investment banker.

Today you have the business that is financed by the commercial banks, in connection with consumable goods, functioning reasonably well. The industries that would be financed by the investment banker are functioning at only a fraction of their normal production.

Senator COUZENS. May I ask a question at that point?

Mr. DILLON. Yes, sir.

Senator COUZENS. When you speak of enterprises financed by security bankers, do you make any division between those that you finance from the ground up, new institutions, and those that you just buy out and sell the stock of?

Mr. DILLON. I do not know whether that would be included. I would assume not, because those figures are made up from the census of manufactures. I did not prepare those figures. Mr. Ayres prepared them, but I should think they would not include recapitalization, if that is what you mean.

Senator COUZENS. If you are going to submit figures, I wanted to know the difference between the figures representing the amount of money that was floating through these security ventures for refinancing institutions like the Dodge Brothers, and those which they might float for an entirely new industry. In other words, a mere change of ownership between one group and another is of no importance, except to the fellow who gets stung, or the fellow who profits, whichever the case might be. The investment banker, as you have described him, as I understood it, means a banker who floats a new company, a new enterprise, and does something constructive, rather than a mere change of ownership. I wondered if you had any figures in connection with those two groups.

Mr. DILLON. I agree with what you say, Senator, to this extent. It does not necessarily have to be a new industry. The financing of an existing industry, in order that it may expand or develop, is equally as constructive as the financing of a new industry.

Senator COUZENS. Yes; but when you finance such an industry as you have just described, it is assumed that they add capital goods.

Mr. DILLON. Yes, sir.

Senator COUZENS. You do not finance them simply to increase their consumptive goods, but rather to increase their facilities of a capital nature. That is as I understand your description.

Mr. DILLON. I think that is correct.

Senator COUZENS. Then, what did the public gain, or what did the industry gain by the mere exchanging of ownership of the Dodge plant from one group to another?

Mr. DILLON. They gained this, as I see it, Senator Couzens. I think that when a great industry in this country, owned by one man, or by one family, reaches the proportions which some industries have

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reached it is probably better for the general community if that industry is owned by the public rather than being owned by one man or one family, because too great a responsibility attaches to a very small control.

Mr. PECORA. Do you think that might be attended with unhappy social consequences?

Mr. DILLON. It might be, Mr. Pecora, and, again, if that industry needs additional capital for its expansion and development, it is much easier to get that capital when the ownership is a public ownership. It is on a much sounder basis. I should think, from the social point of view, the labor employed in that industry is on a sounder basis if that great industry is owned by the public rather than by one family. Does that answer your question, Senator Couzens?

Senator COUZENS. That is very illuminating, but I wonder how you would put the price that you pay for that into figures. Into what classification would you put those figures—in the classification of capital investment in a constructive enterprise, or what?

Mr. DILLON. I should think those figures would not be in either of these classifications.

The CHAIRMAN. Is it not true, Mr. Dillon, that what you call ownership by the public is rather a myth, and that the actual, real ownership continues in the hands of a few just the same?

Mr. DILLON. No, Senator. The ownership goes with the stock, and the stock is owned by the public.

The CHAIRMAN. I understand; but there is a certain controlling interest in the stock that manages the industry just the same, even though a great deal of the stock is owned by the public.

Mr. DILLON. I think the general practice is that the stockholders send their proxies in, probably to a small group of people.

Mr. PECORA. Does not that practice really lead to control of the industry, which is owned by a large body of stockholders, by a few persons who receive the proxies and who exercise the actual management and operation of the corporation?

Mr. DILLON. That is with the consent and approval of the stockholders. They send in their proxies to that group to vote their stock.

Mr. PECORA. I know that is the legal machinery by which the exercise of that control is manifested. What I would like to ask you is, if it is not your knowledge and experience that the control of a large corporation, whose stock is widely held among the public, is very, very frequently vested in a few men, or a small group composed of a few individuals, whose actual combined stock ownership might represent a very small minority of the stock.

Mr. DILLON. I think, as long as the management runs a company to the satisfaction of its stockholders, the practice is that the stockholders leave the management of that company in the hands of those men.

Mr. PECORA. Do we not have——

Mr. DILLON. The stockholders always have the potential control, and the power to remove the management if the company is not run to their satisfaction.

Mr. PECORA. We know the naked legal power that ownership of stock conveys or gives to the owners of the stock. But, as a matter

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of actual practice in operation, have you not found, in your experience in the financial world, so to speak, that large corporations whose stock is very widely held among the public, are, in a majority of instances, probably, controlled and managed by a small group of individuals whose total stock ownership might comprise a very small minority of the actual outstanding stock?

Mr. DILLON. The management of a company, the men actively running the company, are generally, as you say, supported by the stockholders, by the sending in of proxies, and they leave the control of the company to that active management as long as that management is running it successfully. I think it is the exception where a group of stockholders get together to dislodge an existing management, if I understand you correctly.

Mr. PECORA. Yes. That is one of the features I have in mind.

Mr. DILLON. That is unusual, and would only happen, I should think, when the management was mismanaging the property.

Mr. PECORA. Or when something happened which aroused and unified the public, or that portion of the public that owned most of the outstanding stock, and caused them to take defensive measures.

Mr. DILLON. I did not follow that.

Mr. PECORA. The reporter will read it.

(The reporter read the pending question.)

Mr. DILLON. Was that a question? I did not follow it.

Mr. PECORA. It is a sort of observation embodied in the form of a question. It was designed to elicit your opinion and judgment upon it.

Mr. DILLON. That stockholders as a rule do not dislodge a management unless they are aroused, either by public opinion or by mismanagement of the property?

Mr. PECORA. Yes. Let me give you a concrete case that came to the notice of this committee in the course of hearings held by it last May or June.

One of the witnesses, a Mr. Van Sweringen, testified that he and his associaties sought to buy, and succeeded in buying, 15 percent of the outstanding stock of a certain railroad corporation, because Mr. Van Sweringen and his associates engaged in that transaction felt that they could get a management control of that railroad company through the ownership of this block of 15 percent of its outstanding common stock. Those instances of management control going with the ownership of a block not exceeding 15 percent of the outstanding stock of a corporation are not rare and infrequent, are they?

Mr. DILLON. As I understand your question, the control of corporations is often exercised; that is, the working, nominal control——

Mr. PECORA. The management control.

Mr. DILLON. The management control—by blocks of stock less than the majority of the stock.

Mr. PECORA. Far less than the majority.

Mr. DILLON. I think that is correct.

Senator ADAMS. Mr. Dillon, would it not be almost an impossibility for a small stockholder to raise a successful insurrection in great companies like the Steel Corporation, the A. T. & T., or the Pennsylvania, so as to have a change in management, even though there was dissatisfaction among the small stockholders? You would not want to undertake that kind of a revolt, would you?

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Mr. DILLON. I should not like particularly the job of lining up the small stockholders to try to oust the management of any of the bigger corporations.

Senator ADAMS. You are confronted with this, are you not, in the first instance, that the outside stockholder does not know who the other stockholders are? You are combatting those in the citadel, as it were, who have the list of stockholders.

Mr. DILLON. I think the lists of stockholders are available.

Senator ADAMS. Usually after bringing court proceedings to compel them to exhibit them. You remember we went through that in the American Smelting & Refining Co. That was one of the last revolts sought to be staged. Mr. Eilers and others sought to stage a revolt against the Guggenheims.

Mr. DILLON. I was under the impression that you could get a list of the stockholders by requesting it.

Mr. PECORA. It all depends upon the provisions of the law in the several States, and sometimes it all depends on the personality of the court.

Senator ADAMS. But, as a practical matter, it is tremendously difficult in the case of a large, wide-spread corporation.

Mr. DILLON. I should think it would be difficult to cover the great number of stockholders.

Senator ADAMS. There are 1,000,000 stockholders in one or two of these corporations, are there not? I have seen some of the statistics. It seems to me that the A.T.&T. list of stockholders runs up to 1,000,000 stockholders, does it not, Senator Couzens?

Mr. DILLON. It seems to me I have seen somewhere that it has about 700,000 stockholders.

Senator ADAMS. I know it is an enormous number.

Mr. PECORA. Where the stock of a corporation is widely held, that is, held by a body of several hundred thousand stockholders, the general body of the stockholders is disorganized, or rather unorganized, whereas the group having as much as 15 per cent of the outstanding stock is a cohesive, united body, which usually has its hands on the levers of control of the machinery of the corporation. Are these not factors that make it extremely difficult, even in the case of wide-spread dissatisfaction with the management of a corporation, for the unorganized stockholders to oust a small minority that may be in control?

Mr. DILLON. I should think that unless the criticism of the management was something very substantial, the minority stockholders would have a difficult job organizing to oust an existing management.

Mr. PECORA. You mean the majority stockholders?

Mr. DILLON. No; the general public. I should think it would be a difficult task to organize them unless there was something very seriously wrong with the management, because I think investors buying stock, as a rule, buy it because they are satisfied with the management.

Mr. PECORA. Very often because they know nothing about the management.

Mr. DILLON. That is also true.

Senator COUZENS. If they did they would not buy it. May I inject a question at this point? If this does not disclose any trade

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secrets, would you tell us how you go about bidding in a big corporation, to fix the purchase price? To go back to some of these big corporations which you have purchased and refinanced, how do you go about it to compute the value?

Mr. PECORA. Perhaps the Senator has in mind the Dodge Motor Co.

Senator COUZENS. Yes. I am just speaking from press reports. I understand that there was some competition in my home town as to who should get that company, and you were the successful bidder for it. I was wondering how you went about finding out how much you could afford to pay for that institution.

Mr. DILLON. That would be a very long story, because it requires——

Senator COUZENS. I mean the principles involved, if there are any principles.

Mr. DILLON. The chief principle involved would be the earning power I think, largely.

Senator COUZENS. The earning power would determine how much you could afford to pay?

Mr. DILLON. Yes; very largely.

Senator ADAMS. Some of them are worth nothing now, then.

Senator COUZENS. We went through a great deal of consideration of the excess-profits tax, and we always had difficulty in fixing the ratio on which we collected the excess-profits tax—whether it was 8 to 1, or 10 to 1, or 10 times the earning power, or 6 times the earning power, or 4 times the earning power. What percentage would you use when you go to fix the purchase price of a corporation such as that?

Mr. DILLON. We would consider their past record of earnings and their present record of earnings, and our estimate of their future earnings. On a combination of that picture, we would fix a price that we thought was fair.

Senator COUZENS. Then you do not use any percentage, as we use in the Government when we come to arrive at the excess-profits tax.

Mr. DILLON. A fixed percentage, you mean?

Senator COUZENS. Yes.

Mr. DILLON. No.

Senator COUZENS. So, you could not give me a "tip" on how to value a corporation which I wanted to buy.

Senator ADAMS. Or sell.

Senator COUZENS. Or sell.

Mr. DILLON. That would depend, Senator, very much on the conditions that existed in the world at that time.

Senator ADAMS. The financial appetite of the public at the time, I think, would have something to do with it.

The CHAIRMAN. Mr. Dillon, what was the purpose of forming these two corporations, one in Maryland and one in Connecticut, of very much the same name as yours?

Mr. DILLON. The Connecticut corporation, Senator Fletcher, was to control our business in Europe. That was the reason for its formation.

The CHAIRMAN. It is really a part of your parent organization, but a branch, as it were, or a department of Dillon, Read & Co.?

Mr. DILLON. Yes; you might so call it.

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Mr. PECORA. It was a separate legal entity, but composed of the same individuals, virtually, is that correct?

Mr. DILLON. Virtually.

The CHAIRMAN. And the same as to Maryland. What was the object in forming the Maryland corporation?

Mr. DILLON. The Maryland corporation was formed this last year. Its exact uses are still to be demonstrated.

Senator ADAMS. In your Maryland company you own all the stock. Is that true of the Connecticut company?

Mr. DILLON. No. The Connecticut company is owned similarly to the association.

Senator ADAMS. It belongs to the association?

Mr. DILLON. In the Maryland company I own all the common stock. My associates in the business have arrangements by which they participate in the profits, if there are any.

Senator ADAMS. You might sell them some of the stock.

Mr. DILLON. I do not sell stock, as a rule, in the companies in which I am active.

Senator ADAMS. You would to your partners.

Mr. DILLON. I think they would be satisfied to let me keep it.

Mr. PECORA. Do any of the stockholders of Dillon, Read & Co., the joint-stock company that has been referred to, sit as members of the board of directors of any commercial banks?

Mr. DILLON. None of the members of Dillon, Read & Co.—I believe I am correct in stating that none of them sit on the boards of any member banks.

Mr. PECORA. When you say "member banks" what are you referring to?

Mr. DILLON. Members of the Federal Reserve System.

Mr. PECORA. I mean any commercial banks, whether members of the Federal Reserve System or not.

Mr. DILLON. Mr. Christie is on the board of a country bank in Hartsdale, the town where he lives outside New York, a small bank in that suburban town; and Mr. Mathey is on the board of a similar bank in Princeton, N.J., a small bank in the town where he lives. He is also on the board of the Empire Trust in New York. Aside from that, none of the members of Dillon, Read & Co. sit on the boards of any banks.

Mr. PECORA. You are speaking of conditions as of the present time?

Mr. DILLON. As of the present time.

Mr. PECORA. In recent years, have any of the members of Dillon, Read & Co.—and when I say "members" I mean its partners—sat on the boards of any commercial banks other than those you have just mentioned?

Mr. DILLON. I, for a number of years, have been on the board of directors and executive committee of the Central Hanover Bank & Trust Co.; also on the board and executive committee of the Chase National Bank. Mr. Phillips has been a member of the board and executive committee, I believe, of the Chemical Bank. I do not recall at the moment any others. One moment and I will see. [After conferring with an associate.] I think that is all.

Senator COUZENS. Are you still on these boards?

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Mr. DILLON. No, Senator Couzens. When the banking bill was passed, requiring private bankers to resign from those boards, I resigned at once rather than wait for the expiration of the time limit.

Senator COUZENS. What date was that?

Mr. DILLON. What date was the bill passed?

Senator COUZENS. No; the date you resigned.

Mr. DILLON. I do not know. If you would like those dates, I can get them. It was soon after the bill became law.

Mr. PECORA. Soon after the so-called "Glass-Steagall banking bill" became law?

Mr. DILLON. Yes.

Mr. PECORA. That was passed in 1933.

Mr. DILLON. That is correct.

Mr. PECORA. I understand the law became effective June 16.

Mr. DILLON. It was subsequent to that that I resigned from the Central Hanover. I am not sure of the date as to the Chase.

Mr. PECORA. Did you find, while you were a member of the board of these two banks to which you have referred, namely, the Chase National Bank and the Central Hanover National Bank & Trust Co., that it was any advantage to the business of your firm for you to be on the boards of those commercial banks, or did you find it to be a disadvantage, or what did you find to be the effect upon your business, if any?

Mr. DILLON. We served on those boards at the invitation of those companies, and I assume they asked us because they thought it would help their business. As far as our business goes, we find it no advantage to us to sit on those boards.

Mr. PECORA. Considered from the broad standpoint of public policy, Mr. Dillon, would you care to give this committee your opinion or judgment as to the advisability of private bankers or investment bankers, while actively conducting such a business, sitting on the boards of commercial banks?

Mr. DILLON. From our own point of view, we do not like to sit on any boards. We are busy enough running our own business, and we try to serve on as few boards as we can. Since the passage of the Glass-Steagall bill, I think it is called—the banking bill—we were glad enough of the opportunity of relieving ourselves of the responsibility of serving on bank boards. We serve on very few industrial boards for the same reason. We feel that it takes all our time to run our own business.

Mr. PECORA. Have members of your firm in the past sat on the boards of industrial or general business corporations?

Mr. DILLON. To a limited extent they may have (after conferring with an associate). Only to a limited extent.

Mr. PECORA. Do any of them sit on any such boards at the present time?

Mr. DILLON (after conferring with an associate). Some of them do, yes; a few.

Mr. PECORA. Are any of those boards the boards of companies whose securities your firm has underwritten or issued or sold?

Mr. DILLON. Yes; some of them are.

Mr. PECORA. What would you say to this committee as your judgment or opinion concerning the advisability from the standpoint of

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public policy and general public welfare, of investment bankers, such as your house is, sitting on the boards of industrial corporations or business corporations with whose securities they have been identified?

Mr. DILLON. Would you read the question please?

(The reporter read the pending question.)

Mr. DILLON. From our point of view as investment bankers, we have not felt it necessary to sit on boards for the purpose of protecting or looking after the securities which we have issued. We have found, either from contractual obligations with those companies, or from our association with them, or both, that we are able to get all the information that we require about their operations to properly follow their business, and it has been our experience that we were often in a better position to criticize the management or policy if we were not members of the board, than if we were.

Senator COUZENS. May we have at this point the names of some of the industrial corporations on whose boards you have been represented?

Mr. DILLON. Personally I am on no industrial boards.

Senator COUZENS. In the last 3 or 4 or 5 years, on the boards of what industrial companies has your firm been represented?

Mr. DILLON. I can give you that list.

Mr. PECORA. Senator Couzens, one of the questions we submitted to Mr. Dillon's firm in our questionnaire calls for the specific information that you now ask for, and at the proper time I propose to put their return to that question in our questionnaire in evidence. I will do it now if it will serve your immediate purpose.

Senator COUZENS. As long as it is coming out, I have no interest in when it comes out. It seems to me appropriate at this time, as long as you are determining the policy, or what Mr. Dillon thinks should be the public policy. I think it would be of interest to the committee to know, at this particular time, what corporations they probably influenced or dictated to by virtue of their representation on the boards.

Mr. PECORA. I will read to the witness from the information furnished by his firm, in answer to our questionnaire, the names of these corporations. The question was known as "Question No. 3" in our questionnaire, and called for the names of all corporations in which any partner or representative of the firm of Dillon, Read & Co., or any of its agencies, is a director or officer. The answer listed the following corporations:

Amerada Corporation; Beneficial Industrial Loan Corporation; Brazilian Traction, Light & Power Co., Ltd.; Broadway Department Store, Inc.; Commercial Investment Trust Corporation; Consolidated Cigar Corporation; Educational Pictures, Inc.; Empire Safe Deposit Co.; Equitable Office Building Corporation; Goodyear Tire & Rubber Co.; Louisiana Geophysical Exploration Co.; Louisiana Land & Exploration Co.; Loew's, Incorporated; Nederlandsche Crediet en Financiering Maatschappij; Panhandle Eastern Pipe Line Co.; St. Louis-San Francisco Railway Co.; A. G. Spalding & Bros.; Tubize Chattilon Corporation; United New Jersey Railroad & Canal Co.; United States & Foreign Securities Corporation; United States & International Securities Corporation; Union Oil Co. of California; Victor Chemical Works; Warner Co.

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Do you recall any others, Mr. Dillon?

Mr. DILLON. No; I do not.

Mr. PECORA. Does that, Senator Couzens, answer your question for immediate purposes?

Senator COUZENS. I think it does, because it will enlighten the committee when Mr. Dillon gives his answer as to what relations might be brought about by these corporations themselves through interlocking directors.

Mr. PECORA. I think it might be timely, in view of this questioning, for me to offer in evidence at this time the answer made by Dillon, Read & Co. to question 3 in our so-called "questionnaire." So for that purpose I will show Mr. Dillon this typewritten document. Will you kindly look at it and tell us if you can identify it as the answer to question no. 3 of our questionnaire addressed to your firm?

Mr. DILLON. Mr. Pecora, do you want us to take the time to compare that? That is not the copy that we sent in to you. It is a transcript that your office made. We assume it is a correct one, if you would like that. Yes, Mr. Pecora; if there is any error in your transcript, we can correct it later.

Mr. PECORA. You are assuming it is a correct copy?

Mr. DILLON. Yes, sir. You have it there.

Mr. PECORA. Then, subject to correction, I offer it in evidence.

The CHAIRMAN. Let it be admitted into evidence.

(Dillon, Read answer to question 3 was thereupon designated "Committee Exhibit No. 1" and is in the words and figures following:)

COMMITTEE EXHIBIT NO. 1, OCTOBER 3, 1933

Question. Names of all corporations in which any partner or representative of said firm or any of its agencies is a director or officer.

Answer. Names of corporations in which any director of Dillon, Read & Co. or any of its agencies is a director or officer (see note below):

Amerada Corporation; Beneficial Industrial Loan Corporation; Brazilian Traction, Light & Power Co., Ltd.; Broadway Department Store, Inc.; Commercial Investment Trust Corporation; Consolidated Cigar Corporation; Educational Pictures, Inc.; Empire Safe Deposit Co.; Equitable Office Building Corporation; Goodyear Tire & Rubber Co.; Louisiana Geophysical Exploration Co.; Louisiana Land & Exploration Co.; Loew's Incorporated; Nederlandsche Crediet en Financiering Maatschappij; Panhandle Eastern Pipe Line Co.; St. Louis-San Francisco Railway Co.; A. G. Spalding & Bros.; Tubize Chattilon Corporation; United New Jersey Railroad & Canal Co.; United States & Foreign Securities Corporation; United States & International Securities Corporation; Union Oil Co. of California; Victor Chemical Works; Warner Co.

Names of corporations in which any employee or representative (other than a director) of Dillon, Read & Co. or any of its agencies is a director or officer (see note below):

Ault-Wiborg, Ltd.; Ernesto Breda Co.; Cespedes Sugar Co.; Commander-Larabee Corporation, 419-435 Flatbush Avenue Extension, Inc.; General Cable Corporation; German Credit & Investment Corporation; International Printing Ink Corporation; International Water Co., Inc.; International Water Corporation, South America; Layne-New York Co., Inc., of Delaware; National Cash Register Co.; San Francisco Bridge Securities Corporation; Societe d'Electricite de la Region de Malmedy; Societe d'Etude d'Execution des Grands Travaux.

NOTE.—The above lists do not include names of corporations the securities of which were not offered or sold to the public, or names of corporations from

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which directors, employees or representatives of Dillon, Read & Co., or its agencies have resigned, or names of corporations in which employees of Dillon, Read & Co. or its agencies are directors or officers in a purely personal capacity.

Mr. PECORA. Now, Mr. Dillon, in the answer you made to the question just put to you a moment or two ago you indicated an opinion that as I recall was somewhat in conflict with the opinion expressed in answer to a similar question by a previous witness before this committee, a member of the firm of J. P. Morgan & Co., who stated in his testimony that it was considered by them advisable and of importance for a member of that firm to sit on the board of a corporation whose securities it had handled, issued.

Mr. DILLON. That would be a question of personal judgment or policy. I would not want to take issue with their opinion. They may have found that desirable. It may be it is desirable. In our experience we do not feel as strongly.

Mr. PECORA. Among the corporations mentioned in your answer to question 3 of our questionnaire is one called the United States and Foreign Securities Corporation. Are you familiar with that corporation?

Mr. DILLON. Yes, I am, sir.

Mr. PECORA. Is that corporation a so-called "investment trust"?

Mr. DILLON. It is.

Mr. PECORA. And what are the distinguishing features of investment trusts?

Mr. DILLON. I have here a statement describing investment trusts. It would take me probably 2 or 3 minutes to read it. If you would like to have it, I would be glad to do it.

Mr. PECORA. I tell you what we will do in order to save time: You have a typewritten statement defining investment trusts?

Mr. DILLON. The story of investment trusts and of this particular one's organization. You might just put it in the record without reading it.

Mr. PECORA. I would suggest, Mr. Chairman, to save time, we receive that in evidence and then let the witness explain in his own way, if he will, the principal features of an investment trust as distinguished from other kinds of investment corporations.

Mr. DILLON. May we give you a clean copy of this after lunch?

Mr. PECORA. Yes.

The CHAIRMAN. Let the copy be entered in the testimony and you can proceed with any statement about it you care to make.

(The statement submitted by Mr. Dillon was marked "Committee Exhibit 1A October 3, 1933", see p. 1606.)

Mr. PECORA. Now, please indicate to the committee in your own language, Mr. Dillon, the distinguishing features of an investment trust.

Mr. DILLON. I shall, and the reasons why we formed this one. If you will go over the business we have done you will see that from 1919 down to today, we will say, the amount of business we did was varied. The industrial business that we financed amounted to 28.78 percent roughly of our total. Public-utility business was 20.52 percent, steam railroads 6.18, investment companies 2.29, real estate 1.50,

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Canadian securities 17.25, municipals 1.45, European securities 14.26, South American securities 6.58, other foreign loans 1.19.

We had for some time considered the British and Scotch practice of investment trusts. They were first formed in England about 1860, to give the investor a chance to make a diversified investment. They have had a rather satisfactory, in fact popular, record in England, until today the British investment trusts I think have a total invested capital probably close to the equivalent of a thousand million dollars. It is one of the popular and accepted forms of investment.

In this country we first considered forming an investment trust that would allow the investor to have a diversified investment in bonds and other things of the nature that we ourselves were bringing out. But under the tax laws that existed here you could not form an investment to buy bonds, because the company itself would be taxed on its income from that interest, and then when it went to the investor in dividends the penalty was too great. I should like to see that changed if it could be, because I believe it is to the advantage of the small investor to be allowed to buy shares in an investment trust that bought bonds.

So then we turned to consider an investment trust that would buy stocks. The thing that moved us most in this consideration was the fact that the small investor cannot get diversification. He can buy a few shares of this or that, but he takes the risk in that one company, whereas if he bought stock in an investment trust he would get a diversification. I think the investments in this particular company that you are speaking of, United States and Foreign, must number (after conferring with associate)—I haven't the number here, but there is a great variety of items, and the investor's risk is spread over a large field. That was the particular advantage in forming it.

The function of it was to invest this large sum of money at the minimum of expense, because the expenses of administration would be spread over a large fund, and to give the investor the advantage, of a management, if I may say so with due modesty, persons skilled in that particular line, and also to diversify his risk.

In addition to this, we went further and decided that we ourselves would put in money junior to the public's money as an additional protection. In fact, in forming this trust we gave the public 6 percent stock with a real doubt in our minds as to whether over a period of time we could conveniently earn 6 percent on a diversified investment.

Aside from the money we put in junior being an additional protection to that stock, it also would mean that an earning of 5 percent the total assets would have been enough to pay the public 6 percent. That company has been in operation now for about 8 years, I think it is, and we feel very successfully.

Through these times, good and bad, we have paid the public on their preferred stock a total of 6 percent per annum. The capitalization of that company was 25 million preferred stock, 5 million second preferred. That company over the last 8 years has paid out in cash dividends over 13 millions of dollars, 11 million-odd to the first preferred and 2 million-odd to the second preferred.

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Mr. PECORA. Now, I think, Mr. Dillon, I will go into the matter of the organization of this investment trust and the issuance of its securities and their sale to the public through the medium of definite questions which I will ask you to answer.

When was the United States and Foreign Securities Corporation organized?

Mr. DILLON. October 1924.

Mr. PECORA. And who caused it to be organized?

Mr. DILLON. The figures that I have been giving in connection with this testimony are approximate. I would not want them to be considered exact.

Mr. PECORA. I understand. Who caused the United States and Foreign Securities Corporation to be organized in 1924?

Mr. DILLON. Dillon, Read & Co.

Mr. PECORA. And what was the set-up of the corporation at its outset?

Mr. DILLON. The set-up of the corporation was arrived at in this fashion: There was 25,000,000 of first preferred stock that was to be offered to the public. We, ourselves, were putting in junior money for $5,000,000.

Mr. PECORA. And for that so-called "junior" money what did you get?

Mr. DILLON. In our original consideration of that set-up we were going to take common stock so that the public would get preferred stock and we common stock. During those discussions we determined to give the public something more, in case the company should be prosperous beyond normal expectations, so that they would share beyond the 6 percent dividend on their preferred stock, and in order to do that we changed our set-up. Instead of taking common stock ourselves, we created a second preferred stock which we took for our $5,000,000.

Mr. PECORA. What was the total amount of first preferred stock that was issued?

Mr. DILLON. Twenty-five millions.

Mr. PECORA. That was represented by 250,000 shares of no par value, was it not?

Mr. DILLON. That is correct.

Mr. PECORA. And the 6 percent dividend-paying stock?

Mr. DILLON. That is correct.

Mr. PECORA. With cumulative features?

Mr. DILLON. Correct.

Mr. PECORA. Was that $25,000,000, or rather the 250,000 shares of first preferred 6 percent dividend-paying cumulative first preferred stock, issued by your house to the public, sold to the public?

Mr. DILLON. It was.

Mr. PECORA. For how much?

Mr. DILLON. It was offered in the form of allotment certificates. The total amount payable on those was $25,000,000.

Mr. PECORA. And what did these allotment certificates call for?

Mr. DILLON. That is as I was explaining before. In order to give the first preferred something more than their 6 percent should the profits exceed normal expectations, we then took for ourselves,

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instead of taking all the common stock for our $5,000,000, a second preferred stock and created a common stock of a million shares.

Mr. PECORA. How many shares of second preferred stock were issued?

Mr. DILLON. Five million dollars' worth. That is 50,000 shares.

Mr. PECORA. Having any par value?

Mr. DILLON. A hundred dollars (after conferring with associate)—no; no par value.

Mr. PECORA. Did the second preferred stock carry any dividend rate?

Mr. DILLON. Six percent.

Mr. PECORA. Also cumulative?

Mr. DILLON. Yes; also cumulative, but it was subordinated to the first preferred. The first preferred received their 6 percent first, and then if there was anything further earned the second preferred would get their 6 percent. In liquidation the first preferred would get 100 percent plus accumulated dividends before the second preferred got anything.

Then we took that common stock.

Mr. PECORA. How many shares of common stock were provided for in the original set-up of this investment trust?

Mr. DILLON. When we determined to give the first preferred stock some interest in the equity which they would not have had had we just bought $5,000,000 common for our junior money, as I say, then we took $5,000,000 second preferred stock and created a million shares of common stock of which a quarter was given to the first preferred stock. With each share of their first preferred stock went one share of common. The balance of that equity of a million shares, 750,000 shares, went to the purchasers of the second preferred stock.

Mr. PECORA. The purchasers of the second preferred stock were Dillon, Read & Co.?

Mr. DILLON. Yes. My statement there is literally correct, but, as a matter of fact, that second preferred stock and common was sold in two blocks. You will develop that probably as you go along.

Mr. PECORA. Yes.

Senator COUZENS. Did this preferred stock have votes?

Mr. DILLON. The preferred stock did not have a vote when it was issued, because it did not occur to us at the time. We gave a share of common with each share of preferred, and the common voted. Later those certificates were broken up. At the time of listing on the New York Stock Exchange after that break-up we amended that provision and gave the vote to the first preferred stock in the event of default in the dividends.

Mr. PECORA. Dillon, Read & Co. were the organizers or creators of this investment trust?

Mr. DILLON. That is correct.

Mr. PECORA. And they caused to be issued and sold to the general public 250,000 shares of first preferred stock carrying 6 percent cumulative dividends; is that right?

Mr. DILLON. May I have that question again?

(The shorthand reporter read the last question of Mr. Pecora.)

Mr. DILLON. Well, it was issued and we did sell it; yes.

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Mr. PECORA. And those 250,000 shares of the first preferred stock which had no par value were sold to the public for an aggregate of 25 million dollars; is that right?

Mr. DILLON. The 250,000 shares of preferred and 250,000 shares of common were sold for 25 million dollars.

Mr. PECORA. I was coming to that, only I was going to put it in this form: That the subscribers to the first preferred shares received an allotment certificate calling for one share of common stock with each share of first preferred stock?

Mr. DILLON. Yes. The allotment certificate called for 1 share of preferred and 1 share of common.

Mr. PECORA. That is the first preferred stock?

Mr. DILLON. Yes.

Mr. PECORA. So that these allotment certificates each calling for 1 share of first preferred and 1 share of common stock sold for $100 per certificate or at that rate?

Mr. DILLON. Calling for a total payment of that.

Mr. PECORA. Yes, at that rate. Now, the common stock that was authorized to be issued by this investment trust by its organizers amount to 1,000,000, shares?

Mr. DILLON. That is correct.

Mr. PECORA. That is the so-called equity stock, isn't it? The common stock is the so-called equity stock?

Mr. DILLON. Well, that is the stock that would be entitled to anything beyond the 6 percent on the preferred and the 6 percent on the second preferred.

Mr. PECORA. This investment trust also sold to the organizers, namely, Dillon, Read & Co., its 50,000 shares of second preferred 6 percent dividend cumulative stock?

Mr. DILLON. Yes.

Mr. PECORA. For $100 a share?

Mr. DILLON. Wait; I am not sure that is correct.

Mr. PECORA. That is, at that rate?

Mr. DILLON. There is the equity stock—that is, the second preferred and the common. I speak of both as equity stocks. They are junior stocks rather. The 50,000 shares of second preferred were sold to Dillion, Read with——

Mr. PECORA (interposing). For a total of 5 million dollars?

Mr. DILLON. With 250,000 shares of common, for a total of 5 million.

Mr. PECORA. I was coming to that. With that 50,000 shares of second preferred stock Dillion, Read & Co. acquired 250,000 shares of the common stock, did not not?

Mr. DILLON. That is correct.

Mr. PECORA. So that with each share of second preferred 6 percent stock there went 5 shares of the common stock?

Mr. DILLON. You can put it that way, but in reality with the 50,000 shares of second preferred, that is, for the 5 million dollars went the whole 750,000 shares of common. The legal detail of the way that was issued you probably will develop. That 250,000 went with the 5 million dollars, and 500,000 went for $100,000. But the actual substance of it was that the men who subscribed the junior money—that is, the $5,100,000, received 750,000 shares of the common stock.

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Senator COUZENS. Then, in effect, that is complete control?

Mr. DILLON. That is complete control.

Senator COUZENS. In spite of the fact that they collected 25 million from the public?

Mr. DILLON. That is correct.

Senator COUZENS. They controlled it for 5 million?

Mr. DILLON. That is correct.

Mr. PECORA. They controlled it through the ownership of 75 percent of the common stock.

Senator COUZENS. Yes.

Mr. DILLON. Yes.

Mr. PECORA. Which went with the second preferred stock?

Mr. DILLON. They controlled it by the fact of putting up 5 million dollars junior money to the 25 million preferred stock.

Mr. PECORA. The common stock was the only stock that had voting power, wasn't it, at that time?

Mr. DILLON. I think that is correct. (After conferring with associate): Yes, that is correct.

Mr. PECORA. And subsequently, about 1931 or 1932——

Mr. DILLON. Thirty, it was, I think, 1930.

Mr. PECORA. The bylaws were amended so as to give the holders of the first preferred stock a voting power at the rate of one vote for each share of first preferred stock——

Mr. DILLON. In the event of default.

Mr. PECORA. Which voting power, however, was only to be exercised in the case of any default?

Mr. DILLON. That is correct.

Mr. PECORA. On the payment of dividends on the first preferred stock?

Mr. DILLON. That is correct.

Senator COUZENS. Why was that change in the bylaws made? What prompted it?

Mr. DILLON. I think I explained that to the Senator a moment ago. It was by a change in the charter and not the bylaws.

Senator COUZENS. Why did you change the charter so as to give the first preferred the vote? What prompted that?

Mr. DILLON. When we originally sold the allotment certificates under one share of common and one share of preferred went together the allotment certificate. The share of common had a vote. Later when the allotment certificate was fully paid, and it was divided, the common had the vote, the preferred had no vote, and we then amended it so as that the preferred stockholders would have a vote in the event of default.

Senator COUZENS. That was only because of what? I am sure I do not get your answer yet as to the reason for changing it.

Mr. DILLON. That was the only reason, such as I have given it, the only reason that I can think of now.

Mr. PECORA. You have indicated that in a practical sense Dillon, Read & Co. purchased the entire issue for $5,000,000 or 50,000 shares of second preferred stock, also received 750,000 shares of the common stock in connection with that purchase.

Mr. DILLON. The group that put up that junior money of $5,000,000 for the second preferred and $100,000—$5,100,000 total—received the second preferred stock and 75 percent of the common stock. Some

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of that second preferred went to the directors. When I say Dillon, Read put it all up, there was a small amount that went to the directors.

Mr. PECORA. The actual transaction by which Dillon, Read & Co. purchased for the aggregate sum of $5,000,000 the entire issue of 50,000 shares of second preferred stock also enabled Dillon, Read & Co. to get 250,000 shares of the common stock, did it not?

Mr. DILLON. When you say Dillon, Read bought it all, I would simply want to correct it. I think some of the directors bought some of that stock, but for the purpose of your discussion when you say Dillon, Read sold, including——

Mr. PECORA (interposing). But the purchase was confined to various gentlemen who composed the firm or company of Dillon, Read & Co.?

Mr. DILLON. Plus, I think we will say, gentlemen who were on the board of directors. I think they bought some of it.

Mr. PECORA. Yes.

Mr. DILLON. Didn't they?

Mr. PECORA. Yes.

Mr. DILLON. Some of the second preferred.

Mr. PECORA. I will bring out all those details.

Mr. DILLON. When I answered that, I just wanted to correct that.

Mr. PECORA. Wasn't there a subsequent transaction whereby the United States & Foreign Investment Corporation sold 500,000 shares of its common capital stock for the sum of $100,000?

Mr. DILLON. No, there was not.

Mr. PECORA. There was not?

Mr. DILLON. There was not. I think you will find that record shows that 500,000 shares was sold by Olcott later to me and my associates.

Mr. PECORA. Well now, Olcott was a mere dummy, wasn't he, for Dillon, Read & Co. in the transaction?

Mr. DILLON. I don't know what you mean by "dummy". He is a bookkeeper in our office through which the legal machinery of this transaction was carried out.

Mr. PECORA. So that when you refer to the interposition of this Mr. Olcott in this transaction you are referring to a man who was a subordinate employee, namely, a bookkeeper, of Dillon, Read & Co., who made the formal offer in writing to the United States & Foreign Securities Corporation to purchase from it for the sum of $100,000 five hundred thousand shares of its common capital stock?

Mr. DILLON. No, Mr. Pecora; that is not correct.

Mr. PECORA. Is it not?

Mr. DILLON. No. He made no such offer to the Securities Co. Will it help you, Mr. Pecora, if I state exactly what happened there?

Mr. PECORA. Well, you state it in your own way. Go ahead.

Mr. DILLON. The Securities Co. sold its first preferred stock for $25,000,000, less $1,000,000 for expense of selling. They actually received $24,000,000. Then Olcott bought the second preferred and 750,000 shares of common for $5,100,000. And the result of that was that the corporation issued all of its capital stock and received $29,100,000. That is the substance of it.

Senator GOLDSBOROUGH. $29,100,000?

Mr. DILLON. Yes.

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Mr. PECORA. Have you produced here in response to a subpœna served upon your company a certain letter addressed to the United States & Foreign Securities Corporation under date of October 10, 1924, signed by one J. Perry Olcott?

Mr. DILLON. Yes; we have.

Mr. PECORA. Will you produce it, please?

Mr. DILLON. Certainly.

Mr. PECORA. So that I may offer it in evidence.

Mr. DILLON. Yes. Will you use your copy, Mr. Pecora? Ours is bound in a file. We do not have a loose copy.

Mr. PECORA. Well, ours is similarly bound.

Mr. DILLON. Ours is simply a photostat. I think you have a more readable one.

Senator COUZENS. Who has got the original?

Mr. PECORA. They have the originals.

Mr. DILLON. It is in the files.

Mr. PECORA. But I have what purports to be a photostatic copy.

Mr. DILLON. I will be glad to identify that, Mr. Pecora.

Mr. PECORA. Mr. Dillon, I show you what purports to be a photostatic copy of a letter dated New York, N.Y., October 10, 1924, addressed to "United States & Foreign Securities Corporation, Baltimore, Md.", signed by one J. Perry Olcott. Will you be good enough to look at this photostatic copy and tell us if you can identify it as being a true and correct copy of such a letter which was written by Mr. Olcott to the United States & Foreign Securities Corporation?

Mr. DILLON. I will concede it to be true, subject to any corrections, sir.

Senator COUZENS. If it is a photostatic copy, there cannot be any corrections.

Mr. DILLON. No, sir.

Mr. PECORA. I may say that this photostatic copy was furnished to us by Dillon, Read & Co.

Mr. DILLON. Then it is correct.

Mr. PECORA. It is correct?

Mr. DILLON. Yes.

Mr. PECORA. All right. I ask that that letter be received in evidence and spread upon the record.

The CHAIRMAN. Let it be admitted and entered in the record.

(Letter dated New York, N.Y., October 10, 1924, addressed to United States & Foreign Securities Corporation, Baltimore, Md., signed by J. Perry Olcott, was received in evidence and marked "Committee Exhibit No. 2 of October 3, 1933.")

Mr. PECORA. Mr. Chairman, I will read this letter into the record, because it is important that we should have the text of it in our minds as we go along. [Reading:]

COMMITTEE EXHIBIT NO. 2, OCTOBER 3, 1933

NEW YORK, N.Y., *October 10, 1924.*

UNITED STATES & FOREIGN SECURITIES CORPORATION,
Baltimore, Maryland.

DEAR SIRS: I offer: 1. To cause Dillon, Read & Co., on or before October 21, 1924, to pay to your corporation the sum of $5,000,000 in cash, being an amount equivalent to $100 per share for every share of the authorized amount (50,000 shares) of your second preferred stock, on the condition that of such

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amount $50,000 or $1 per share for such stock shall be fixed and accepted by you as the full consideration for the issuance of said second preferred stock and credited to the capital stock of the corporation, and that the remaining $4,950,000 of such amount shall be accepted by you as a contribution for, and set aside as, a general reserve, under the terms of your charter.

2. To cause persons satisfactory to you, on or before November 3, 1924, to make the initial payment of twenty-five percent (25%) of the allotment price for 250,000 shares of your first preferred stock on the terms set forth in the form of first preferred stock allotment certificates hereto attached; the sum of $1,000,000 to be retained by Dillon, Read & Co. as my nominee from the initial payment for the purpose of affecting the sale and distribution of the allotment certificates referred to above.

3. To provide out of the common stock to be issued to me, all of the common stock distributable to purchasers of first preferred stock in accordance with the provisions of the allotment certificates referred to in item 2 above.

4. To pay or cause to be paid to your corporation the sum of $100,000 in cash.

In consideration of (1) the execution and delivery by you of a letter to Messrs. Dillon, Read & Co. in the form attached, a copy of my proposal to Dillon, Read & Co. referred to in said form of letter also being attached hereto.

(2) The issuance and delivery by your corporation, in accordance with the terms of said letter to Dillon, Read & Co., of first preferred stock allotment certificates in the form hereto attached, for the 250,000 shares of your first preferred stock and 250,000 shares of your common stock.

(3) The execution and delivery by you of a contract in the form attached to this offer with the depositary named in said allotment certificates.

(4) The retaining by Dillon, Read & Co., as my nominee, out of the proceeds of the initial payment on the allotment certificates above specified of the said sum of $1,000,000.

(5) The issue to Dillon, Read & Co. or its nominee or nominees of 50,000 shares of your second preferred stock, being the entire amount of such stock authorized by your charter, and 250,000 shares of your common stock.

(6) The issue to me or my nominee or nominees of 750,000 shares of your common stock.

(7) The assumption by you of all liabilities incurred in the organization of your corporation, and your agreement to pay all out-of-pocket expenses incident to the issue of your stock and to the allotment certificates hereinbefore referred to.

Upon your acceptance, the foregoing will constitute a contract between us.

Very truly yours,

J. PERRY OLCOTT.

Accepted, October 10, 1924.

UNITED STATES & FOREIGN SECURITIES CORPORATION,
By ROBERT O. HAYWARD, *Vice President.*

Mr. PECORA. Now, Mr. Dillon, the Robert O. Hayward whose name is signed to this letter by way of acceptance of the terms and conditions of the proposal embodied in this letter, is one of the stockholders and associates of the joint-stock corporation called Dillon, Read & Co., is he not?

Mr. DILLON. He is one of the directors and officers; yes.

Mr. PECORA. Yes. In other words, to put it colloquially, he is one of the partners of Dillon, Read & Co.

Mr. DILLON. Yes.

Mr. PECORA. Now you will notice from this agreement as expressed in this letter, and the acceptance thereof by the United States & Foreign Securities Corporation of its terms, that 250,000 shares of the first preferred stock authorized to be issued by this investment trust by its charter was to be sold to the public through Dillon, Read & Co. for $25,000,000, and that the purchasers of that first preferred stock were to get one share of common stock for each

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share of first preferred stock subscribed and paid for? That is correct, is it not?

Mr. DILLON. Well, I do not recall that this letter says it will be sold through Dillon, Read or that it will be sold for $25,000,000.

Mr. PECORA. Well, the fact of the matter is that this letter provides that $1,000,000 out of the proceeds of $25,000,000 for which these 250,000 shares of first preferred stock were to be sold was to be retained by Dillon, Read & Co., presumably as a commission for its sale of the first preferred stock to the public?

Mr. DILLON. That presumption is correct; yes.

Mr. PECORA. And I based my statement or my assumption of fact in my question to you with respect to that upon that provision of this agreement. Now that is not a violent assumption, is it?

Mr. DILLON. But may I explain what happened here?

Mr. PECORA. Well, is that not what happened?

Mr. DILLON. What?

Mr. PECORA. Is that not exactly what happened, namely, that the United States & Foreign Securities Corporation accepted this proposal of J. Perry Olcott, who was a bookkeeper in the employ of Dillon, Read & Co. at the time, to cause to be issued 250,000 shares of its first preferred stock to the public for $25,000,000, and that that stock was to be sold through Dillon, Read & Co., and that Dillon, Read & Co. were to receive $1,000,000 as its fee or commission for making such sale to the public?

Mr. DILLON. Mr. Pecora, this letter does not say that they will be sold for $25,000,000. At least I do not find it. But it is stated, they tell me, in the allotment certificate, that $100 a share must be paid.

Mr. PECORA. Yes; but the allotment certificate is attached to this letter and forms a part of the agreement embodied in this letter?

Mr. DILLON. That is correct.

Mr. PECORA. So that it is part of the agreement.

Mr. DILLON. That is all right then.

Mr. PECORA. Yes. It is so understood, is it not, by you?

Mr. DILLON. Well, I did not realize that it was attached to this letter.

Mr. PECORA. Well, you see, Mr. Dillon, in assuming the facts that I have embodied in my question to you I am attempting to reduce to practical terms the provisions embodied in this contract between J. Perry Olcott and the United States & Foreign Investment Corporation with respect to the issuance and sale of the 250,000 shares of first preferred stock that the corporation was entitled to issue or authorized to issue under its charter. Now have I correctly stated the facts, stripping them of all legal verbiage?

Mr. DILLON. As I look through this letter, Mr. Pecora, to me it is just a lot of legal phraseology and legal mechanics. What really happened was that the United States & Foreign sold its first preferred stock under this offer to Olcott——

Mr. PECORA. Offer by Olcott.

Mr. DILLON. Offer by Olcott——

Senator COUZENS. But now, at that point, was not Olcott really Dillon, Read & Co.?

Mr. DILLON (continuing).—or through some legal mechanics—he was a bookkeeper in our office.

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Mr. PECORA. He was what is in the vernacular called a dummy for Dillon, Read & Co. in this transaction?

Mr. DILLON. No. I do not really know why Dillon, Read & Co. did not sign this offer. I mean that was a legal formality. I see no reason why it was done through a name like that. The substance of it was that this company was formed, received the $29,100,000, and issued against that $25,000,000 of preferred stock, $5,000,000 of second preferred stock, and a million shares of common.

Mr. PECORA. No; but let us get it down to its constituents' elements.

Mr. DILLON. I will do that. I am not trying to quibble. I am trying to show what happened. The allotment certificates for 250,000 shares of first preferred stock and 250,000 shares of common—in this letter, as I read it, Mr. Olcott's offer to them was that if they would issue those allotment certificates first just calling for 250,000 shares of preferred stock; if they would then issue to Dillon, Read 50,000 shares of the second preferred stock with 250,000 shares of common, and then issue to him the balance of 750,000 shares of common, he agreed to provide out of that the 250,000 shares of common to go with the first preferred, and for all of that he would cause to be paid them $5,000,000 and $100,000, and provide for public subscribers for their allotment certificates $25,000,000, but $1,000,000 of that to be retained by Dillon, Read & Co. Now that $1,000,000 was retained by Dillon, Read & Co. to cover the cost of distributing that stock.

Mr. PECORA. That is, the first preferred stock?

Mr. DILLON. That is right. Dillon, Read & Co. made no charge for organizing this company. That million dollars represented the four points on that $25,000,000, and that was allowed to dealers all over the United States. There were 380 dealers selling that stock, and any one that sold it got that four points for selling it. For what Dillon, Read & Co. sold themselves they were paid the same as any other of the three hundred-odd dealers. And Dillon, Read & Co's. own sales netted them three hundred thirty-nine thousand-odd dollars, as they retailed about ninety-four thousand-odd shares. Is that clear?

Mr. PECORA. Now, Mr. Dillon, let us see if we cannot even digest this meal one bite at the time.

Mr. DILLON. But do I not make that clear? Is not that the picture you were asking for?

Mr. PECORA. But I would rather take that step by step.

Mr. DILLON. Step by step suits me.

Mr. PECORA. Now this corporation, this investment trust called the United States & Foreign Investment Corporation, was organized under the laws of the State of Maryland at the instance of Dillon, Read & Co., was it not?

Mr. DILLON. That is correct; yes.

Mr. PECORA. Its charter authorized it to issue 250,000 shares of first preferred stock, having no par value, 50,000 shares of second preferred stock having no par value, and 1,000,000 shares of common stock having no par value?

Mr. DILLON. That is correct.

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Mr. PECORA. That is correct. Now, on October 10, 1924, which was about the time of the incorporation and organization of the United States & Foreign Securities Corporation, one J. Perry Olcott submitted an offer in writing in the form of this letter that has been received in evidence here to that investment corporation, and the offer was accepted on the same date by the corporation, the signature of the corporation having been affixed by one Robert O. Hayward as its vice president. Is that correct?

Mr. DILLON. That is correct.

Mr. PECORA. Now, this J. Perry Olcott who made this offer was at that time not a capitalist or a person possessed of independent means, but a mere bookkeeper in the employ of Dillon, Read & Co.?

Mr. DILLON. Whether or not he was a man of means was of no importance, as he was simply a part of a legal step.

Mr. PECORA. A legal scheme or method?

Mr. DILLON. Yes; method.

Mr. PECORA. And the machinery so employed, which involved, among other things, the use of J. Perry Olcott for the purpose of making this offer, was designed to enable Dillon, Read & Co. to fix the terms upon which the securities of this investment trust which Dillon, Read & Co. has caused to be organized to be issued and disposed of, was it not?

Mr. DILLON. When Dillon, Read & Co. decided on the capital set-up of this company, that was given to the lawyers, and then went on to carry it out. Now, I am not a lawyer, Mr. Pecora, and the detail of this use of Olcott or his letters or other letters is just a legal procedure to carry out the capitalization which resulted finally in the company receiving its full $29,100,000, for which it issued $25,000,000 of first preferred stock, $5,000,000 of second preferred stock, and the common stock.

Mr. PECORA. But again I want to remark that that is a little bit too general a statement of the organization of this corporation and the issuance and sale of its securities.

Mr. DILLON. I will try to help you.

Mr. PECORA. You know, there is an old hymn that says "I do not ask to see the distant scene. One step's enough for me." Let us go one step at a time.

Mr. DILLON. All right. But when you get into this legal procedure, frankly, I cannot be of much help to you.

Senator ADAMS. I gather, Mr. Pecora, that Mr. Dillon does not think very much of the legal mechanics or phraseology.

Mr. PECORA. That suggests a question, Senator Adams, that I will now ask Mr. Dillon.

Mr. Dillon, whatever the legal steps and proceedings were that were employed in this matter, they succeeded in effectuating the objects and the purposes of the organizers of this investment trust?

Mr. DILLON. I think that is correct.

Mr. PECORA. All right. What were those purposes?

The CHAIRMAN. A process by which Dillon, Read & Co. made a contract with Dillon, Read & Co. to do certain things? To carry out certain things?

Mr. DILLON. No, Senator. Dillon, Read & Co. were causing to be formed an investment trust.

The CHAIRMAN. Yes?

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Mr. DILLON. Normally you just pay in your money and the company is formed. The lawyers go through these legal steps, which, frankly, I do not understand. I see no reason to employ J. Perry Olcott.

Senator ADAMS. I do not like a reflection to be made upon us lawyers, because that is the way we lawyers have to do. We have got to do these things to keep the set-up.

Mr. DILLON. That is to make it seem strange.

Senator ADAMS. And really, as a matter of fact, Mr. Dillon seems to feel that the lawyers are a sort of an impediment, if perhaps a necessary impediment. Some of us really think that we are very vital. As a matter of fact the lawyers are what make it possible for Mr. Dillon to do the things that he does.

Senator COUZENS. Mr. Peroca admitted that Mr. Dillon was as good a lawyer as he was.

Mr. PECORA. I am afraid I was not paying Mr. Dillon a very high compliment, Senator Couzens, when I said it.

Mr. DILLON. To try to return an answer to your question, Mr. Pecora.

Mr. PECORA. Yes.

Mr. DILLON. The object which we wanted to accomplish, namely, the issuance of $25,000,000 of first preferred stock, of $5,000,000 of second preferred stock, and the issuance of a million shares of common stock, the company to receive for those $29,100,000, was accomplished by this procedure. Have I answered your question?

Mr. PECORA. I am now going to ask you a series of questions to bring out, step by step, this entire operation whereby the United States & Foreign Investment Corporation was launched on the financial waters. Dillon, Read & Co. caused this investment trust to be organized in the first instance?

Mr. DILLON. That is correct.

Mr. PECORA. Dillon, Read & Co. had one of its employees, a bookkeeper by the name of J. Perry Olcott, make a written offer in the form of this letter which has been received in evidence here to this investment trust?

Mr. DILLON. Well, I do not know that Dillon-Read did that at all. The lawyers did that.

Mr. PECORA. Well, the lawyers did it for the purpose of carrying out the purposes and objects of Dillon, Read & Co., did they not?

Mr. DILLON. Yes. I mean they may have used Olcott or any man in their office. That is what I understand.

Mr. PECORA. Who employed these lawyers to do this?

Mr. DILLON. Dillon, Read.

Mr. PECORA. Who were the lawyers?

Mr. DILLON. Root, Clark, Buckner & Howland. I think that is the name of the firm.

Mr. PECORA. Yes. And you felt that they fully carried out their legal operations and purposes designed by the authors, namely, Dillon, Read & Co.?

Mr. DILLON. I trust the legal steps were all properly carried out. The result was what we wanted.

Mr. PECORA. Yes.

Mr. DILLON. The result is correct.

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Mr. PECORA. Now this employe of Dillon, Read & Co. made this offer in writing to the Investment Trust?

Mr. DILLON. That is right.

Mr. PECORA. Immediately upon its incorporation and organization, did he not?

Mr. DILLON. Well, I do not know when that happened. If that is true.

Mr. PECORA. It was in October 1924.

Mr. DILLON. Yes.

Mr. PECORA. That offer was accepted by the corporation through its vice president, Mr. Hayward, one of the partners of Dillon, Read & Co.?

Mr. DILLON. That is correct.

Mr. PECORA. Now, as a matter of fact, whose offer, or for whose benefit did Mr. Olcott make his offer to that investment trust? Not for his own benefit, did he?

Mr. DILLON. No. I do not know. Dillon, Read were the ones that were going to pay in the $5,000,000. Why the lawyers did not make the document with Dillon, Read I do not know, Mr. Pecora. What these steps all mean or the object of them I do not know. It accomplished what we wanted in the end, which was that we paid in the $5,000,000 and received the $5,000,000 of second preferred.

Mr. PECORA. Now, if it accomplished what you wanted in the end, did it not accomplish the financing of this investment trust through the sale to the general public of 250,000 shares of first preferred stock, which carried with it 250,000 shares of the common stock, for a total consideration of $25,000,000, $1,000,000 of which went to Dillon, Read & Co. as a fee or selling commission?

Mr. DILLON. Now, that $1,000,000 went to Dillon, Read & Co.; Dillon, Read & Co. using that to pay the three hundred and odd distributors around the country for selling that stock.

Mr. PECORA. Yes. Dillon, Read & Co. did not retain all of this $1,000,000 fee or selling commission. It distributed that among the various dealers?

Mr. DILLON. Who sold the stock.

Mr. PECORA. It distributed that among the various dealers who aided Dillon, Read & Co. in selling to the general public the allotment certificates for the first preferred stock?

Mr. DILLON. That is correct.

Mr. PECORA. Yes. Now of that $1,000,000 is it not a fact that Dillon, Read & Co. retained for its own part in that commission, in that selling operation, something like $339,000?

Mr. DILLON. That $1,000,000 was equivalent to $4 a share on the 250,000 shares, and each of these three hundred-odd dealers received $4 for each share that they sold. Dillon, Read & Co. sold some 94,000——

Senator COUZENS. He has already testified to that.

Mr. DILLON. Yes. Some ninety-four thousand and odd shares, and received three hundred and thirty-nine thousand and odd dollars.

Mr. PECORA. Yes. Now by this same process Dillon, Read & Co. were enabled to acquire for a stated consideration, cash of $5,000,000, the entire authorized issue of second preferred stock consisting of 50,000 shares thereof, and by the payment of a further sum of

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$100,000 the entire balance of the authorized issue of common stock, amounting to 750,000 shares?

Mr. DILLON. I do not know what you mean by "this process".

Mr. PECORA. By this legal process that Dillon, Read & Co., as you said, engaged this well-known firm of lawyers to act?

Mr. DILLON. It carried out our intention of selling to the public $25,000,000 of first preferred stock, with a quarter of the common, and Dillon-Read putting in the $5,100,000 of their own money junior to the first preferred stock—junior to the public's money and receiving three quarters of the common. That was accomplished.

Mr. PECORA. That was accomplished?

Mr. DILLON. Yes.

Mr. PECORA. So that by this means the general public purchased for $25,000,000 the entire issue of first preferred stock and got with it 250,000 shares of its common capital stock, or 25 percent of the common, and Dillon, Read & Co. and their associates for $5,000,000——

Mr. DILLON. $5,100,000.

Mr. PECORA (continuing). $5,100,000, acquired the entire issue of the second preferred stock, consisting of 50,000 shares, and 750,000 shares of the common stock?

Mr. DILLON. That is correct.

Mr. PECORA. Yes. The common stock was the only stock that at that time had any voting powers or rights?

Mr. DILLON. That is correct.

Mr. PECORA. And the ownership of the equity of the company was vested in the common stock, was it not?

Mr. DILLON. And the second preferred was junior money. The equity was the common.

Mr. PECORA. Yes.

The CHAIRMAN. This trust started out in business with about $30,000,000 cash?

Mr. DILLON. That is correct.

Mr. PECORA. Five million dollars of which came from Dillon, Read & Co., and the other $25,000,000 from the public?

Mr. DILLON. Five million one hundred thousand dollars from Dillon, Read & Co. and $25,000,000 from the public.

The CHAIRMAN. What did it do with that capital?

Mr. DILLON. It handled that capital, Senator, I am very happy to tell you, in a very fortunate way. That capital has been invested in diversified investments, and through these very uncertain times that we have faced that capital remains intact. When this corporation was formed $116 roughly was the equity back of each share of the first preferred that the public bought. Since that time this company has paid out in excess of $13,000,000 cash in dividends, paying the first preferred 6 percent per annum from the time they bought that stock. Today the equity back of that stock, instead of being $116, is approximately $138. So that money has been very fortunately handled.

Senator COUZENS. May I ask a question at that point? When you sold this stock——

Mr. DILLON. I want to add to the answer I have just given to the chairman, if I may, Senator Couzens, that those of us that put up the money for the second preferred stock and did not do any selling

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in the market but kept it as an investment—which I did, and which many of our associates did—have not even had our 6 percent on our second preferred, and we have had nothing on the common, whereas the public have received their 6 percent interest. Excuse me, Senator Couzens.

Senator COUZENS. Is there any prospectus that was issued at the time the stock was sold?

Mr. DILLON. Oh, yes.

Senator COUZENS. Have you got a copy of that?

Mr. DILLON. There is one there. Does that answer your question, Senator Fletcher?

The CHAIRMAN. Yes. I understand that the second preferred stock and the common stock had not paid dividends?

Mr. DILLON. No; the second preferred paid dividends for a year or two. I have forgotten just what. It paid dividends until 1931, and it has been in arrears since 1931. I think that is correct.

The CHAIRMAN. There has been no dividend on the common stock?

Mr. DILLON. No dividend at all has been paid on the common stock.

Mr. PECORA. Mr. Dillon, following the acceptance on October 10, 1924, by the United States & Foreign Securities Corporation of the offer made in the name of Mr. Olcott under date of October 10, 1924, did your firm receive from the same man, J. Perry Olcott, another letter dated October 10, 1924, addressed to Dillon, Read & Co., a photostatic copy of which I now show you? You had better look at it and see.

Mr. DILLON (after examining paper). That is a photostatic copy.

Mr. PECORA. And that is a true copy of such letter which was received by your firm?

Mr. DILLON. Yes, sir.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. It will be received in evidence and entered on the record.

(The letter referred to, dated Oct. 10, 1924, from J. Perry Olcott to Dillon, Read & Co., was received in evidence, marked "Committee's Exhibit No. 3, Oct. 3, 1933".)

Mr. PECORA. I shall read it for the present information of the committee. You had better listen to the reading of the letter, Mr. Dillon, because you are going to be asked about certain provisions [Reading:]

COMMITTEE EXHIBIT NO. 3, OCTOBER 3, 1933

NEW YORK, N.Y., *October 10, 1924.*

DILLON, READ & CO.,
28 Nassau Street, New York, N.Y.

DEAR SIRS: I hand you herewith:

(*a*) A copy of the certificate of incorporation of United States & Foreign Securities Corporation.

(*b*) A copy of the bylaws of United States & Foreign Securities Corporation.

(*c*) A form of the first preferred stock allotment certificates of United States & Foreign Securities Corporation.

(*d*) An offer by United States & Foreign Securities Corporation to you relative to the issue upon your order of First Preferred Stock Allotment Certificates in said form with respect to 250,000 shares of its first preferred stock (each share of first preferred stock to carry one share of common stock as provided in said form of allotment certificate), upon the receipt on or before November 3, 1924, of the sum of $6,250,000 (the total 25 percent initial

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payment called for under said allotment certificates) plus such additional amount as may be paid in under the terms of such certificates by the purchasers thereof, and less the sum of $1,000,000 which you are to retain as nominee of J. Perry Olcott under his offer of even date therewith.

(*e*) A Copy of an offer by me to the United States & Foreign Securities Corporation relative to the issue of its stock and first preferred stock allotment certificates.

If you will

(*a*) Pay to the United States & Foreign Securities Corporation the sum of $5,000,000 on the terms set forth in said offer by me to said corporation, and

(*b*) Pay or cause to be paid to United States & Foreign Securities Corporation on or before November 3, 1924, the amount called for by clause (*d*) above with respect to its said issue of first preferred allotment certificates concerning 250,000 shares of its said first preferred stock as above stated.

I will

(*a*) Cause to be issued and delivered to you or on your order, in accordance with the terms of my said offer, the 50,000 shares of second preferred stock of United States & Foreign Securities Corporation and 250,000 shares of common stock of said corporation;

(*b*) Authorize you as my nominee to retain from the initial payments made under said allotment certificates the sum of $1,000,000, to be applied for the purpose of effecting the sale and distribution of said allotment certificates, this letter when accepted by you to constitute such authority without the execution of any further instrument; and

(*c*) Cause said corporation to pay all out of pocket expenses incident to the issue of its stock and of the allotment certificates.

Very truly yours,

(Signed) J. PERRY OLCOTT.

We accept the foregoing proposal.

(Signed) DILLON, READ & COMPANY.

OCTOBER 10, 1924.

Mr. PECORA. Now, accompanying this letter which has been marked "Committee Exhibit 3", as of this date, and which is in evidence, Mr. Olcott sent to your firm a copy of a letter addressed to Messrs. Dillion, Read & Co., dated New York, October 10, 1924, signed by United States & Foreign Securities Corporation, by Robert O. Hayward, vice president. I show you a photostatic reproduction of that last-mentioned letter, Mr. Dillon, and ask you if you can identify it as being a true copy of such letter [handing paper to the witness]?

Mr. DILLON. I identify it.

Mr. PECORA. I offer this letter in evidence and ask that it be spread on the record.

Mr. DILLON. That is, with the exception of markings on it. I notice you have some markings on it, your own marks.

Mr. PECORA. I am only going to read the photographic portion.

The CHAIRMAN. It will be admitted as committee exhibit no. 4.

(The letter referred to, addressed to Dillon, Read & Co., signed by Robert O. Hayward, and dated Oct. 10, 1924, was received in evidence, marked "Committee Exhibit No. 4, Oct. 3, 1933.")

Mr. PECORA. This is the letter which accompanied Mr. Olcott's letter, marked "Committee's Exhibit 4", which reads as follows [reading]:

COMMITTEE EXHIBIT NO. 4, OCTOBER 3, 1933

NEW YORK, N.Y., *October 10, 1924.*

MESSRS. DILLON, READ & CO.,
28 Nassau Street, New York, N.Y.

DEAR SIRS: If you will accept the proposal dated October 10, 1924, made by J. Perry Olcott to you, United States & Foreign Securities Corporation in consideration of such acceptance will:

1. Issue upon your order the first preferred stock allotment certificates, as specified in said proposal, with respect to 250,000 shares of its first preferred

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stock upon receipt therefor on or before November 3, 1924, of the sum of $6,250,000 (the total 25 percent initial payment called for under said allotment certificates) plus such additional amount as may be paid in under the terms of such certificates by the purchasers thereof, and less the sum of $1,000,000 which you are to retain, for the purpose of effecting the sale and distribution of said allotment certificates, as nominee of J. Perry Olcott under his offer of even date herewith.

2. Issue upon your order 50,000 shares of this corporation's second preferred stock and 250,000 shares of this corporation's common stock upon receipt of $5,000,000 to be paid to this corporation on the terms and conditions stated in paragraph 1 of an offer made to this corporation by J. Perry Olcott under date of October 10, 1924, and referred to in his said proposal to you;

3. Subscribe for approximately 25 percent of the $10,800,000 initial issue of capital stock of American and Continental Corporation.

4. Invest approximately $2,500,000 in the securities of the following companies: Brooklyn Edison Co., Continental & Commercial Trust & Savings Bank, Chicago, General Electric Co., Central Union Trust Co. of New York, and First National Bank of New York;

5. Cooperate with you in meeting the requirements of the Blue Sky laws, so called, of the various States in which the said first preferred stock allotment certificates may be offered for sale by you;

6. Make application to the Boston Stock Exchange for listing the corporation's full paid and 25 percent paid first preferred stock allotment certificates (separate full-paid allotment certificates to be issued if required for listing); and

7. Upon your request, make application for listing said allotment certificates and this corporation's first preferred stock and common stock on the New York Stock Exchange.

Very truly yours,

UNITED STATES & FOREIGN SECURITIES CORPORATION,
ROBERT O. HAYWARD, *Vice President.*

Mr. PECORA. Now, Mr. Dillon, I want to call your attention to specific provisions of exhibits 3 and 4, being the two letters last read in evidence, relating to the payment by Dillon, Read & Co. to the United States & Foreign Investment Corporation of the sum of $5,000,000 in return for the issuance to Dillon, Read & Co., or its nominees or order, by the corporation, of 50,000 shares of second preferred stock and 250,000 shares of the common stock of the United States & Foreign Securities Corporation. Does not that clearly indicate, Mr. Dillon, that for this $5,000,000 which Dillon, Read & Co. agreed to pay, and actually did pay, to this Securities Corporation, this investment trust which it caused to be organized, you received the entire issue of second preferred 6 percent cumulative dividend stock, amounting to 50,000 shares, and 250,000 shares of the common capital stock?

Mr. DILLON. If you take it that way, your statement might be misunderstood. What happened to that $5,000,000——

Mr. PECORA. If it is misunderstood, then the language employed by this firm of attorneys who were retained to attend to the legal machinery for this transaction is ambiguous; but I do not think it is. The language is as follows, which is embodied in clause 2 of this letter of the United States & Foreign Securities Co. to Dillon, Read & Co., which is marked in evidence as committee's exhibit 4 of this date—and I will read that clause to you again. [Reading:]

Issue upon your order 50,000 shares of this corporation's second preferred stock and 250,000 shares of this corporation's common stock upon receipt of $5,000,000 to be paid to this corporation on the terms and conditions stated in paragraph 1 of an offer made to this corporation by J. Perry Olcott under date of October 10, 1924——

Mr. DILLON. If I might suggest, you are reading only from one letter of a series of letters that completed this transaction.

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Mr. PECORA. I am reading from the last letter——

Mr. DILLON. Yes.

Mr. PECORA (continuing). Which was written with respect to this transaction under date of October 10, 1924.

Mr. DILLON. There is another letter.

Mr. PECORA. What other letter are you referring to?

Mr. DILLON. Of a later date, where there is an offer to sell——

Mr. PECORA. That is the letter of October 20, I have that before me and I am coming to it; but as I said before, let us go step by step.

Mr. DILLON. The only danger in going step by step is that you might not get a clear picture, because, as I said before, what happened was that we paid in $5,100,000 for which we received the junior stock, $5,000,000 second preferred, and 750,000 shares of common. The public received the senior securities, that is, preferred stock, and 250,000 shares of common. When you separate these transactions it might look like for the $5,000,000 we received 50,000 shares of second preferred and 250,000 common, and for $100,000 received 500,000 shares of common. But it is the same parties, the same interests paying both the $5,000,000 and the $100,000. So the real picture is that for $5,100,000 there were $5,000,000 second preferred received——

Mr. PECORA. But the reason that I am separating it is because the transaction itself was separated into those steps or parts.

Mr. DILLON. It was.

Mr. PECORA. And the separation was made originally not by me or by any member of this committee, but by your own attorneys who sought to effectuate their own purposes, I assume.

Mr. DILLON. They wrote those three or four different letters; and I think, in fairness, they should all be read together.

Mr. PECORA. I cannot read them all at once, nor can I offer them all in evidence at once.

Now, did you individually subsequently receive a letter from J. Perry Olcott dated October 20, 1924, a photostatic copy of which I now show you [handing a paper to the witness]?

Mr. DILLON (after examining paper). I identify that. That is all right, except for the notations on it.

Mr. PECORA. Is this photostatic copy, except for such lead-pencil notations as appear thereon, a true copy of such a letter received by you from Olcott?

Mr. DILLON. It is.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. It will be received and spread on the record.

(The letter referred to, from J. Perry Olcott to Mr. Clarence Dillon, dated October 20, 1924, was received in evidence, marked "Committee's Exhibit No. 5, October 3, 1933.")

Mr. PECORA. The letter reads as follows [reading]:

COMMITTEE EXHIBIT NO. 5, OCTOBER 3, 1933

NEW YORK, N.Y., *October 20, 1924.*

MR. CLARENCE DILLON,
28 Nassau Street, New York, N.Y.

DEAR SIR: Referring to the United States & Foreign Securities Corporation now in process of organization under the laws of the State of Maryland:

It is my understanding that you and your associates will through me pay in $100,000 for one half the authorized common stock of the corporation. The

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disposition to be made of the stock to be used for the purpose of obtaining the full capital of the corporation is indicated in my letter to United States & Foreign Securities Corporation of this date, a copy of which is enclosed, and my letter of this date to Dillon, Read & Co., a copy of which is also enclosed.

I will advise you when the amount to be paid in for your stock will be called for, which will be not later than November 3, 1924, and will expect you to advise me as to how the stock certificates are to be made out.

Yours very truly,

J. PERRY OLCOTT.

Mr. PECORA. Did you accept or agree to the proposal embodied in this letter addressed to you individually by Mr. Olcott under date of October 20, 1924?

Mr. DILLON. Yes; I did.

Mr. PECORA. This proposal relates solely to the issuance to you and your associates of one half of the authorized common stock of the United States & Foreign Securities Corporation, does it not?

Mr. DILLON. It does, but it is a part of the whole transaction.

Mr. PECORA. I know it; but I mean, this particular portion relates exclusively to the issue to you and your associates of one half of the authorized common stock of this investment trust, namely, 500,000 shares?

Mr. DILLON. That particular letter does.

Mr. PECORA. I am referring to this particular letter; and according to this particular letter, marked "Committee Exhibit 5", these 500,000 shares of the common stock of the investment trust were to be issued to you and your associates for the sum of $100,000 to be paid by you and your associates to the investment trust?

Mr. DILLON. That is correct; and that was bought in the same proportions as the $5,000,000 for the second preferred stock.

The CHAIRMAN. That would mean 20 cents a share?

Mr. DILLON. Yes, sir; if you figure it that way.

Senator ADAMS. What was the book value of it?

Mr. DILLON. Nothing—a million dollars less than nothing.

The CHAIRMAN. It was not on the market then?

Mr. DILLON. When it was, it was a million dollars less than nothing. We used a million to pay the distribution expenses on the first preferred.

Mr. PECORA. Instead of having a negative value, it had a minus value?

Mr. DILLON. That is right.

Mr. PECORA. This common stock, which had a minus value at the time of its issuance in October 1924, by the end of 1928 or 1929 reached a market value on the New York Stock Exchange of as high as $72 a share, did it not?

Mr. DILLON. That is correct, and had a book value at that time of $30 or $40. I am not sure of the figures. The asset book value was $48 I am told.

Senator ADAMS. When was it first listed on the stock exchange?

Mr. DILLON. I will give you the date, Senator.

Mr. PECORA. So this infant which was born with practically no life, assumed the lusty proportions of a 72-dollar stock within 4 years' time?

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Mr. DILLON. And had a book value, they tell me, of $48. We do not want to claim any magician's power. It was in that very rapidly advancing market that those great profits accrued.

Senator ADAMS. Where is it now?

Mr. DILLON. The value?

Senator ADAMS. The common stock, the book value.

Mr. DILLON. I do not know exactly. It has a book value now of three or four dollars.

Mr. PECORA. The market value is about $9 or $10?

Mr. DILLON. Yes, about that.

Mr. PECORA. I think we will go into the question of this common stock in the open market, after recess. I suggest that it is now past 1 o'clock, and this would be an appropriate place to stop.

The CHAIRMAN. We will take a recess until 2 o'clock. We expect to continue until 4 o'clock.

(Whereupon, at 1:05 p.m., a recess was taken until 2 p.m.)

AFTER RECESS

The subcommittee resumed at 2 p.m. on the expiration of the recess.

TESTIMONY RESUMED OF CLARENCE DILLON, OF DILLON, READ & CO.

The CHAIRMAN. The subcommittee will come to order. You may proceed, Mr. Pecora.

Mr. PECORA. When we recessed we were on the question of the letter of October 20, 1924, I believe.

Mr. DILLON. Yes.

Mr. PECORA. Now, referring to that letter, addressed to you individually by J. Perry Olcott, under date of October 20, 1924, which has been marked "Committee's Exhibit No. 5, October 3, 1933", Will you tell this committee, Mr. Dillon, if you accepted, either in writing or otherwise, the proposal embodied in this letter of Mr. Olcott to you?

Mr. DILLON. Yes, sir; I did.

Mr. PECORA. In what form was your proposal evidenced? Was it in writing or by word of mouth?

Mr. DILLON. There was no written acceptance, but I paid the money.

Mr. PECORA. Now, did your firm on the same date that you received this letter from Mr. Olcott, dated October 20, 1924, cause to be addressed to the United States & Foreign Securities Corporation a letter of which this which I now hand you is a photostatic reproduction?

Mr. DILLON. Yes, sir; that is correct.

Mr. PECORA. Is that a true copy of such a letter?

Mr. DILLON. That is a true copy.

Mr. PECORA. I offer it in evidence and ask that it may be spread on the record, eliminating therefrom whatever lead pencil notations appear on the face of this copy.

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The CHAIRMAN. It will be made a part of the record.

The letter was marked "Committee Exhibit No. 6, October 3, 1933", and was read by counsel as follows:

Mr. PECORA. The letter reads as follows:

OCTOBER 20, 1924.

UNITED STATES & FOREIGN SECURITIES CORPORATION,
Baltimore, Md.

DEAR SIRS: We hand you herewth our check in the sum of $5,000,000 payable to your order. This payment is made to you pursuant to the terms of paragraph 1 of offer made October 10, 1924, to you by J. Perry Olcott, and accepted by you October 20, 1924. A copy of the contract so made is annexed hereto.

Kindly confirm by acceptance below our understanding that the $5,000,000 above referred to is received by you on the terms and conditions stated in said paragraph 1 of said contract.

Very truly yours,

DILLON, READ & CO.

Accepted October 20, 1924.

UNITED STATES & FOREIGN SECURITIES CORPORATION,
By R. E. CHRISTIE, Jr., *Treasurer.*

Now, Mr. Dillon, is the R. E. Christie, Jr., whose name is signed to this letter, or to the acceptance of the proposal of this letter, as treasurer of the United States & Foreign Securities Corporation, one of the associates or partners or stockholders of Dillon, Read & Co.?

Mr. DILLON. He is, sir.

Mr. PECORA. Now, isn't it clear to you, Mr. Dillon, from the documentary evidence relating to the transactions surrounding the issuance of the stock of the United States & Foreign Securities Corporation, that the sum of $5,000,000, as a separate consideration, was paid by Dillon, Read & Co. to that securities corporation in return for 50,000 shares of its second preferred stock and 250,000 shares of its capital common stock?

Mr. DILLON. Yes; if you will let me add that for the privilege of that subscription the same parties obtained the right to buy the 500,000 shares for——

Mr. PECORA (interposing). For $100,000?

Mr. DILLON. Yes.

Mr. PECORA. Now, can you explain, in view of that, why the letter of J. Perry Olcott of October 20, 1924, which is marked "Committee's Exhibit No. 5, October 3, 1933", and which relates to that portion of the transaction that covers the issuance of the 500,000 shares of common stock for $100,000 is addressed to you individually and not to the firm of Dillon, Read & Co.

Mr. DILLON. I do not recall any particular reason for that. The people who bought that with me were the same people who were interested in Dillon, Read & Co.; and why it was not done in one transaction I do not remember. Excuse me a moment until I inquire. (Inquiring of an associate.) This letter refers to me and my associates. Why it was not all done in one transaction—and that was your question, Mr. Pecora, wasn't it?

Mr. PECORA. No. Why the letter of Olcott's referring to the issuance by the Securities Corporation of 500,000 shares of its capital common stock for $100,000 was addressed to you individually and not to the firm or company known as Dillon, Read & Co.

Mr. DILLON. That particular part of the stock was bought, it says here, "by me and my associates."

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Mr. PECORA. That is, as distinguished from the legal entity known as Dillon, Read & Co.?

Mr. DILLON. Yes; although the interests were the same, there is a distinction between them and the entity Dillon, Read & Co.

Mr. PECORA. In other words, the legal entity known as Dillon, Read & Co. never undertook to acquire 500,000 shares of the common stock of the United States & Foreign Securities Corporation for $100,000, did it?

Mr. DILLON. No; but——

Mr. PECORA (continuing). That undertaking was assumed by you and your associates as individuals, separate and apart from the legal entity called Dillon, Read & Co.?

Mr. DILLON. That is correct.

Mr. PECORA. What was the reason for that?

Mr. DILLON. I don't remember any particular reason for that. We were to subscribe $5,100,000 for that second preferred and that common. Why it was not all done in one block I don't know. I don't recall what difference it makes in doing it this way from the other.

Mr. PECORA. I notice that upon the face of these exhibits that have been put in evidence today, consisting of these various letters, that they appear to have the same kind of typing. Would you say from that that they were all prepared in the same office?

Mr. DILLON. Well, I don't know; but these letters were prepared by the lawyers. Or I should assume at least that they might have been prepared in the lawyer's office.

Mr. PECORA. You mean the firm of lawyers that Dillon, Read & Co. retained to handle the legal machinery for the organization and launching of this investment trust?

Mr. DILLON. Yes, sir.

Mr. PECORA. And there was only one firm that undertook that legal work?

Mr. DILLON. Yes, sir; that is correct.

Mr. PECORA. Now, as a matter of fact, in whose name were the 50,000 shares of second preferred stock acquired originally?

Mr. DILLON. Mr. Pecora, do you mean the original stock certificates, in whose name they were issued?

Mr. PECORA. Yes.

Mr. DILLON. We will have to get that for you. We do not have it here.

Mr. PECORA. Well, to whom were those 50,000 shares originally issued by the Securities Corporation?

Mr. DILLON. You do not mean the 50,000 shares of common stock, do you?

Mr. PECORA. No. The 50,000 shares of second preferred stock.

Mr. DILLON. The directors bought some of that, the actual breakdown of the certificates we do not have here.

Mr. PECORA. They were originally issued to the legal entity known as Dillon, Read & Co., were they not?

Mr. DILLON. We think so, but we haven't got the actual information here.

Mr. PECORA. I want to show you what purports to be a photostatic reproduction of a ledger account which was furnished to us by your

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firm and relating to the issuance of this second preferred stock of the United States & Foreign Securities Corporation. Will you be good enough to look at it and tell us if that serves to refresh your recollection as to the identity of the person or persons or legal entity to whom or to which those 50,000 shares of second preferred stock were issued?

Mr. DILLON. From this, Mr. Pecora, the 50,000 shares were issued—well, the way the certificates were made out, just the names, I cannot tell from this, but 500,000 shares went to Mr. F. H. Ecker and 500,000 shares to John Sherwin——

Mr. PECORA (interposing). You mean 50,000 shares and not 500,000 shares, don't you?

Mr. DILLON. No, not 500,000 shares. But 500 shares were issued to F. H. Ecker, 500 shares to John Sherwin, 500 shares to Robert S. Schaffner, 500 shares to Herbert Fleischhacker, 500 shares of Anson W. Burchard, 100 shares to George W. Wickersham, and the balance, 47,400 shares, to Dillon, Read & Co.

Mr. PECORA. Exactly. Now, Dillon, Read & Co. received originally the issue of 50,000 shares of the second preferred stock, comprising the entire authorized number of those shares, and in turn caused to be issued to the six gentlemen whose names you have just given us, certificates for the numbers of second preferred shares which you have enumerated. There were six certificates.

Mr. DILLON. I think that is substantially correct.

Mr. PECORA. All told, these six gentlemen received certifiates calling for 2,600 shares of the second preferred.

Mr. DILLON. Yes.

Mr. PECORA. The balance of the 50,000 shares of that classification of stock was retained by Dillon, Read & Co. as a separate legal entity.

Mr. DILLON. That is correct.

Mr. PECORA. With these shares of second preferred stock that were issued to these six gentlemen, were there also issued to them certificates for common stock of the Securities Corporation at the ratio of five shares of common for one share of second preferred?

Mr. DILLON. That is correct.

Mr. PECORA. What did these six gentlemen pay for these shares of second preferred and common?

Mr. DILLON. The same as Dillon, Read & Co., I think, $100 a share.

Mr. PECORA. That is for the second preferred.

Mr. DILLON. That is for the second preferred; and they were given five shares of common with each share of preferred.

Mr. PECORA. Who were the original directors of this United States and Foreign Securities Corporation?

Mr. DILLON. Just a second. We will get that from the minute book. It is right here. Mr. Pecora, I assume you do not mean those in the law firm that formed it as an original organization? You mean the first operating organization?

Mr. PECORA. The board of directors that succeeded the directors who attended to the formalities of the legal incorporation.

Mr. DILLON. We are getting that for you right now. Mr. Pecora, I have here a statement of December 31, 1924, which I assume is the original board.

Mr. PECORA. If you read off the names, I will check them against my own data.

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Mr. DILLON. Anson W. Burchard; Clarence Dillon; Frederick H. Ecker; Herbert Fleischhacker; John W. Hornor; William A. Phillips; Robert C. Schaffner; John Sherwin; Hon. George W. Wickersham; Harrison Williams; Edward G. Wilmer, chairman.

Mr. PECORA. That corresponds to my data. When did these gentlemen become the board of directors of this Securities Corporation?

Mr. DILLON (after conferring with an associate). I am sorry for the delay.

Mr. PECORA. Was it not within a very short time after the incorporation of the company in October 1924?

Mr. DILLON. Yes; I am sure of that.

Mr. PECORA. If your associates will be good enough to give you the date later, we can put it into the record. This approximation will serve for our present purposes.

Mr. DILLON. They will have it in just a moment.

Mr. PECORA. Mr. Dillon, who selected these gentlemen to serve as directors of the corporation shortly after its organization?

Mr. DILLON. I assume the stockholders.

Mr. PECORA. The stockholders at that time, to the extent of at least 75 percent of the common stock, were Dillon, Read & Co. or their associates, were they not?

Mr. DILLON. Probably that board was simply made up by discussions in our office.

Mr. PECORA. I suppose you took part in those discussions, as the senior partner of Dillon, Read & Co.?

Mr. DILLON. Undoubtedly.

Mr. PECORA. Who is Mr. Fleischhacker?

Mr. DILLON. Mr. Fleischhacker lives in San Francisco. He is, I think, the president or the chairman of the Anglo, London and Paris Bank I think it is.

Mr. PECORA. He is known as a capitalist out in San Francisco, is he not?

Mr. DILLON. He is a banker out there.

Mr. PECORA. His home is there, and his principal office for the transaction of business.

Mr. DILLON. Yes.

Mr. PECORA. When he was selected as a member of the board of directors of this United States & Foreign Securities Corporation, was it expected reasonably that he would come across the continent to attend board meetings?

Mr. DILLON. No; I should not say it was expected he would come across for every board meeting. He was in New York occasionally, at irregular intervals over the year. He was selected, as I remember it, so that we could have someone on the coast whom we could call upon for advice in regard to investments we might make in that part of the country.

Mr. PECORA. Then it was not reasonably expected that he would be physically able to attend meetings of the board.

Mr. DILLON. Yes, some of them; not every meeting; no.

Mr. PECORA. But he functioned as a director for a number of years, did he? That is, he was carried on the board?

Mr. DILLON. I will find out in a moment.

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Mr. PECORA. Who is Mr. R. C. Schaffner; another one of the directors?

Mr. DILLON. R. C. Schaffner lives in Chicago. He is a banker there. He has an office in New York, and he is in New York quite often, and has been reasonably regular in attendance on the meetings.

Mr. PECORA. But his home is in Chicago and his principal office was there?

Mr. DILLON. I do not know which he calls his principal office. I assume it would be there, because his home is there; but he has an active office in New York.

Mr. PECORA. Who is Mr. J. Sherwin, of Cleveland, Ohio?

Mr. DILLON. John Sherwin, I think, is retired now. At that time he was either chairman or president of the Union Trust Co., I believe it was.

Mr. PECORA. Of Cleveland?

Mr. DILLON. Yes.

Mr. PECORA. And lived in Cleveland?

Mr. DILLON. And lived in Cleveland.

Mr. PECORA. He had his principal office there?

Mr. DILLON. He had his principal office there.

Mr. PECORA. Was it expected that he would be able to attend with some regularity the meetings of the board of directors of this investment trust?

Mr. DILLON. Yes; I should say with some regularity, because he was in New York in those days quite often.

Mr. PECORA. Who is Mr. Anson W. Burchard? Where did he live?

Mr. DILLON. Mr. Burchard was vice chairman of the board, I believe, of the General Electric Co., and lived in New York.

Mr. PECORA. And hence was easily available for attendance upon board meetings?

Mr. DILLON. Easily available.

Mr. PECORA. And Mr. Harrison Williams was on this board of directors. Where did he live?

Mr. DILLON. He lives in New York, and has his principal office and business there.

Mr. PECORA. Mr. Wilmer, former president of Dodge Brothers, Inc.—where did he live?

Mr. DILLON. I am not sure whether he lived in New York at that time, or just outside of Philadelphia. I do not remember.

Mr. PECORA. Mr. Phillips was a member of Dillon, Read & Co.?

Mr. DILLON. Yes.

Mr. PECORA. And you were a member of Dillon, Read & Co.?

Mr. DILLON. Yes.

Mr. PECORA. Mr. J. W. Hornor was a member of Dillon, Read & Co.?

Mr. DILLON. That is correct.

Mr. PECORA. And presumably all available for attendance at the board meetings?

Mr. DILLON. Yes.

Mr. PECORA. As was General Wickersham?

Mr. DILLON. Mr. Wickersham lived in New York, and was also available.

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Mr. PECORA. Mr. F. H. Ecker is the remaining member of the board of directors of this Securities Corporation for its first year. Is he the man who is also president of the Metropolitan Life Insurance Co.?

Mr. DILLON. That is correct.

Mr. PECORA. Do you know that Mr. Ecker at that time was a member of a great many boards of directors of different corporations engaged in business?

Mr. DILLON. I do not know that to my own knowledge, but I assume that is a correct statement.

Mr. PECORA. And as president of this Metropolitan Life Insurance Co., he was the executive head of an organization that commanded resources running into the billions of dollars.

Mr. DILLON. That is correct.

Mr. PECORA. Was it reasonably expected by you, in selecting or assisting in the selection of Mr. Ecker to serve on the board of directors of this Securities Corporation, that a man with the responsibilities attaching to Mr. Ecker's position as president of this life insurance company, would find adequate time to give to the discharge of his duties as a member of the board of directors of this investment trust?

Mr. DILLON. Yes. Mr. Ecker was a very regular attendant at the directors' meetings, and the mere fact that he is the head of this great company, which has such large and varied investments, which he follows, made him valuable to us, because of his knowledge of investments.

Mr. PECORA. Was he also valuable, or did you think he might be valuable to this investment trust because he was also the head of a corporation commanding tremendous cash resources that might purchase securities that were in the portfolio of this investment trust from time to time?

Mr. DILLON. No; I do not think they have ever bought any securities from the investment trust portfolio.

Mr. PECORA. Were these directors paid a salary as directors, as distinguished from a fee for attending meetings?

Mr. DILLON. Yes; at the beginning the directors were paid $5,000 a year.

Mr. PECORA. Each of them received a salary of $5,000 a year regardless of the number of meetings he attended?

Mr. DILLON. Each director with the exception of myself. I did not take that at the beginning, and I am informed that neither Mr. Hornor nor Mr. Phillips took it.

Mr. PECORA. The other directors received a salary of $5,000 a year.

Mr. DILLON. That is correct.

Mr. PECORA. Regardless of the number of meetings of the board that they attended?

Mr. DILLON. That is correct; but obviously, if a man did not attend at all, he would not stay a director. I have just been informed that at a later date Phillips, Hornor, and myself did take the compensation. From December 1924 to October 1926 we took no compensation. At that time we did take it, I suppose because the others urged us to do so.

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Mr. PECORA. How many meetings of the board of directors were held during the first year of the corporate existence of this investment trust?

Mr. DILLON. We will look that up.

Mr. PECORA. While that is being looked up, perhaps you can tell me from memory how many of those meetings were attended by Mr. Fleischhacker, if any.

Mr. DILLON. I could not tell. That is 8 years ago. But we can get it from the record for you. There was one date they were looking up. October 27, 1924, was when the board of directors was elected.

Mr. PECORA. Yes.

Mr. DILLON. Mr. Fleischhacker resigned January 19, 1926.

Mr. PECORA. How many meetings of the board of directors did he attend while he was a member of the board between October 1924 and January 1926?

Mr. DILLON. They are looking that up. That will take a little time.

Senator COUZENS. Were these subscriptions to this preferred stock paid on the installment plan?

Mr. DILLON. The first preferred?

Senator COUZENS. Yes.

Mr. DILLON. Yes. It was paid in four different installments.

Senator COUZENS. What periods?

Mr. DILLON. Just a moment. [To an associate.] Can you give me the periods? [After conferring with an associate.] The first call was October 1, 1925, for payment November 2, 1925.

Mr. PECORA. 1924, wasn't it?

Mr. DILLON. No. That was when they paid for the original quota, when they bought the allotments. Senator Couzens is asking for subsequent calls. March 26, 1926, for payment May 1, 1926; September 26, 1927, for payment November 1, 1927.

Senator COUZENS. So, this money, after you got it in, was invested after you got it in, and you did not have the investments at the time they paid it.

Mr. DILLON. It might be possible, Senator Couzens, that at some time we might have borrowed to make investments, and then made calls to repay that.

Mr. PECORA. Mr. Dillon, at the present moment it appears quite conclusively that 50,000 shares of second preferred stock were issued by this investment trust to Dillon, Read & Co., that is, 47,400 were issued to Dillon, Read & Co. as a separate legal entity, and the other 2,600 shares were distributed among these six gentlemen who found places on the board of directors.

Mr. DILLON. That is right.

Mr. PECORA. With regard to the 500,000 shares of the common stock referred to in Mr. Olcott's letter to you of October 20, 1924, and in which it is set forth, in substance, that these 500,000 shares will be issued by the investment trust for the consideration of $100,000, were any of those shares of the common stock issued to the legal entity known as Dillon, Read & Co.?

Mr. DILLON. May I correct you, Mr. Pecora? I do not think that the investment trust issued those shares for $100,000. Olcott offered to sell them to me and my associates for $100,000, but the investment

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company did not issue them for that. They issued them in consideration of the payment of $5,100,000. I think it is all together. There is no reference in Olcott's proposal to the investment company that they sell 500,000 shares for $100,000. That does not occur. Those letters that were read this morning, I think you will find, state that the investment company sold 50,000 shares of second preferred, 750,000 shares of common, and the allotment certificates, all for the lump sum.

Mr. PECORA. According to the letter of Dillon, Read & Co. to United States & Foreign Securities Co., dated October 20, 1924, which is marked "exhibit 6" as of this date, Dillon, Read & Co. sent its check for $5,000,000 to the investment trust on that date, did it not?

Mr. DILLON. Yes; that is correct.

Mr. PECORA. When was the $100,000 paid to the investment trust by anybody?

Mr. DILLON. By Olcott, under the terms of his letter to the investment trust. He agreed, as I remember it, to pay them $5,000,000, and to pay them $100,000, and to get subscriptions to the allotment certificates, and for all of that they would issue to him the allotment certificates plus the 50,000 shares of second preferred and 750,000 shares of common, and with that second preferred they would give 250,000 shares of common.

Mr. PECORA. Are you not referring to the letter marked as "Exhibit 5", written by Olcott to you individually, under date of October 20, 1924?

Mr. DILLON. No.

Mr. PECORA. Let me remind you that in this letter Olcott says to you:

> It is my understanding that you and your associates will, through me, pay in $100,000 for one half the authorized common stock of the corporation.

Mr. DILLON. Yes.

Mr. PECORA. Does not that read like a separate transaction, or a separate proposal covering those 500,000 shares?

Mr. DILLON. That is not a letter, Mr. Pecora, to the securities company.

Mr. PECORA. I know it is not. It is a letter by Olcott to you.

Mr. DILLON. That is correct.

Mr. PECORA. In which he says, referring to the United States & Foreign Securities Corporation now in process of organization under the laws of the State of Maryland.

> It is my understanding that you and your associates will, through me, pay in $100,000 for one half the authorized common stock of the corporation.

Mr. DILLON. Yes, but——

Mr. PECORA. Just look at the language of that (handing a paper to the witness). Does not that indicate, Mr. Dillon, that a separate step in that transaction, whereby this investment trust was financed at the outset, involved the issuance to you and your associates, as distinct from the legal entity of Dillon, Read & Co., of 500,000 shares of its common stock for a specific consideration of $100,000?

Mr. DILLON. I can not say yes to that, because, Mr. Olcott——

Mr. PECORA. Do you say no to that?

Mr. DILLON. Yes. I say no, because the Securities Co. did not issue anything to us. As I understand these letters, Mr. Olcott

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bought from the Securities Co. the allotment certificates, for which he got the subscriptions. Then he agreed to get them a purchaser for the second preferred, with 250,000 shares of common, and they agreed to give him the 750,000 shares. Then Olcott sold to me and my associates the 500,000 shares for the $100,000.

Mr. PECORA. Does not Olcott, in turn, say in that letter to you that he was simply being used as the conduit whereby you and your associates were to pay $100,000 to the investment trust for 500,000 shares of its capital common stock?

Mr. DILLON. We did not make any contract with the security company, as I read these letters. Olcott did. When he got the stock, he sold it to me. I see no difference in it myself. I do not want to say that I see what I do not see in this letter.

Mr. PECORA. Do you read anything in that letter other than what its plain terms purport to set forth, namely, that it was the agreement or understanding that Clarence Dillon and his associates were, through Olcott, to pay to the investment trust $100,000 for 500,000 shares of its common capital stock? Does that letter mean anything other than that, in your opinion?

Mr. DILLON. Mr. Pecora, I see no difference in that, but I must say what happened, and what it was—this legal proceeding whereby Olcott got the stock. In substance, we bought the second preferred and 750,000 shares of the common for $5,100,000.

Mr. PECORA. But not in one transaction, Mr. Dillon. We have seen, from letters already received in evidence here, that your firm, Dillon Read & Co., sent its check for $5,000,000, not for $5,100,000, but for $5,000,000, on October 20, 1924, to the United States and Foreign Securities Corporation. That appears by committee's exhibit no. 6.

Mr. DILLON. The whole thing, Mr. Pecora, is really one transaction in these steps. The only reason I can see for these steps is that for some reason this group, which was the Dillon, Read & Co. group, wanted the second preferred, with 250,000 shares of common issued to the entity Dillon, Read & Co., and the 500,000 shares issued to them as individuals.

Mr. PECORA. What was the reason for that?

Mr. DILLON. As I say, I see no reason, because it was the same interests.

Mr. PECORA. Was there not a substantial difference between issuing to Dillon, Read & Co., as a separate legal entity, the 50,000 shares of the second preferred stock and issuing, in various amounts, the 500,000 shares of the capital common stock of the company to individuals who composed partners in the entity known as Dillon, Read & Co.?

Mr. DILLON. In substance, no difference, because they took it in the same proportions.

Mr. PECORA. In what proportions?

Mr. DILLON. They took——

Mr. PECORA. In proportions commensurate with their proportionate interests in the firm of Dillon, Read & Co.?

Mr. DILLON. That is correct.

Mr. PECORA. Who paid over the $100,000 referred to in Olcott's letter to you of October 20, 1924, or who paid that in to the investment trust?

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Mr. DILLON. I think, Mr. Pecora, the facts are that Mr. Hornor, in the office, collected these amounts from the different individuals to make up the total of $100,000, and then sent his check in for that amount.

Mr. PECORA. The firm of Dillon, Read & Co. did not send its check for the $100,000?

Mr. DILLON. No.

Mr. PECORA. And the moneys that were repaid to Mr. Hornor for the $100,000 payment that he made out of his personal funds to the investment trust for these 500,000 shares were paid in by the individuals who composed the firm or stockholders, of Dillon, Read & Co. to Mr. Hornor?

Mr. DILLON. That is correct. That is as I understand it.

Mr. PECORA. Can you explain the reason why that was done?

Mr. DILLON. No; I cannot.

Mr. PECORA. In other words, give the committee, if you can, the reason why the second preferred stock, which was purchased by the legal entity known as Dillon, Read & Co., was issued to the firm of Dillon, Read & Co., and the common stock was issued, not to the firm, nor paid for by the firm's funds, but issued to the various individuals who happened to be members of the firm.

Mr. DILLON. That is right.

Mr. PECORA. Will you explain why that was done, if you can?

Mr. DILLON. The 250,000 shares of common were issued, I think, to Dillon, Read & Co.

Mr. PECORA. The 250,000 that accompanied the purchase of the 50,000 shares of second preferred.

Mr. DILLON. Yes.

Mr. PECORA. Now, I am talking about the 500,000 shares of common for which you say Hornor gave his personal check to the investment trust for $100,000.

Mr. DILLON. I do not know any particular reason for having done it that way at all.

Mr. PECORA. Did Mr. Forrestal have an interest equal to that of Mr. Hornor in the legal entity known as Dillon, Read & Co.?

Mr. DILLON. I would assume so, if he bought the same amount of that stock.

Mr. PECORA. That is just what I was coming to. He did not get the same amount of stock, of these 500,000 shares of capital common stock.

Mr. DILLON. Yes?

Mr. PECORA. For which Mr. Hornor paid the investment trust, on behalf of the purchasers thereof, his check for $100,000. According to my data, Mr. Phillips received 47,500 shares, and Mr. Forrestal only 7,500 shares, which would indicate that Mr. Forrestal had an interest in the firm much less than Phillips' interest.

Mr. DILLON. Forrestal received 7,500 shares. And what was your question, Mr. Pecora, now?

Mr. PECORA. And Mr. Phillips at that time received 47,500 shares of this block of 500,000 shares of common stock, as did Mr. Hornor?

Mr. DILLON. Well, without——

Mr. PECORA (interposing). Does that represent the difference in the proportionate interest of these gentlemen in the legal entity known as Dillon, Read & Co.?

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Mr. DILLON. Mr. Pecora, may I check that up, because I still assume that that is correct, it represented that proportion of interest at that time.

Mr. PECORA. Will you check it up? I tell you what you do, Mr. Dillon.

Mr. DILLON. Yes, sir.

Mr. PECORA. Or have your associates do it between now and tomorrow morning.

Mr. DILLON. Yes, sir.

Mr. PECORA. Determine from your records the proportionate interests of the different members of the firm of Dillon, Read & Co. in October 1927, when this distribution of this block of——

Mr. DILLON (interposing). 1924, isn't it?

Mr. PECORA. 1924—500,000 shares of the common stock was made and see if it conforms to the proportions of this distribution of stock. Will you?

Mr. DILLON. Yes, I will. I assume it does, but I will check it.

Mr. PECORA. And give that to us tomorrow morning.

Now, Mr. Dillon, some time in the month of October 1924, the firm of Dillon, Read & Co. undertook to distribute and sell to the public the 250,000 shares of the first preferred stock, and you indicated in your testimony this forenoon that something like 300 other dealers in investment securities assisted Dillon, Read & Co. in the making of this distribution and sale. Who invited these 300 dealers, that being only an approximate number, to participate in this distribution? Was it Dillon, Read & Co.?

Mr. DILLON. Yes; Dillon, Read & Co.

Mr. PECORA. And were these 300 dealers, dealers who were carried along on the lists of Dillon, Read & Co. as distributing agencies for securities in which Dillon, Read & Co. were interested?

Mr. DILLON. I do not know just what you mean by "carried on the list." It was our regular list of dealers.

Mr. PECORA. Did you maintain a list that included these three hundred odd dealers and invite them to participate in the distribution of other securities in which Dillon, Read & Co. were interested?

Mr. DILLON. I assume that is true in general. That is, there may be a few exceptions, but that would be generally true, I should say.

Mr. PECORA. I show you a list entitled "250,000 shares United States & Foreign Securities Corporation first preferred stock allotment certificates—Syndicate." I ask you if that list shows the names of all these dealers who assisted Dillon, Read & Co. in the distribution and sale of this first preferred stock.

Mr. DILLON. I assume that list is correct.

Mr. PECORA. It was furnished to us by your office.

Mr. DILLON. Well, if it is. I thought maybe it was a copy.

Mr. PECORA. It is a copy, I presume.

Mr. DILLON. Yes, sir. [After checking with associates]: Yes; that is correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. It will be received and marked exhibit 7.

(List of dealers who assisted Dillon, Read & Co. in sale and distribution of first preferred stock was thereupon designated "Committee Exhibit 7, October 3, 1933", see p. 1611.)

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Mr. PECORA. Now, Mr. Dillon, who determined the extent of the participation of these various dealers in this syndicate that was organized by Dillon, Read & Co. to float those 250,000 shares of the first preferred stock?

Mr. DILLON. I suppose our regular syndicate department that ordinarily made up those lists. That would be true——

Mr. PECORA (interposing). And determine the extent of the participation of the members of the syndicate?

Mr. DILLON. That would be true as regards the general run and file of the list. There may be exceptional cases where it was done otherwise.

The CHAIRMAN. I understood these people got around 4 percent.

Mr. DILLON. Four percent selling commission; yes, sir.

Mr. PECORA. Is that the usual rate of commission allowed in flotations of this character, Mr. Dillon?

Mr. DILLON. It was at that time; yes. We could not have done it any cheaper, though we should have been glad to do it, because we were the equity holders in that company.

Mr. PECORA. You sought to pattern this investment trust in part at least on the form of investment trust incorporation that had been in existence in England and Scotland for a period of more than a half century?

Mr. DILLON. No. The theory of those trusts is what inspired us to work this out.

Mr. PECORA. By the theory you mean the obtaining for the investor in the certificates or stock of an investment trust that diversity of investment?

Mr. DILLON. That is right, under an active management.

Mr. PECORA. Dillon, Read & Co. were the managers of this investment trust, were they not?

Mr. DILLON. No; the investment trust was managed by its board of directors.

Mr. PECORA. Who bought and sold the securities that from time to time went into its portfolio?

Mr. DILLON. The board of directors at its meeting approved them or the officers in between the meetings made up the lists which were approved at the next board meeting.

Mr. PECORA. They made the determination of the investments to be made and to be disposed of from time to time?

Mr. DILLON. Yes.

Mr. PECORA. Who actually made the purchases and sales for the investment trust of the securities that from time to time found their way into its portfolio?

Mr. DILLON. I should think that was done by the ordinary brokers on the street. Dillon, Read probably executed, as intermediary, some of those orders, but we are not members of the stock exchange, so we could not have done the actual buying of the listed stocks. Orders may have been placed through our office.

Mr. PECORA. Was any management fee paid to anybody by the investment trust?

Mr. DILLON. None that I know of.

Mr. PECORA. Who were the executive officers of this investment trust at the time of its commencement of business in 1924?

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Mr. DILLON. October 27, 1924, the president was John W. Horner.

Mr. PECORA. One of the partners of Dillon, Read & Co.?

Mr. DILLON. That is correct. Hayward was at that time a vice president.

Mr. PECORA. Another partner of Dillon, Read & Co., wasn't he?

Mr. DILLON. Yes, sir.

Mr. PECORA. Mr. Christie was treasurer?

Mr. DILLON. Just a moment [conferring with associates]. Christie was treasurer on October 10, 1924, also. And the secretary at that time was C. F. Stone. Do you want anything further, Mr. Pecora?

Mr. PECORA. No. Who was the chairman of the board, do you know?

Mr. DILLON. At that time Mr. Wilmer was chairman of the board.

Mr. PECORA. And who succeeded him as chairman of the board?

Mr. DILLON. Mr. Benjamin Joy in January 1926.

Mr. PECORA. In October 1924, Dillon, Read & Co. and the syndicate whose members are named in this list that has been offered in evidence undertook to sell to the public the 250,000 shares of first preferred stock and the 250,000 shares of common stock that went with the allotment certificates?

Mr. DILLON. That is correct.

Senator COUZENS. Did the bonus, so-called bonus or common stock, go with every share of preferred stock that you sold?

Mr. DILLON. Yes; it was an allotment certificate that called for one share of preferred and one share of common.

Mr. PECORA. I show you this document which purports to be a photostatic copy of a prospectus or circular issued by Dillon, Read & Co. under date of October 21, 1924, and I ask you if that is a true copy of a circular or prospectus that your firm caused to be issued to the public in making this offering of these allotment certificates covering the first preferred shares.

Mr. DILLON. This is not a circular, Mr. Pecora; this is an advertisement.

Mr. PECORA. It is an advertisement published in the daily newspaper?

Mr. DILLON. That is correct.

Mr. PECORA. And the contents of that advertisement are exactly the same as the contents of the circulars that were issued, are they not, accompanying this offering?

Mr. DILLON. They are substantially the same, certainly.

Mr. PECORA. If not textually the same, they are substantially the same?

Mr. DILLON (addressing an associate). Is that correct? [After a pause.] I am so informed.

Mr. PECORA. If you can produce a photostat copy of the circular I will be very glad to have you do so, and then we will not rely upon any speculation as to whether they are exactly the same or substantially the same.

Mr. DILLON. You have a copy, Mr. Pecora, they tell me.

Mr. PECORA. Not of this circular. We have copies of other circulars issued in 1926 and 1927, but not the original.

Mr. DILLON. Our record shows the contrary, that you have.

Mr. PECORA. Well, it was lost in transit. I have never seen it. If you have a copy there I will take it.

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Mr. DILLON. Yes; we have.

Mr. PECORA. My examiners inform me that they got the copy of the advertisement and not of the circular, but I understand that they do correspond.

Mr. DILLON. Do they? Well, here we have a record that shows us that you did have that. [Mr. Dillon handed a document to Mr. Pecora.] They inform me that our files are only made up of the things that you have.

Mr. PECORA. Hurriedly reading over, Mr. Dillon, this copy of a circular, I would say that it corresponds exactly to the contents of the photostatic copy of the advertisement. I offer the advertisement in evidence or the photostatic copy thereof.

The CHAIRMAN. It will be received and marked as an exhibit.

(Photostat of advertisement for sale of stock was thereupon designated "Committee Exhibit 8, Oct. 3, 1933," and appears in the words and figures following:)

COMMITTEE EXHIBIT NO. 8, OCTOBER 3, 1933

OCTOBER 21, 1924.

Two hundred and fifty thousand shares United States & Foreign Securities Corporation First Preferred Stock. Cumulative dividends $6 per share per annum. Shares without nominal or par value. Entitled to $100 per share and accrued dividend in case of liquidation. Redeemable as a whole or in part on any dividend date upon 60 days' notice at $105 per share and accrued dividend. Dividends payable quarterly—February 1, May 1, August 1, and November 1. Central Union Trust Co. of New York, transfer agent; Guaranty Trust Co. of New York, registrar. Dividends free of the present Federal normal income tax.

Each share of first preferred stock will carry one share of common stock.

The United States & Foreign Securities Corporation has been formed to buy, sell, underwrite, offer, and generally to deal in, corporation, governmental, and other securities, both American and foreign, and, when desirable, to take part in the organization and operation of corporations. The company will afford to its stockholders the means to participate in diversified investment and financial opportunities arising from time to time which would not be available to them as individuals. The company may extend its operations by issuing its own debentures. Mr. Edward G. Wilmer will be the chairman of the board of directors, which is composed of representative bankers and industralists.

CAPITALIZATION

The authorized and issued capitalization of the United States & Foreign Securities Corporation will be as follows: First preferred stock ($6 cumulative dividend), 250,000 shares (now offered under allotment certificates). Second preferred stock ($6 cumulative dividend), 50,000 shares (purchased for cash by Dillon, Read & Co. and associates). Common stock, 1,000,000 shares (250,000 shares to go with first preferred; the balance to go with second preferred and to the organizers).

JUNIOR CAPITAL

The company has received $5,000,000, equivalent to $100 per share for the second preferred stock, the entire amount having been paid in by Dillon, Read & Co., excepting only such amounts as have been paid in by members of the board of directors. The $5,000,000 so obtained will be used principally for the establishment of a general reserve. The company will receive this $5,000,000, and the proceeds from the sale of first preferred stock, free of any deductions for originating charges by the organizers.

INVESTMENTS

The United States & Foreign Securities Corporation will subscribe for approximately 25 percent of the $10,800,000 initial issue of capital stock of the American and Continental Corporation, which is being formed for the purpose of financing

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industrial and commercial companies in Europe. The balance of the stock of the American and Continental Corporation is being acquired by American banking institutions and associates. The American and Continental Corporation will begin its operations in Germany, where it has associated with it a group of leading German banks.

The United States & Foreign Securities Corporation also will invest approximately $2,500,000 in the securities of the following companies: Brooklyn Edision Co., Continental & Commercial National Bank, Chicago; General Electric Co.; Central Union Trust Co. of New York; First National Bank, New York.

Earnings from the securities named above, together with income from the unexpended amounts received on first preferred stock allotment certificates and from the additional $5,000,000 paid in, should be sufficient to provide for initial dividend requirements on the first preferred stock.

PROVISIONS OF FIRST PREFERRED STOCK

The first preferred stock has preference over the other classes of stock as to dividends and as to assets in liquidation. It is entitled to dividends of $6 per share per annum cumulative from November 1, 1924. The first preferred stock is redeemable as a whole or in part on any dividend date on 60 days' notice at $105 per share and accrued dividend.

PAYMENTS

With each share of first preferred stock there will be delivered one share of common stock.

Payments will be called for as follows: 25 percent on delivery, subsequent calls to be made at intervals of not less than three months and no single call to be for more than 25 percent of the allotment price named below. Purchasers have the option, however, to make payment in full at once or on any first preferred stock dividend payment date. Allotment certificates of the company will be deliverable on or about November 3, 1924. Holders of these certificates will be entitled to receive currently dividends in proportion to payments made on the allotment price called for by the certificates. Upon payment of the entire allotment price holders will be entitled to subsequent dividends in full, and on November 1, 1926 (or earlier at the option of the company), to receive certificates for the first preferred stock called for by the allotment certificates, and for an equal number of shares of common stock.

We offer this stock in the form of allotment certificates, when, as, and if issued, subject to approval of legal matters by counsel. Price, $100 per share.

DILLON, READ & Co.

Mr. PECORA. Now, according to this advertisement these allotment certificates entitling the subscriber to one share of first preferred and one share of common were offered at $100 per share or certificate; is that right?

Mr. DILLON. That is correct.

Mr. PECORA. And that is what they were actually sold for, weren't they, subscribed for by the public?

Mr. DILLON. At that rate, yes.

Mr. PECORA. Now, in this advertisement appears the following statement concerning the capitalization of the United States & Foreign Securities Corporation:

The authorized and issued capitalization of the United States & Foreign Securities Corporation will be as follows:

First preferred stock ($6 cumulative dividend), 250,000 shares (now offered under allotment certificates).

Second preferred stock ($6 cumulative dividend), 50,000 shares (purchased for cash by Dillon, Read & Co. and associates).

Common stock, 1,000,000 shares (250,000 shares to go with first preferred, the balance to go with second preferred and to the organizers).

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Was there any practical difference in identity between subscribers purchasing second preferred stock and the organizers?

Mr. DILLON. Only to this extent: I should say that the directors who purchased second preferred stock were not organizers.

Mr. PECORA. That is, those of the directors who purchased in the aggregate 2,600 shares of the second preferred stock were not the organizers?

Mr. DILLON. No.

Mr. PECORA. Or were not among the organizers.

Mr. DILLON. That is correct.

Mr. PECORA. The organizers were solely and distinctly the firm of Dillon, Read & Co. or its members?

Mr. DILLON. That is correct.

Mr. PECORA. Now, this advertisement contains this further statement under the caption of "Junior capital":

> The company has received $5,000,000, equivalent to $100 per share for the second preferred stock, the entire amount having been paid in by Dillon, Read & Co., excepting only such amounts as have been paid in by members of the board of directors. The $5,000,000 so obtained will be used principally for the establishment of a general reserve. The company will receive this $5,000,000 and the proceeds from the sale of first preferred stock free of any deductions for originating charges by the organizers.

Well now, the company was not to receive $1,000,000 was it, out of the total purchase price of $25,000,000 that was paid by the public for the 250,000 first-preferred shares?

Mr. DILLON. No; that is correct, but they were to receive the proceeds from the sale of the first-preferred stock, and the proceeds of the sale according to the letter from Olcott were the $25,000,000 less the $1,000,000 which should be retained.

Mr. PECORA. But there is nothing in the advertisement that informs the public investor——

Mr. DILLON. No.

Mr. PECORA. Among the body of the general public, that Dillon, Read & Co. or anyone else was to receive $1,000,000 out of the total consideration of $25,000,000 for which the first-preferred stock was to be sold?

Mr. DILLON. That is correct. It would simply ordinarily be presumed that there would be a charge for selling, but there is nothing here that states that.

Mr. PECORA. Well, there is no ordinary assumption as to the amount of the charge, is there, in this circular?

Mr. DILLON. No.

Mr. PECORA. Nor as a matter of custom?

Mr. DILLON. No; that varies.

Mr. PECORA. That varies. And in this case it was at the rate of 4 percent?

Mr. DILLON. That is correct.

Mr. PECORA. Do you know any reason why that information was withheld in the advertisement and the circular from the investing public in the offering of this first preferred stock?

Mr. DILLON. It was not withheld.

Mr. PECORA. What is that?

Mr. DILLON. I would not say it was withheld.

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Mr. PECORA. Well, why wasn't it given?

Mr. DILLON. I see no reason except the general practice had not been to state what you are paying for the distribution and selling of securities.

Mr. PECORA. Now, as you look back upon that, Mr. Dillon, would you say that that general practice was a sound one as a matter of public policy?

Mr. DILLON. No; I should like to see those things all stated. I should think that——

Mr. PECORA (interposing). And the only reason it was not stated back in 1924 by your firm at that time was because it was not the general practice to do it?

Mr. DILLON. That is the only reason.

Mr. PECORA. You know that under the Securities Act that was passed by Congress at the special session this year such information is specifically required to be given under penalties of the law?

Mr. DILLON. I think that is proper. I am glad to see that.

Mr. PECORA. You approve of the principle of that bill to that extent?

Mr. DILLON. I do, sir. I think the maximum information you can give of every nature is good.

Mr. PECORA. What was the answer?

Mr. DILLON. I think the maximum information you can give of any nature and every nature is desirable.

Mr. PECORA. You think as a matter of fairness the investing public is entitled to have information of that kind given to it upon the offering to it of a security?

Mr. DILLON. If they want it I should think they would be entitled to have it.

Mr. PECORA. You cannot determine whether they want it or not in determining policy, can you?

Mr. DILLON. No. I would see no objection to it.

Mr. PECORA. The public would not object to any such information on any conceivable ground that you can think of, would it?

Mr. DILLON. No; and I think it is proper to put it in the circular.

Mr. PECORA. I take it, Mr. Dillon, that from the views you just expressed, and those views are valuable as coming from a man of your experience, that you are in hearty sympathy with those provisions of the Securities Act, so-called?

Mr. DILLON. I am in hearty sympathy, Mr. Pecora, with any movement to give more publicity, more information to the investing public. We in investing the funds of the Securities Co., those of us on the board, often feel the lack of proper information in our own purchases, and anything that is done to give more information to the public and more regular information I think is highly desirable.

Mr. PECORA. Mr. Dillon, we observed from the evidence introduced this morning that of the $5,000,000 paid in by Dillon, Read & Co. and its associates for the 50,000 shares of second preferred stock $50,000 was to be set up on the books of the investment trust as the consideration for that stock and $4,950,000 was to be set up as a reserve, general reserve.

Mr. DILLON. That is correct.

Mr. PECORA. Why was that done?

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Mr. DILLON. That was done in order to protect the first preferred stock that was sold to the public, because from that reserve you could charge losses, it could also be used for the payment of dividends, and a temporary decline in the market would not impair your capital structure and stop the payment of dividends. It was done for the protection of the first preferred. If you had had that simply set up entirely as capitalization of the second preferred and then there had been a decline in your portfolio, you would have had to stop payments on your first preferred, as I understand it, under the Maryland statute, because your capital was impaired—whereas if you had that set up in this other way as your reserve, it could continue to pay your dividends on your first preferred until the reserve is wiped out. So it was set up that way as an additional protection for the continuity of dividends on the first preferred stock.

Senator COUZENS. Did the common stock ever pay dividends?

Mr. DILLON. No.

Senator COUZENS. Has it had a market value at all?

Mr. DILLON. The common stock? As high as $72.

Mr. PECORA. I brought out this morning that the common stock reached on the New York Stock Exchange in the year 1929 as high as $72 per share.

Senator COUZENS. Never paid a dividend, did it?

Mr. DILLON. No. Mr. Pecora developed that this morning.

Mr. PECORA. This last week the price of this common stock was quoted on the New York Stock Exchange as $11.

Senator COUZENS. Have you any preferred stock, Mr. Dillon?

Mr. DILLON. Have I personally preferred stock? You mean the first preferred stock that the public has?

Senator COUZENS. Yes.

Mr. DILLON. Senator, I think so highly of that first preferred stock that the public has as an investment that I have myself bought for my family in the open market at an average cost of, I think it is over $90 a share, 25,000 shares of that first preferred stock as an investment. I think so highly of it that I bought that amount for my family in the open market without any common stock bonus at all, simply as an investment stock.

Mr. PECORA. Now this reserve fund of $4,950,000 was really created out of payments made to the investment trust for its second preferred stock, wasn't it?

Mr. DILLON. That is correct.

Mr. PECORA. And to call it a reserve out of which dividends were payable or could be paid to the holders of the first preferred stock simply is a matter of the employment of bookkeeping terms, isn't it?

Mr. DILLON. But bookkeeping is to comply with the statute. You see, as I understand it, Mr. Pecora, if the capital structure is impaired, that is, if your portfolio at any time in the market is worth less than your capital structure, under the Maryland statute you would have to stop payment of dividends, even though the money were available. That reserve is set up that way so that the capital structure, instead of being $30,000,000, would be $25,050,000, or whatever the figure is, and would leave that surplus set up out of capital available.

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Mr. PECORA. Did you by any chance have in mind at the time of this establishment or set-up of this investment trust that by setting aside out of the $5,000,000 which your firm paid for the 50,000 shares of second preferred stock the sum of $4,950,000 as a general reserve, and by pointing that out in the circular and advertisements offering the first preferred stock to the investing public you were in substance telling the investing public that aside from any actual earnings the investment trust might make subsequently there was available a fund of $4,950,000 for the payment of dividends on the first preferred stock?

Mr. DILLON. I don't know that we would tell them in substance it was available for the payment of dividends, but we stated it was set up out of capital, that reserve, and I suppose people that understand it would know that the reserve was available for losses without impairing capital.

Mr. PECORA. In creating this setup of the company you had in mind, didn't you, creating a situation whereby the public that was invited to subscribe to the first preferred stock would learn of the existence of a substantial fund, no earnings, which would constitute a fund from which dividends on the first preferred stock would be paid, or could be paid?

Mr. DILLON. Not necessarily just dividends, but losses or anything that might be charged against that.

Mr. PECORA. Well, as a matter of fact did you not in the circular advertisement say as follows about that, under the caption "Investments"?

> Earnings from the securities named above, together with the income from the unexpended amounts received on first preferred stock allotment certificates, and from the additional $5,000,000 paid in, should be sufficient to provide for initial dividend requirements on the first preferred stock."

Mr. DILLON. Yes. That would mean this. You see, the first preferred stock made their initial payment, which was a 25 percent payment. It was about six and one quarter million dollars they did pay. But you had that plus the $5,000,000 that we had paid in, which made more than $11,000,000, so that the income of that $11,000,000 was more than sufficient to pay the requirement on their $6,000,000. That is what that means.

Mr. PECORA. Do you know any particular reason why this investment trust was incorporated under the laws of the State of Maryland?

Mr. DILLON. No; I do not, Mr. Pecora.

Mr. PECORA. Was it because the corporation laws of the State of Maryland contained provisions that enabled the corporation out of a reserve that did not come from earnings to pay dividends on its preferred stock?

Mr. DILLON. I do not know that. May I ask about that? [After conferring with associates.] They say the State was simply selected because it was a good State for incorporations.

Mr. PECORA. Well, was it a good State for the purpose of this particular incorporation in order to enable you legally and under the laws of the State of Maryland to set up this reserve out of sums received by the corporation from the sale of its second preferred stock and to have those sums available for payment of dividends on the first preferred stock?

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Mr. DILLON. I do not think it was selected for that reason.

Mr. PECORA. Do you happen to know that under the laws of the State of New York such a reserve could not have been created and used for the payment of dividends on the first preferred stock?

Mr. DILLON. No; I do not.

Mr. PECORA. Who determined that this investment trust should be incorporated in the first instance under the laws of the State of Maryland?

Mr. DILLON. The attorneys who were handling it, I assume.

Mr. PECORA. And the attorneys were advised, I assume, also by your firm, what set-up the firm desired to make and did make of this corporate structure?

Mr. DILLON. Yes; I should assume that is correct.

Mr. PECORA. You have no doubt, have you, that the insertion of that statement in the advertisement and in the circular offering to the public the first preferred stock helped to influence investors in purchasing the first preferred stock?

Mr. DILLON. The fact that a reserve was set up out of that?

Mr. PECORA. Yes.

Mr. DILLON. I do not know that that would influence them. I do not know that the ordinary purchaser would figure that out one way or another.

Mr. PECORA. Do you not know that under the laws of the State of New York dividends cannot be paid except out of earnings?

Mr. DILLON. I would not know that without consulting the lawyers. If you say so I will gladly accept it.

Mr. PECORA. I would rather have your own lawyers advise you on that.

Mr. DILLON. They say in general that is true, Mr. Pecora.

Senator COUZENS. When you purchased those securities for this corporation did you purchase any of them from Dillon, Read & Co.?

Mr. DILLON. No.

Senator COUZENS. Who did you purchase them from; on the market or did you have any specified local dealer from whom you purchased the certificates?

Mr. DILLON. They were purchased through Dillon, Read & Co. They came from the open market or from people who had the certificates.

Senator COUZENS. Did you get a commission for purchasing these for the corporation?

Mr. DILLON. On the first $14,000,000 that were purchased through Dillon, Read & Co. they received a commission of about $5,700.

Mr. PECORA. Now, I understand that there is a customer's account on the books of Dillon, Read & Co. with this United States & Foreign Securities Corporation showing that between October 15, 1924, and December 31, 1925, securities for the account of this investment trust had been bought and sold to an aggregate amount of $46,436,233.96. Does that generally accord with your recollection?

Mr. DILLON. Yes; that generally accords.

Mr. PECORA. Does the fact of the purchase and sale of these securities for that aggregate amount over a period of about 14 months indicate to you that these securities were purchased and sold by Dillon, Read & Co. for the account of the investment trust?

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Mr. DILLON. Yes; they were purchased through Dillon, Read & Co.

Mr. PECORA. Well, is it fair to assume that Dillon, Read & Co. received commissions on those transactions according to the prevailing rates then current?

Mr. DILLON. I think it would have been fair to assume it, but I do not think it is the fact. I do not think we did get the full commissions on those accounts. I think when it was a stock exchange transaction that went through us we probably made no charge. Mr. Pecora, to try to find out what that did amount to, on that $46,000,000, we checked the first $14,000,000 of those transactions, and our total commissions on that were about as I stated, $5,700, which was just a spot check to get about the average.

Mr. PECORA. Now, in the year 1928 did your firm cause to be organized a second investment trust known as the United States & International Investment Corporation?

Mr. DILLON. The United States & Foreign Securities Co. caused that to be organized.

Mr. PECORA. Well, 75 percent of the control of voting stock was owned by Dillon, Read & Co.?

Mr. DILLON. Or their associates.

Mr. PECORA. Of that United States & Foreign Securities Corporation?

Mr. DILLON. Well, it may not have been just that. Some of it may have been sold by some of them, but all my stock was intact, and the stock that went to Dillon, Read & Co. was intact, so we owned the control, if that is what you mean?

Mr. PECORA. Yes. What was the set-up of that second investment trust?

Mr. DILLON. That second investment trust had $50,000,000 of first preferred stock, five-percent dividend, which was cumulative. That was sold to the public.

Mr. PECORA. At $100 per share?

Mr. DILLON. At $100 per share with one share of common in the form of allotment certificates.

Mr. PECORA. Was that floated also by a syndicate headed by Dillon, Read & Co.?

Mr. DILLON. That is correct.

Mr. PECORA. Go ahead.

Mr. DILLON. And there was a second preferred stock there which was paid for at $100 a share, in the amount of $10,000,000, which was put in junior to the public's money.

Mr. PECORA. Did Dillon, Read & Co. as an entity buy any of the first preferred or second preferred stock of this second investment trust?

Mr. DILLON. As an investment they bought none. The second preferred was all subscribed for by the United States & Foreign Securities Corporation which caused the United States & International Investment Corporation to be formed.

Mr. PECORA. What common stock was authorized to be issued by the second investment trust under its charter?

Mr. DILLON. Three million shares.

Mr. PECORA. Having no par value?

Mr. DILLON. No par value.

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Mr. PECORA. Were any of those 3,000,000 shares given as a bonus or otherwise to the purchasers of the first preferred stock and second preferred stock of that company?

Mr. DILLON. The first preferred stock received 500,000 shares.

Mr. PECORA. That is, one share of common for each share of first preferred?

Mr. DILLON. That is right. The entire balance of common went to the purchasers of the second preferred.

Mr. PECORA. That is 2,500,000 shares?

Mr. DILLON. No; I am wrong.

Mr. PECORA. All right.

Mr. DILLON. They tell me 2,000,000 shares went to the purchasers of the second preferred stock.

Mr. PECORA. Now the second preferred stock was sold to the first investment trust, namely, the United States & Foreign Securities Corporation, for $10,000,000 cash?

Mr. DILLON. No. That company at the organization bought it direct from the United States & International Securities Corporation.

Mr. PECORA. That is what I said, the second preferred stock of the United States & International Securities Corporation was sold directly to the first investment trust, namely, the United States & Foreign Securities Corporation, for $10,000,000 cash?

Mr. DILLON. Yes. And they received 2,000,000 shares of the common stock.

Mr. PECORA. They received 2,000,000 shares of the common stock, which represented two thirds of all the authorized common capital stock?

Mr. DILLON. That is right.

Mr. PECORA. Received that as a bonus?

Mr. DILLON. Well, they paid $10,000,000 for the second preferred and the common.

Mr. PECORA. The second preferred consisted of 100,000 shares, did it not?

Mr. DILLON. That is correct. Five-percent dividend. We have got 500,000 shares of common that is not accounted for here.

Mr. PECORA. We will account for it.

Mr. DILLON. Well, warrants were given with the first preferred stock to subscribe for common stock.

Mr. PECORA. At what price?

Mr. DILLON. 500,000 shares were just held for that.

Mr. PECORA. To subscribe for the common stock at what price?

Mr. DILLON. $25 a share.

Mr. PECORA. At $25 a share?

Mr. DILLON. Yes. So that was just set aside.

Mr. PECORA. And 500,000 shares of the capital stock of the second-investment trust were set apart to meet the requirements of those option warrants?

Mr. DILLON. That is right.

Mr. PECORA. That went to the purchasers of the first preferred stock; is that right?

Mr. DILLON. That is right. They received one share of first preferred and one share of common plus this option.

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Mr. PECORA. Plus this option?

Mr. DILLON. Yes.

Senator COUZENS. What was the purpose of organizing the second trust?

Mr. DILLON. The United States & Foreign Securities Corporation I suppose simply felt that it was good business to do it.

Mr. PECORA. Well, the United States & Foreign Securities Corporation really executed or consummated the judgment of Dillon, Read & Co., did it not?

Mr. DILLON. Well, of their stockholders—yes; you might say that, yes.

Senator COUZENS. Why could you not have expanded the operations of the first investment company instead of organizing the second one? Was there more profit in organizing the second one?

Mr. DILLON. May I answer Mr. Pecora's question, Senator?

Mr. PECORA. Answer the question Senator Couzens asked first, Mr. Dillon.

Mr. DILLON. The United States & Foreign Securities Corporation had an independent board of directors. When you say that Dillon, Read & Co., did own that stock, it is true if you include the stock owned by individual members of the firm. The directors used independent judgment on the question. The directors were not made up from my office.

Mr. PECORA. Well, the independent judgment of those directors who were not members of Dillon, Read & Co. in no way collided with the independent judgment of those directors who were members of Dillon, Read & Co., did it?

Mr. DILLON. No; I should not think it did.

Mr. PECORA. It is just merely a coincidence?

Mr. DILLON. Just merely a coincidence. At that time I think there were only two Dillon, Read & Co. directors. The forming of the United States & International Securities Corporation, they tell me, was the idea of Mr. Tracy, who was the president. He brought it up. But it coincided with our feelings. We did not object to it.

Mr. PECORA. Will you now answer Senator Couzens' question?

Mr. DILLON. Yes. What was the question?

Senator COUZENS. I asked you why you organized the second investment trust? You controlled the first one?

Mr. DILLON. Yes.

Senator COUZENS. And then you organized the second one. I wondered why.

Mr. DILLON. Simply because in our judgment it was a desirable thing to do. I do not know why.

Mr. PECORA. Why was it more desirable to go through all the burden and expense of organizing a second investment trust with a total capitalization of $60,000,000 when you already had an investment trust qualified and equipped to transact the same kind of business that the second investment trust conducted and operated?

Mr. DILLON. It was simply to expand the operations, to put them on a little larger scale.

Mr. PECORA. Well, could you not expand, as Senator Couzens has suggested, by the issuance and sale to the public of additional stock by the original investment trust in the amount of $60,000,000?

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Mr. DILLON. I do not think you could have sold it. What sort of stock would you have sold? What sort of security would you have offered?

Senator COUZENS. Just simply increased the authorized capital stock.

Mr. PECORA. Simply increased the authorized capital stock; certainly.

Mr. DILLON. I do not think you could have sold it.

Mr. PECORA. Why not?

Mr. DILLON. Because this second investment trust was set up with $10,000,000 junior to the public's money. Now you could not do that again in the first one because you did not have such a ratio probably.

Mr. PECORA. The ratio was identical to the ratio that was used in the first investment trust, was it not?

Mr. DILLON. Yes; but if you would have sold $60,000,000 more, what would you have sold? I do not quite follow what you mean. I do not see how you could have expanded United States & Foreign to that extent. I do not think the structure would carry it.

Mr. PECORA. Well, was the second investment trust organized to conduct the same kind of business as the first investment trust was organized to conduct and did conduct?

Mr. DILLON. Yes; that is correct.

Mr. PECORA. Well, why could not an additional sum of $60,000,000 have been added to the capital structure of the first investment trust through the issuance and sale of additional stock by an appropriate amendment to its bylaws that would have authorized it to issue such additional stock?

Mr. DILLON. Well, you might have worked out such a set-up. I do not know.

Senator COUZENS. Would you not have saved money if you had done it?

Mr. DILLON. It would not have made any difference how you did it.

The CHAIRMAN. Was the second trust organized under the laws of the State of Maryland just like the first trust?

Mr. DILLON. Yes; it was under the Maryland laws also.

Mr. PECORA. And were the legal formalities incident to its birth and christening also attended to by the same law firm?

Mr. DILLON. Yes. I do not think they used Mr. Olcott in this case. I think they did it directly with the corporation.

Mr. PECORA. You had some other bookkeeper, or what?

Mr. DILLON. I think they found that they did not need bookkeepers, and I think they did it straight with the United States & Foreign Securities Corporation subscribing directly for the stock.

Mr. PECORA. Through the medium of the incorporation and organization of the second investment trust called the United States & International Securities Corporation the public subscribed for its first preferred shares $50,000,000, and the United States & Foreign Securities Corporation subscribed for its $10,000,000 issue of second preferred stock and got two thirds of its common stock?

Mr. DILLON. That is correct.

Mr. PECORA. Now that $10,000,000 was furnished by the first investment trust, was it not?

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Mr. DILLON. But, Mr. Pecora, it got more than two thirds of the issue. It got 2 million out of 2½ million.

Mr. PECORA. Out of a total authorized issue of 3,000,000 shares of which 500,000 were held for the holders of the option warrants?

Mr. DILLON. That is correct. But out of the stock that was issued—out of the 2½ million they got 2 million, which really is 80 percent, is it not?

Mr. PECORA. Yes. Four fifths.

Mr. DILLON. Yes. 80 percent.

The CHAIRMAN. Did this first investment trust make any investments in foreign securities, or did they confine themselves to domestic securities?

Mr. DILLON. Senator, they have made certain investments in foreign securities from time to time.

The CHAIRMAN. And the second investment trust also?

Mr. DILLON. Yes; and the second also. But the large bulk of their investments—far and away the large part of it—are American securities.

Mr. PECORA. Now, by this method is it not a fact that Dillon, Read & Co., through an original investment of $5,000,000 which it paid for the second preferred stock of the first investment trust—the United States & Foreign Securities Corporation—plus the $100,000 that was paid for the block of 500,000 shares of the common stock of the first investment trust, acquired a control measured by the ownership of a large majority of the common stock of the first investment trust, and through the medium of the first investment trust buying for $10,000,000 all of the authorized second preferred stock of the second investment trust, plus 2,000,000 shares of its 2,500,000 shares of common stock actually issued and outstanding, were enabled to acquire control of both of these investment trusts having a total capitalization of $90,000,000?

Mr. DILLON. Was it $90,000,000?

Mr. PECORA. $30,000,000 of first; $60,000,000 of second.

Mr. DILLON. That is correct, but you are duplicating, because the first trust took $10,000,000 of its own assets to put in junior to the public's money in the second trust.

Mr. PECORA. All right. It made that contribution to the capital of the second investment?

Mr. DILLON. That is correct.

Mr. PECORA. And that $10,000,000 which was paid by the first investment trust for the second preferred shares of the second investment trust was paid out of an earned surplus?

Mr. DILLON. That is correct. It was paid out of the equity money—money belonging to the common stock.

Mr. PECORA. So that there was not necessarily this duplication of $10,000,000 in the capitalization of both companies, was there?

Mr. DILLON. No; you are correct.

Mr. PECORA. The $10,000,000 was paid out of earned surplus?

Mr. DILLON. You are correct.

Mr. PECORA. And paid into the treasury of the second investment trust?

Mr. DILLON. That is correct.

Mr. PECORA. That leaves us upon the ground brought out by the former question, that through this initial investment of $5,000,000

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Dillon, Read & Co. acquired control represented by the ownership of a majority of the capital stock of both of these investment trusts which had a total capitalization of $90,000,000?

Mr. DILLON. That is correct; but it was not just by the $5,000,000.

Senator COUZENS. You mean, it was plus——

Mr. PECORA. And minus the $1,000,000 received as commissions for the sale of the preferred stock of the first investment trust.

Mr. DILLON. But it was after the first investment trust had made—I don't know just what it was at that time. There was a total of $10,000,000 earned surplus. It had a large amount of unrealized profit there.

Mr. PECORA. It had a very prosperous record?

Mr. DILLON. Up to that time.

The CHAIRMAN. You would have had money for dividends on the common stock if you had not put that money into another investment in the second investment trust?

Mr. DILLON. We might have, but we never paid dividends on the common stock.

The CHAIRMAN. I know; but you had it there. You had the $10,000,000 there.

Mr. DILLON. We had the $10,000,000 there and we invested it in the second company and lost that in protecting the public's money that went into the second company. The public's money is still practically intact. There is about ninety dollars-odd a share, I am told by my associates, still there for the public, although our $10 000,000 that was junior has been lost.

Mr. PECORA. You do not mean "our $10,000,000", do you?

Mr. DILLON. Yes. I thought you said $10,000,000 from the investment trust.

Mr. PECORA. That had been earned by the first investment trust?

Mr. DILLON. Yes.

Mr. PECORA. When you say "our $10,000,000" you do not mean $10,000,000 that came out of the pockets of Dillon, Read & Co. or its individual members?

Mr. DILLON. Oh, no; I mean the earnings available for common stock.

Senator COUZENS. So, as a matter of fact, the 250,000 shares that went as bonus stock for the 250,000 shares of preferred was sacrificed for the purpose of creating the second investment trust?

Mr. DILLON. No, sir.

Senator COUZENS. Why, certainly. In other words, if you had not taken the $10,000,000 out of the first investment trust you could perhaps have paid dividends on the common stock of the first trust; but you did not do that, although you had distributed 250,000 shares as bonus stock——

Mr. DILLON. That is right; but we have never paid dividends on the common stock.

Mr. PECORA. But you had earned enough to justify the payment of dividends on the common stock.

Mr. DILLON. If you would pay your dividends out of capital appreciation. We did not, because we were working on the theory that dividends on the common stock would be paid out of income; that is, interest and dividends received. As the capital grew we did not use that. We left that to protect the first preferred, and as the income

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from that capital would have become large enough to take care of the first preferred and the second, and if there had been anything left over, we would have paid dividends on the common.

Senator COUZENS. What constituted this $10,000,000 you took out of the first trust to buy stock in the second trust?

Mr. DILLON. Cash.

Mr. PECORA. Representing earned surplus?

Mr. DILLON. That is correct.

Senator COUZENS. Well, then, that was not appreciation of capital. That was cash that you could have disbursed to the common stockholders of the first trust. It was a realization; it was earnings.

Mr. DILLON. Yes, sir.

Mr. PECORA. A surplus made up of earnings.

Mr. DILLON. That is correct.

Senator COUZENS. So you sacrificed the common-stock holders of the first trust to create a second trust by taking $10,000,000 of cash out of the first trust to buy common stock in the second trust?

Mr. DILLON. We could have taken that $10,000,000 and invested it in something else, bue we invested it in this company, rather than investing it in Steel common or anything else.

Senator COUZENS. I know you did not buy Steel common. You bought something which you yourself controlled. So I do not think it is quite comparable.

The CHAIRMAN. It enabled them to get control of $60,000,000 more.

Senator COUZENS. Certainly.

Mr. DILLON. To manage for the public, Senator. It was no advantage to us. Our record has been that of the $5,000,000 which we put in there junior we have not received full 6-percent dividends. On our common stock we have never received anything. I have worked for 8 years and have never received any salary or compensation of any kind. I have given it a large portion of my time. We have been fortunate enough to continue to pay dividends to the public on their money that was put in, and we have the assets of the first trust today still intact, above the value of the first preferred stock.

Senator ADAMS. You paid dividends on the first preferred stock in the second company?

Mr. DILLON. For a brief time. They are in arrears now, Senator. But we who put in this original $5,000,000 and have kept that stock, kept our investment, have not even received 6 percent on our investment. We have received nothing on the common. It is true that these stocks have market value, but those of us, like myself, who have been trying to do a serious work in running a company like this for the public investors, have not even had full interest on the money we invested junior.

Mr. PECORA. Let me say, to possibly save time, that for the time being we will say no more about what profits or dividends were or were not received by the associates of Dillon, Read & Co., because I propose to go, on the subsequent examination of yourself and your associates, into the matter of the receipt by these men, through the sale of common stock of the shares of the first investment trust, profits that represented much more than 6 percent dividends.

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Mr. DILLON. Very much; but, unfortunately, I was not a party to that. I was not in that account. I was simply saying to the Senator that I personally have not sold any of my stock and have not even had interest on my second preferred.

Senator COUZENS. When was it organized?

Mr. PECORA. In 1928.

Senator COUZENS. So it was much more desirable to get $60,000,000 of the public's money than it was to take 6 percent on $5,000,000?

Mr. DILLON. I do not quite follow you there, Senator.

Senator COUZENS. You say you did not even get your 6 percent on the $5,000,000 invested, but in 1928 you sacrificed that so as to get $60,000,000 of the public's money to further use in an investment.

Mr. DILLON. We did not use it except for the benefit of the public.

Mr. PECORA. But as owners of the majority of both the first and second investment trusts you did have a considerable amount at stake; did you not?

Mr. DILLON. We had all our junior money at stake, and our reputation in running it properly as far as we did. The board of directors were functioning. Dillon, Read & Co., as I said, did not run these companies. I gave them a great deal of my time, and I took a personal interest in it. I am deeply interested. I am a large holder of what you call the " public's money."

Mr. PECORA. With regard to the issuance and sale to the public of the $50,000,000 worth of the first preferred stock of the second investment trust, you said that was sold through a syndicate headed by Dillon, Read & Co.?

Mr. DILLON. That is correct.

Mr. PECORA. Were those sales made in very much the same general fashion as the $25,000,000 worth of first preferred stock of the first investment trust?

Mr. DILLON. I should assume so.

Mr. PECORA. What commissions were received by Dillon, Read & Co. and its participants in this selling syndicate upon the sale of the $50,000,000 worth of first preferred stock of the United States & International Securities Corporation?

Mr. DILLON. Dillon, Read & Co. received their originating fee of 1 percent on that stock, I think.

Mr. PECORA. $500,000?

Mr. DILLON. Yes.

Mr. PECORA. And further, it received about a million dollars, did it not, out of the commission paid by the investment trust, the United States & International Securities Corporation, to the members of this syndicate?

Mr. DILLON. Whatever that was. There were 3 points allowed there to the distributing syndicate.

Mr. PECORA. That is $150,000?

Mr. DILLON. Oh, no.

Mr. PECORA. $1,500,000?

Mr. DILLON. A million and a half.

Senator COUZENS. Why did you pay less on that than on the first?

Mr. DILLON. It was the same. It was 4 points, but we realized at that time, I suppose, that we could sell it for 3 points, and we took the 1 point for originating it, I suppose.

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Mr. PECORA. As a matter of fact, the second investment trust paid a commission of 4 points, or 4 percent, for the selling of the first preferred stock?

Mr. DILLON. We bought the stock less 4 points.

Mr. PECORA. So the investment trust virtually paid 4 points commission for the flotation of that first preferred stock?

Mr. DILLON. That is right.

Mr. PECORA. Which amounted to $2,000,000?

Mr. DILLON. Yes.

Mr. PECORA. Of that $2,000,000, $500,000 went immediately to Dillon, Read & Co. apart from other members of the syndicate?

Mr. DILLON. Yes.

Mr. PECORA. And the balance was distributed among all the members of the selling syndicate, including Dillon, Read & Co.?

Mr. DILLON. On the basis of the stock they sold.

Mr. PECORA. Of that $1,500,000——

Mr. DILLON. One moment. There was a banking group in between there.

Mr. PECORA. Of that $1,500,000 how much went to Dillon, Read & Co. as its share?

Mr. DILLON. The commission on the stock that Dillon, Read & Co. sold amounted to $516,893.95. It was paid them on the same basis as the other members of the syndicate—3 points.

Mr. PECORA. How much of that $1,500,000 was received by Dillon, Read & Co. as its share of the syndicate commission?

Mr. DILLON. I think I just read you that figure.

Mr. PECORA. Oh.

Mr. DILLON. Here is the total. Of the $2,000,000, Mr. Pecora, there was a small amount off for expenses, some forty thousand odd. That left $1,953,000. Of that Dillon, Read & Co. received in the original group originating this, $500,000. There was then a banking group formed, and in the total profits Dillon, Read & Co. received $39,000; the Dillon Read Corporation, $9,000; a total of about $48,000, $161,0000 going to other participants. Then in the selling syndicate Dillon, Read & Co. received their commission on the stock they sold amounting to $516,893.95. Dillon Read Corporation, $51,502.50; and the other participants in the business received $675,321.10. That accounts for that $2,000,000.

Mr. PECORA. So that, all together, Dillon, Read & Co. received for its participation in the sale of the first-preferred stock of the second-investment trust an aggregate of $1,016,000?

Senator ADAMS. $1,065,000.

Mr. PECORA. Yes; $1,065,000.

Mr. DILLON. That is approximately correct.

Mr. PECORA. It would not be doing violence to the facts to say that this was about as handsome a return to Dillon, Read & Co. as it might have received if it received dividends at 6 percent on its second-preferred stock in the first-investment trust, would it?

Mr. DILLON. It is better, I should say. But, Mr. Pecora, may I bring out here—I do not think I made it clear—this point? Senator Couzens spoke of the $10,000,000 that was paid in the second preferred and that should have gone as dividends to the common stockholders. Had that been done, you realize that Dillon, Read & Co. would have received $7,500,000.

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Senator COUZENS. You would have made much more off that $60,000,000 than on this $5,000,000, even if you had done that. But the question is not how much you made. The point, I think, is that it is rotten ethics to take $10,000,000 out of an investment trust you own, or which you control, rather, its ownership being in the public hands, and put it in another investment trust to further augment your own profits. I think that is reprehensible.

Mr. DILLON. Oh, that was not the fact.

Senator COUZENS. Certainly it augmented it, because you controlled this and the other $60,000,000 you sold to the public, and you also had common stock from which you might have earned dividends.

Mr. DILLON. From which we might have. The public has been taken care of.

Senator COUZENS. Yes; but, Mr. Dillon, you understand, of course, that I am not attacking your good faith. I still insist that you were speculating and using the stockholders' money in another corporation, which you had no right to do.

Mr. DILLON. But we were stockholders.

Senator COUZENS. You controlled them.

Mr. DILLON. Of this $10,000,000, $7,500,000 would have come to us.

Mr. PECORA. Seventy-five percent of the capital stock of the first investment trust?

Mr. DILLON. That is right.

Senator ADAMS. The theory of your first investment trust was the investment in standard stocks; that is, you were taking those standard stocks?

Mr. DILLON. Yes.

Senator ADAMS. This was a diversion of earnings of the first trust into an investment that was not in that classification, was it?

Mr. DILLON. Except that it was a new trust. It was to buy the same standard stocks as the first one did. It was engaged in the same sort of business.

Senator ADAMS. You did not invest it in first preferred; you invested it in the second?

Mr. DILLON. Yes.

Senator ADAMS. You did not invest in the same grade of securities?

Mr. DILLON. We invested it in the same grade of securities in this way. That was money that belonged to the common stock of the first trust.

Senator ADAMS. Are you sure it belonged to that? In other words, you had first preferred stock out to whom you owed a first obligation, didn't you?

Mr. DILLON. That is correct.

Senator ADAMS. So it did not belong to the common stockholder unless you were perfectly sure that your first preferred dividend was secure, did it?

Mr. DILLON. Yes, sir; that is true.

Senator ADAMS. Then you had second preferred ahead of the common stock?

Mr. DILLON. Yes, sir.

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Senator ADAMS. So you cannot say that this all belonged to common stock?

Mr. DILLON. Well, it could have been declared as dividends on the stock. It was available for that.

Senator ADAMS. It could have been done, do you say?

Mr. DILLON. Yes, sir.

Senator ADAMS. But, as wise managers you would not have cleaned down the accumulations. You would not have cleaned them right down, but you paid the first dividend, and then what was left you would have paid out in that way?

Mr. DILLON. Yes. That was why we did not pay that.

The CHAIRMAN. The second trust was a 5-percent stock instead of a 6-percent stock, was it not?

Mr. DILLON. Yes, sir. We have found that 6 percent is more than you can reasonably expect to earn over a period of years in conservative investments. We wouldn't do that again—putting the money that we had in that first trust in in that way. Some of these individuals sold some of their common stock, but those that have held it, such as myself, have found that it has not been a profitable investment.

Senator COUZENS. Mr. Chairman, how much longer will you run this afternoon?

The CHAIRMAN. Just a few moments. Mr. Dillon, can you sell 5 percent stock about as well as 6 percent stock?

Mr. DILLON. At that time in the market it sold about as well.

Mr. PECORA. Mr. Dillon, just prior to the purchase by the first investment trust of $10,000,000 of second preferred stock of the second investment trust in 1928, the first investment trust had in its treasury more than $10,000,000 representing earned income, as surplus made up of earnings. The fact that it had such a large amount of undistributed earnings in its treasury was reflected in the market value of the common stock, wasn't it?

Mr. DILLON. Yes. I should think that that is a fair assumption. That showed the asset value of the stock.

Mr. PECORA. And that would give an enhanced market value to the common stock?

Mr. DILLON. I would think so.

Mr. PECORA. Which would have been entitled to the ownership, we will say, of the equity?

Mr. DILLON. I should think the equity of the company would reflect the market value of its common stock.

Mr. PECORA. We have seen that around 75 percent of the common stock of the first investment trust was owned by Dillon, Read & Co. or its individual members.

Mr. DILLON. Yes.

Mr. PECORA. If that money, those earnings, had been distributed by way of dividends on that common stock, the market value of the common stock would not have been enhanced, as it was, by the accumulation in its treasury of those undistributed earnings, would it?

Mr. DILLON. Well, as to that I do not know.

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Mr. PECORA. Well, isn't that a fair inference to draw?

Mr. DILLON. I do not know whether it is, because if you have common stock that is paying dividends whether that would sell higher or lower in the case of that same common stock with the surplus accumulated, I do not see how any man can say. You will have to try it out on the market. Generally stock that pays dividends sells better than one that does not.

Mr. PECORA. In 1928 the market value of securities was not determined on that basis, was it? On actual dividend payments, I mean, was it?

Mr. DILLON. In 1928 and 1929 I do not know what basis people used.

Mr. PECORA. And it was in 1928 and 1929 that this common stock of the first investment trust reached a high of $72 a share on the New York Stock Exchange?

Mr. DILLON. That is correct. At that time it had an asset value of about $48, they tell me.

Senator COUZENS. Did they pay dividends on the second preferred up to that time?

Mr. DILLON. Yes, sir.

Senator COUZENS. So you got dividends for the $5,000,000 you put in?

Mr. DILLON. That is right, up until—well now, let me see when.

Mr. PECORA. Until 1931, wasn't it?

Mr. DILLON. Yes; I think so.

Senator COUZENS. So when you were organizing your second investment trust you were just sacrificing dividends on a $100,000 investment for the other common shares?

Mr. DILLON. You can put it that way if you like.

Senator COUZENS. Well, that is a fact, isn't it?

Senator ADAMS. Mr. Dillon, as to those $10,000,000 accumulated profits, did they have their origin in dividends upon stocks which were held in the portfolio or was it partly due to profits upon the sale of securities?

Mr. DILLON. It was largely due to profits upon sales of securities, because had it been income on securities in the portfolio, following the policy we were then following we would have paid dividends.

Senator ADAMS. It was capital appreciation.

Mr. DILLON. Yes, sir. We were holding that hoping it would accumulate so that on the basis of capital appreciation it might some day justify dividends.

The CHAIRMAN. How about the second investment trust, have dividends been paid on that preferred stock?

Mr. DILLON. They were paid up until 1930. They were passed in 1930.

The CHAIRMAN. On both the second and the first preferred?

Mr. DILLON. They are looking that up for you now.

Mr. PECORA. Mr. Dillon, how much did you say was the asset or book value of the common stock of the first investment trust in 1928, prior to its purchase of the $10,000,000 of second preferred stock of the second investment trust?

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Mr. DILLON. I will have to inquire here [speaking to some of his associates]. They tell me it reached a high of $48, but I do not know whether just then or not. No; it was around $28 at that time.

Mr. PECORA. At what time?

Mr. DILLON. In October of 1928 it was about $28.

Mr. PECORA. And reached what?

Mr. DILLON. And reached $48 in August of 1929.

Senator GOLDSBOROUGH. Was it $28 when you took the $10,000,000?

Mr. DILLON. About that.

Mr. PECORA. In the matter of the 750,000 shares——

Mr. DILLON (continuing). Now, as to those figures, they are taking the market value of the assets at the time and figuring the value. It was not realized value.

Mr. PECORA. I know. On the basis of the common stock of the first investment trust in 1928 it reached a book or asset value of $48 per share, and 750,000 shares of the common stock of that first investment trust, which went to Dillon, Read & Co. and its associates for $5,100,000, it had an asset or book value of $36,000,000, didn't it?

Mr. DILLON. Yes.

Mr. PECORA. And the market value was considerably in excess of that $36,000,000, wasn't it?

Mr. DILLON. On the quotation at that time I assume it was, because all those investment stocks were selling much above their book value. I think ours were probably—well, I have not the quotations on the market at that time, but undoubtedly the quotation was above that.

Mr. PECORA. Did any of your associates ever complain to you as to an unwise investment that you made in this $5,000,000 of junior money in first investment trust?

Mr. DILLON. I have not heard of any such complaints. Well now, wait. I believe I am wrong in stating that.

Mr. PECORA. There was some little complaining, was there?

Mr. DILLON. Well, one of them complained and thought it was a bad investment because you cannot afford to pay 6 percent on that senior money and earn anything for yourself. And that has been true. We have not been able to earn dividends on it.

Mr. PECORA. How many shares of common stock has that gentleman got in the first investment trust?

Mr. DILLON. I do not know what he has now. He may have sold some of it.

The CHAIRMAN. We will now take a recess until tomorrow morning at 10 o'clock.

(Whereupon, at 4:10 p.m. Tuesday, Oct. 3, 1933, the subcommittee adjourned until 10 o'clock the following morning.)

COMMITTEE EXHIBIT 1-A, OCTOBER 3, 1933

Dillon, Read & Co. was responsible for the organization of United States & Foreign Securities Corporation and later offered to the public first preferred and common stock of United States & International Securities Corporation. These are both investment companies, of the type commonly termed "investment trusts." In view of the fact that the public is insufficiently aware of the outstanding record of the well-managed investment companies and of the par-

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ticularly outstanding record of these two companies, it may be of interest if I give a few facts as to the basis for their organization and the history of their operations.

The investment trust is largely a creation of English and Scottish finance, trusts of substantial size having been organized in England as early as 1865. Since that time they have gone through periods of great prosperity, notably the boom years 1887–90, during which large numbers of investment trusts were organized with very considerable capital and through periods of prolonged depression. The losses incurred by English trusts during the years following the Baring failure in 1890 brought them into popular disfavor for some time. However, as the persistently better-than-average investment record of the well-managed trusts became apparent, they again returned to favor and came to occupy an increasingly important place in British finance. At the present time it is estimated that the capital of English investment trusts is in excess of £200,000,000.

In this country, very little had been done with the investment trust up to 1924, it being estimated that the total resources of such companies operating at that time was less than $15,000,000.

In 1923 and 1924, the members of Dillon, Read & Co. gave considerable study to the English investment trust idea as it applied to the general problem of finding a form of investment which would provide the investor with security and an adequate yield. Anyone familiar with investments realizes the difficulty of investing funds so that they produce a yield to average better than 5 percent per annum over a long period of years. To do so requires continuous and expert supervision and a distribution of investment risks. The principle underlying the investment trust, that is, that it merges the funds of many investors into one fund of sufficient size to permit intelligent diversification and the maintenance of specialized management at a cost moderate in relation to the size of the fund as a whole, appeared sound. The actual record of the English trusts seemed to prove not only the soundness of the principle but also, when intelligently handled, its success in actual practice over many years.

Still another principle became evident in studying the English and Scottish trust. Almost without exception their capitalization other than funded debt consisted of two or more classes of stock. One class was usually called preference stock, having priority as to assets in liquidation and priority as to a fixed dividend, ranging in the case of different trusts from 4¼ to 5 percent, but excluded from any further share in the earnings, the second being what in England is called "ordinary or deferred stock", which is entitled to whatever additional earnings may be available for dividends after satisfying the rights of the preference stock. In this way two types of investment were provided, one enjoying a high degree of security and a limited but adequate yield, while the other offered the possibility of greater yields but involved far greater risks. In England ordinary or deferred stock of investment trusts is held almost exclusively by those active in finance and able to assume the risks involved.

With these principles in mind we approached the problem of adapting the investment-trust idea to conditions in this country. The American people were unfamiliar with investment trusts at that time. It would have been impossible to sell a straight preferred stock with a fixed dividend of 4¾ percent, which about is the average dividend of English investment trust preference stocks. On the other hand, it was felt that exceptional opportunities were then available for the investment of funds and that, using what in our judgment was the best investment skill available, it might be possible to better somewhat the record of 6 percent per annum earnings achieved in recent years by the best English companies.

Accordingly, in 1924 we decided to organize United States & Foreign Securities Corporation. The following capitalization was authorized and issued: 250,000 shares first preferred, 50,000 shares second preferred, 1,000,000 shares common.

The first preferred was to be similar to the preference stock of English and Scottish trusts. It was provided that dividends of $6 per share per annum should be payable on the first preferred stock before any payments were made on the second preferred or common. Furthermore, that in the event of liquidation of the company the first preferred stock should be entitled to $100 per share before any payments were made on the second preferred. Not only was the dividend rate on the first preferred fixed at $6 per annum as against the

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substantially lower rate paid on English investment trust preference stocks, but in addition it was decided to give the subscribers to the first preferred stock an additional share in possible earnings.

Had the typical English capitalization for investment trusts been followed, a single class of common stock junior to this first preferred stock would have been created, all of which we would have purchased for cash. It was solely for the purpose of giving the subscribers to the first preferred stock an additional share in possible earnings over and above 6 percent per annum that the two classes were authorized, second preferred and common, instead of one single class. It was felt that we should fairly receive 6 percent per annum on the actual cash paid in by us before a share of the additional earnings should accrue to the subscribers to the first preferred.

It was therefore provided that the second preferred should be entitled to dividends of $6 per share per annum, but only after $6 per share per annum had been paid on the first preferred; and that in the event of liquidation of the company it should be entitled to $100 per share but only after all of the outstanding first preferred had been paid $100 per share. The common stock which represented the right to earnings over and above 6 percent per annum on the subscribed capital, went one fourth to the subscribers to the first preferred and three fourths to us as subscribers to the second preferred.

Dillon, Read & Co. and our associates paid in $5,100,000 of our own funds for 50,000 shares of second preferred and 750,000 shares of common. Of this amount $4,950,000 was specifically set aside by the corporation as a general reserve against which losses could be charged without jeopardizing the dividends payable on the first preferred.

This $5,100,000 has provided a cushion of protection to the money invested by the public. If the assets of the corporation had been liquidated on June 30, 1932, when their indicated market value had reached its lowest level, this $5,100,000 would have been wiped out and nothing would have been available for the second preferred or common, but there would have been, based on such market values, $87,64 available for distribution on every share of first preferred outstanding in the hands of the public.

The 250,000 shares of first preferred, with which went 250,000 shares of common stock, were offered to the public in the form of allotment certificates at $100 per share and were fully subscribed for.

Subscriptions to these allotment certificates were received through the medium of an underwriting syndicate formed for this purpose by Dillon, Read & Co. The underwriting syndicate was paid a total of $1,000,000 being a sum equal to $4 for each $100 of subscriptions so received. The syndicate was composed of 380 participants. Dillon, Read & Co. made no charge for its services in organizing the syndicate, our only compensation being as a participant in the syndicate on the same terms as dealers throughout the country. Such compensation aggregated $339,461.64 arising from our syndicate participation of 82,455 shares and our retail sales of 94,858 shares. It should be noted that this compensation is gross, no deduction having been made for selling or overhead expenses.

The total amount payable to the corporation from subscribers to the first preferred and common stock and from the sale of the second preferred and common, after deducting the payment to the underwriting syndicate, was $29,100,000. As it seemed unwise to attempt to invest the entire capital of the corporation at once, the 250,000 shares of first preferred and 250,000 shares of common stock were offered in the form of allotment certificates, 25 percent being payable upon issuance and the balance subject to call by the corporation. Subsequently, the remaining amounts due from subscribers to the allotment certificates were called by the corporation and were paid in full by the subscribers.

At the outset it was recognized that the chief factor in the success or failure of an investment company was the ability and conservatism of its management.

All activities of United States & Foreign Securities Corporation have been under the supervision and subject to the approval of its board of directors. The original board consisted of Messrs. Anson W. Burchard, F. H. Ecker, Herbert Fleishacker, J. W. Horner, William A. Phillips, Robert C. Schaffner, John Sherwin, George W. Wickersham, Harrison Williams, Edward G. Wilmer, and myself. The strength of the board has at all time been maintained. The

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present directors are E. J. Bermingham, F. H. Ecker, Charles S. McCain, G. M. P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, Edward G. Wilmer, and myself.

The members of Dillon, Read & Co., having been responsible for the formation of the corporation, have done everything in their power to assure its success. In the early years of its activity, space in the offices of Dillon, Read & Co., and the services of some of our employees were donated to the corporation free of charge. At a later date, as its activities became more extensive, the corporation set up offices of its own.

The successful record of the original investments of the corporation reflects the sound judgment with which they were made. The return received from interest and dividends averaged approximately 6 percent in 1924 and 1925, and this was supplemented substantially by earnings from participations in underwriting and syndicate accounts offered to the corporation by Dillon, Read & Co. The extraordinary prosperity of the next few years not only resulted in substantial increases in the dividends paid on some of the securities in the portfolio of the corporation, but also resulted in the increase of the quoted prices for these securities to levels far beyond our expectations. From time to time the corporation realized on a portion of this increment in the value of its portfolio. In the annual reports to stockholders it was clearly stated that profits of this type were of a special character and not to be confused with earnings from interest and dividends. Owing to the realization by the directors that some day losses of a similar nature might have to be met, these profits were never used as a basis for making a distribution on the common stock of the corporation.

During the unfortunate days of the depression, the corporation has suffered along with others. In 1929, 1930, and 1931 the directors kept a large proportion of the company's funds in cash, call loans, and United States Government securities, these items amounting to $19,688,000 on December 31, 1929, and $22,440,000 on December 31, 1930, but the remaining assets of the corporation suffered severe depreciation in common with those of other investors.

In the spring of this year the corporation invested the major portion of the funds then held in the form of cash and governments. The subsequent appreciation in the market value of these investments has been large.

As one looks back over the record of the corporation from its organization to the present day, one is again impressed with the soundness of the investment trust principle and of the management of this company. The corporation has paid $11,020,049.57 in dividends to the first preferred stockholders, which is the full 6 percent per annum on their shares up to the present day. Two million one hundred thousand dollars has been paid in dividends on the second preferred stock, this being less than 6 percent per annum, dividends on this stock being in arrears since November 1931. After these payments, the books of the corporation as of August 31, 1933, show a surplus of $5,398,679.55. Taken at market prices on that day the assets of the corporation had an indicated value of $29,319,000. This is more than $138 per share of first preferred stock outstanding. After deducting an amount equal to $100 per share of first preferred stock, and $100 per share of second preferred stock outstanding, there remains a substantial liquidating value for the common stock.

The attached charts show how the investments of United States & Foreign Securities Corporation have fared since December 31, 1927, at which time it had received all amounts due on its allotment certificates, as compared with the action of the recognized stock averages since that time.

They indicate that $100 invested from that date as United States & Foreign invested its assets would have had a value of $72 on June 30, 1933. One hundred dollars invested in the stocks comprising the Dow Jones industrial average would have declined in value to $49, the record of United States & Foreign being better by 47 percent.

One hundred dollars invested in the securities comprising the Dow Jones railroad average would have declined in value to $35, United States & Foreign's record being better by 106 percent.

One hundred dollars invested in the securities comprising the Standard Statistics bank stock average would have declined in value to $39, United States & Foreign's record being better by 85 percent.

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By the fall of 1928 United States & Foreign Securities Corporation had demonstrated the soundness of the principles on which it was organized. Mr. Tracy, president of the company, thought that a second corporation organized on the same basic principles and affiliated with it in management should be organized. The same principle of junior money acting as a cushion of protection to the funds subscribed by the public was again employed. In this instance United States & Foreign paid $10,000,000 for 100,000 shares of second preferred, and 2,000,000 shares of common of the United States & International Securities Corporation. Dillon, Read & Co. formed a syndicate which received subscriptions to 500,000 shares of first preferred stock with which went a like number of shares of common stock. This first preferred and common stock was offered in the form of allotment certificates for the same reason that that procedure was adopted in the case of United States & Foreign.

In 1928 securities were selling at prices to yield considerably less than they yielded in 1924. The dividend rate on the first preferred and second preferred stocks was therefore fixed at $5 per share per annum.

At the time United States & Foreign Securities Corporation made its investment in the second preferred and common stock of United States & International Securities Corporation, it had an earned surplus in excess of the amount of this investment.

During much of the time United States & International Securities Corporation was investing its funds, the prices of industrial securities, public utilities, and bank stocks had risen to such a level that the current dividend yield on them was small. The railroad stocks, as a class, offered more substantial yields and seemed to offer as great, if not greater, security than other classes of stock. After having several engineering reports made on individual railroads, United States & International Securities Corporation invested a considerable portion of its funds in railroad stocks. At the time these investments were made it was recognized that car loadings might drop 10 or 20 percent, as they had dropped in previous depressions, but it never occurred to any of us that they might drop 50 percent, as they subsequently did.

In the case of United States & International Securities Corporation the soundness of the investent trust principle of diversification is very clearly portrayed. In spite of serious depreciation suffered in railroad securities, other investments turned out to be profitable. As a result the actual investment record of United States & International Securities Corporation between comparable dates, as indicated by the attached charts, is superior even to that of United States & Foreign Securities Corporation.

These charts compare the investment record of United States & International Securities Corporation from December 31, 1930, at which time its allotment certificates had become full paid, with the action of the recognized averages since that time.

They indicate that $100 invested from that date as United States & International invested its assets would have had a value of $86 on June 30, 1933.

One hundred dollars invested in the securities comprising the Dow Jones industrial average would have declined in value to $59, the record of United States & International being better by 46 percent.

One hundred dollars invested in the securities comprising the Dow Jones railroad average would have declined in value to $51, the record of United States & International being better by 69 percent.

One hundred dollars invested in the stocks comprising the Standard Statistics public utility average would have declined in value to $61, United States & International's record being better by 41 percent.

One hundred dollars invested in the securities comprising the Standard Statistics bank stock average would have declined in value to $43, United States & International's record being better by 100 percent.

This record speaks for itself and makes perfectly clear the service rendered investors by the conservatively managed investment company. There is no doubt that as the splendid showing of such companies in the United States during the past few years becomes more widely appreciated, their securities will achieve a popularity with the American investing public comparable to that of the English and Scottish trusts with the British public.

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COMMITTEE EXHIBIT No. 7, OCTOBER 3, 1933

250,000 shares United States & Foreign Securities Corporation First Preferred Stock Allotment Certificates, Syndicate. Date offered, Oct. 21, 1924, checks mailed to participants Dec. 21, 1924

Name of participant	Participation	Profit and/or commission
	Shares	
Brown Bros. & Co	1,000	$3,838.33
Bernhard, Schiffer & Co	1,500	5,757.50
Barney & Co., C.D	250	959.58
Byllesby & Co. H. M	250	959.58
Braderman Co., Inc., M.W	100	383.83
Barrett & Co., G. E	2,000	7,496.67
Barstow & Co	500	1,919.17
Bauer, Pond & Vivian	400	1,535.33
Berwin & Co	250	919.58
Bogert, Beverly	150	575.75
Boland & Preim	100	383.83
Bortle & Co	300	1,151.50
Borden & Sampter	200	767.67
Bennett Coghill & Co	150	575.75
Bronson & Co., Theo. L	300	1,151.50
Buell & Co	450	1,427.25
Burr & Co., George H	300	1,151.50
Burchard, Anson W	3,000	11,515.00
Blake Bros	200	767.67
Callaway Fish & Co	500	1,919.17
Clark & Co., Richard W	50	191.92
Craig Colgate & Co	150	575.75
Crawford, Wm. C	100	383.83
Danforth & Marshall	500	1,609.17
Dean, Onativia & Co	150	575.75
Debevoise, Foster	300	1,151.50
Dominick & Dominick	1,000	3,838.33
Dominion Securities Corporation	4,000	15,353.33
Dresser & Escher	150	575.75
Dederick, Arnold & Co	250	959.58
Fiske & Sons, Harvey	200	767.67
Glidden, Morris & Co	500	1,899.17
Greenshields, Wills & Co., Inc	250	959.58
Greer, Crane & Webb	300	1,151.50
Goodbody & Co	100	383.83
Horner, Mrs. Grace M	500	1,919.17
Hemphill, Noyes & Co	4,000	14,973.33
Hitt, Farwell & Co	2,000	7,676.67
Howe, Snow & Bertles	650	2,494.92
Hampton, Chas. H	200	767.67
Harris, Ayers & Co	100	383.83
Iselin & Co	500	1,919.17
Ingraham & DuBosque	2,000	7,676.67
Ittleson, Henry	200	767.67
Keech & Co., F. B	250	959.58
Kissell, Kinnicutt & Co	1,000	3,838.33
Kelley, Drayton & Converse	100	383.83
Koch, Spencer B. & Co	150	575.75
Kennedy & Co., Leonard	100	383.83
Lage Bros. & Co	200	767.67
Lamport & Co., Inc	500	1,919.17
Love, Macomber & Co	150	575.75
McDonough & Sloan	200	767.67
Morgan, Livermore & Co	100	383.83
Mabon & Co	200	767.67
Manufacturers Trust Co	750	2,878.75
Mathey & Co., L. A	1,100	4,222.16
Mayer & Co., R. C	350	1,343.42
Merrill, Lynch & Co	500	1,719.17
Millett, Roe & Co	150	575.75
Minsch, Monell & Co	1,200	4,606.00
Moore, Leonard & Lynch	600	2,303.00
Morris & Smith	150	575.75
Martin, R. W	50	191.92
Naumberg & Co., E	1,200	4,606.00
Noble & Corwin	100	383.83
Peabody, Houghteling & Co	750	2,878.75
Parker, Robinson & Co	500	1,919.17
Pogue & Willard	2,000	7,076.67
Phillips & Zoller	100	383.83
Public National Bank	150	575.75
Price & Co	150	525.75

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250,000 shares United States & Foreign Securities Corporation First Preferred Stock Allotment Certificates, Syndicate. Date offered, Oct. 21, 1924, checks mailed to participants Dec. 21, 1924—Continued

Name of participant	Participation	Profit and/or commission
	Shares	
Prince & Whitely	2,500	$9,415.83
Reinhart & Bennett	600	2,303.00
Roach, John J	100	383.83
Robjent, Maynard & Co	100	383.83
Robbins & Co., Charles D	2,500	9,595.83
Russell, Miller & Carey	450	1,587.25
Russell, Faris R	400	1,535.33
Redmond & Co	750	2,678.75
Seasongood, Haas & MacDonald	150	575.75
Shields & Co	2,500	9,545.83
Shore & Jolles	500	1,919.17
Simmonds & Slade	400	1,535.33
Scholle Bros	2,000	7,676.67
Sutro, Lionel	75	287.88
Sweet, Richards & Co	100	383.83
Tooker, Gilbert & Co	600	2,303.00
Tracy, Ernest B	1,100	4,222.16
West & Co., Wm	4,000	15,353.33
Williams, Clark & Co	500	1,919.17
Wood, Low & Co	800	3,070.67
Williams & Co., H. D	400	1,535.33
O'Sullivan, T. C	400	1,535.33
American Ex. Securities Co	1,000	3,838.33
OUT OF TOWN		
Newton: Newton Trust Co	100	483.83
Newark:		
Goldsmith, Meyer & Lobeell	200	767.67
Newark & Essex Security Co	200	767.67
Post & Flagg	100	383.83
Standard Security Corporation of New Jersey	200	767.67
Montclair-Essex Trust Co	50	191.92
Albany:		
W. Vam A. Waterman Co., Inc	400	1,535.33
J. A. Ritchie & Co	100	383.83
George R. Cooley	400	1,535.33
Charles E. McElroy	100	383.83
Schenectady:		
Mohawk National Bank	700	2,686.83
Willis T. Hanson	100	383.83
Buffalo:		
Baker, Mandeville & Co	200	767.67
A. L. Chambers & Co	800	3,070.67
Hayes & Collins	300	1,129.50
O'Brian, Potter & Co	200	767.67
Pistell, Trubee & Co., Inc	2,300	8,828.17
L. G. Ruth & Co	400	1,535.33
Edward N. Wilkes & Co	50	191.92
Young & Spaulding	100	383.83
Evers Rebers & Co	500	1,919.17
T. N. Pistell	100	383.83
Olean: J. H. Van Buren & Co., Inc	200	567.67
Geneseo: Livingston County Trust Co	100	383.83
Rochester:		
Converse, Hough & Co., Inc	350	1,343.42
Sage, Wolcott & Steele	350	1,343.42
Willard J. Smith & Co	200	767.67
Union Trust Co	100	383.83
Charles E. Mudge	50	191.92
Frank J. Little	100	383.83
Binghamton: Chittenden, Phelps & Co	150	575.75
Ithaca: Henry N. Hinckley	200	767.67
Syracuse:		
E. G. Childs & Co	600	2,303.00
Stone, Seymour & Co	1,200	4,606.00
Hudson & Eddy	50	191.92
Utica: Mohawk Valley Investment Co	250	959.58
Scranton: Weissenfluh & Co	600	2,303.00
Wilkes-Barre:		
W. D. Morris, Jr. & Co	200	767.67
Booker Bros	250	959.58
Atlanta: Trust Co. of Georgia	100	383.83
Baltimore:		
Atlantic Exchange Bank & Trust Co	250	959.58
Frank B. Cahn & Co	400	1,535.33
Continental Co	100	383.83

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250,000 shares United States & Foreign Securities Corporation First Preferred Stock Allotment Certificates, Syndicate. Date offered, Oct. 12, 1924, checks mailed to participants Dec. 21, 1924—Continued

Name of participant	Participation	Profit and/or commission
OUT OF TOWN—continued		
Baltimore—Continued	*Shares*	
Gillet & Co	200	$767.67
P. H. Goodwin & Co	500	1,919.17
John D. Howard & Co	200	767.67
Birmingham: Marx & Co	350	1,343.42
Greensboro: Atlantic Bank & Trust Co	150	575.75
Raleigh: Durfey & Marr	100	383.83
Wilmington: C. P. Bolles & Co	200	767.67
Washington: Henderson-Winder Co	50	191.92
Cleveland:		
R. B. Keeler & Co	100	183.83
Otis & Co	250	959.58
Hosford, Harry W	750	2,878.75
Worthington Murfey & Co	250	959.58
Saunders Co., T. H	500	1,919.17
Murch Co., Maynard H	150	575.75
Stanley & Bissell	250	959.58
Collins Co., Philip H	200	767.67
Canfield & Co., G. B	100	383.83
Mid-Continent Sec. Co	4,000	15,353.33
Hord Curtiss & Co	400	1,535.33
W. K. Sadler & Co	300	1,151.50
Akron: Mayfield-Adams Co	100	383.83
Canton: United Security Co	750	2,878.75
Dayton: Thomas Ruttman	50	191.92
Toledo: Collin-Norton Co	500	1,919.17
Youngstown: Realty Guarantee & Trust Co	50	91.92
Pittsburgh:		
J. H. Holmes & Co	900	3,454.50
Wells, Deane & Singer	600	2,103.00
Hill, Wright & Frew	900	3,454.50
Dinkey & Todd Co	2,400	9,212.01
Geo. C. Applegate	250	959.58
R. W. Evans & Co	400	1,435.33
Stout & Co	151	575.75
Glover & MacGregor	200	767.67
Peoples Savings & Trust Co	1,800	6,909.00
Zimmerman & Co	150	575.75
Finsthwait & Co	150	575.75
David R. Hill	130	498.98
Farrell: Colonial Trust Co	50	191.92
Erie: Chas. Messenkopf	150	575.75
Ambridge: Ambridge Savings & Trust Co	20	76.77
Altoona: Calahan & Co	50	191.92
Charleston: Kanawha Banking & Trust Co	500	1,919.17
Jamestown: Western Reserve Securities Corporation	100	383.83
Warren:		
C. Q. Calderwood & Co	200	767.67
E. H. Lampe	400	1,535.33
Berkeley, Calif.: Security Bond & Finance Co	50	191.92
Los Angeles:		
G. Brashears & Co	200	767.67
Citizens National Co	100	383.83
A. H. Frank & Co	150	575.75
Hunter, Dulin & Co	100	383.83
Howard G. Rath Co	400	1,535.33
Stevens, Page & Sterling	400	1,535 33
Oakland:		
J. F. Hassler	50	191.92
Waite H. Stephenson & Co	100	383.83
Pasadena: Andrew W. Stewart & Co	100	383.83
San Diego:		
Arthur Dewar	250	959.58
R. K. Williams	50	191.92
San Francisco:		
Anglo California Tr. Co	500	919.17
Anglo-London-Paris Co	1,000	3,838.33
Bancitaly Corporation	500	1,919.17
J. Barth & Co	100	383.83
Bond & Goodwin & Tucker	1,000	3,838.33
Bradford, Kimball & Co	100	383.83
F. M. Brown & Co	100	$383.83
Geo. H. Burr, Conrad & Broom	200	767.67
Carstens & Earles, Inc	100	183.83
Wm. Cavalier & Co	200	767.67
Paul W. De Fremery	100	383.83
A. H. Frank & Co	100	383.83

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250,000 shares United States & Foreign Securities Corporation First Preferred Stock Allotment Certificates, Syndicate. Date offered, Oct. 21, 1924, checks mailed to participants Dec. 21, 1924—Continued

Name of participant	Participation	Profit and/or commission
OUT OF TOWN—continued		
San Francisco—Continued	*Shares*	
Geary, Meigs & Co	800	$3,070.67
R. T. Harper & Co	150	575.75
Lieb, Keyston & Co	100	383.83
M. P. Lilienthal Co	50	191.92
Peirce, Fair & Co	500	1,719.17
Edward Pollitz & Co	100	383.83
George D. Roberts & Co	100	383.83
Schwabacher & Co	200	767.67
Shingle, Brown & Co	100	383.83
Strassburger & Co	250	959.58
Chas. Sutro	100	383.83
San Jose: Lewis Miller Co	150	575.75
Santa Barbara: Paul Bullis & Co	100	383.83
Colorado Springs, Colo.: Hazelhurst, Flannigan & Co	50	191.92
Denver: Calvin Bullock	100	383.83
Chicago, Ill.:		
W. S. Asgard & Co	400	1,435.33
Ames, Emerich & Co	1,000	3,838.33
Alfred L. Baker & Co	1,000	3,838.33
Bard, Esch & Co	500	1,919.17
A. G. Becker & Co	2,500	9,595.83
Belding, Boehmer & Co	300	1,151.50
Katherine C. Bermingham	500	1,919.17
Brokaw & Co	2,000	7,676.67
Paul Buhlig	100	383.83
Carman, Fox & Snider	200	767.67
Ralph Chapman & Co	100	383.83
J. L. Cooke & Co	100	383.83
F. A. Cuscaden	20	76.77
Dangler, Lapham & Co	100	283.83
Paul H. Davis & Co	100	333.83
Dean, Onativia & Co	100	383.83
Eastern Corporation	250	959.58
C. E. Fauntleroy & Co	200	767.67
L. B. Ferguson & Co	200	767.67
Beulah R. Fiske	500	1,919.17
Folds, Buck & Co., Inc	750	2,878.75
Walter Freeman & Co	200	767.67
Ralph A. Bard	50	191.92
H. T. Holz & Co	750	2,918.75
Hord, Fitzsimmons & Co	150	575.75
Howe, Quisenberry & Co	750	2,878.75
Lewis, Owens & Co	150	575.75
Merrill, Lynch & Co	750	2,778.75
Mitchell, Hutchins & Co	2,500	9,515.83
National Repub. Securities Co	1,000	3,838.33
Paine, Webber & Co	100	383.83
C. L. Schmidt & Co	250	959.58
Shapker, Stuart & Co	250	959.58
Standard Trust & Savings Bank	200	767.67
L. Montefiore Stein	100	383.83
Stein Bros. Paige & Co	100	383.83
Averill, Tilden & Co	100	383.83
Jacksonville: Dunlap, Russell & Co	50	191.92
Peoria: The Eugene Osborn Co	100	383.83
Springfield: Matheny, Dixon & Co	150	275.75
LaPorte, Ind.: H. W. Fox	150	575.75
Ashland, Ky.: Ashland National Co	50	191.92
Lexington: Security Trust Co	150	575.75
Louisville:		
Block, Fetter & Trost	150	575.75
J. J. B. Hilliard & Son	350	1,343.42
W. L. Lyons & Co	250	959.58
James C. Willson & Co	500	1,919.17
New Orleans, La.: Watson, Williams & Co	100	383.83
Grand Rapids, Mich.: Grand Rapids Trust Co	50	191.92
Duluth, Minn.:		
Edward F. Chapin & Co	150	575.75
Duluth National Bank	50	191.92
Stanley Yonce	100	383.83
Do	300	1,151.50
Philip L. Ray & Co	100	383.83
Minneapolis:		
Gardner, Osburn & Co	50	391.92
Lane, Piper & Jaffray	750	2,878.75
Thayer-Beebe & Co	100	383.83

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250,000 shares United States & Foreign Securities Corporation First Preferred Stock Allotment Certificates, Syndicate. Date offered, Oct. 21, 1924, checks mailed to participants Dec. 21, 1924—Continued

Name of participant	Participation	Profit and/or commission
OUT OF TOWN—continued		
St. Paul:	*Shares*	
Kalman, Gates, White & Co	100	$383.83
Grubbs, Booraem & Co	150	575.75
Chas. H. F. Smith & Son	150	575.75
St. Louis, Mo.		
Walker Hill, Jr. & Co	100	383.83
John R. Longmire	200	767.67
Potter, Kauffman & Co	200	767.67
Reinholdt & Co	100	383.83
Smith, Moore & Co	1,000	4,338.33
Mark C. Steinberg & Co	350	1,343.42
Stix & Co	350	1,343.42
Chattanooga, Tenn.: First Trust & Savings Bank	50	191.92
Nashville:		
American National Co	150	575.75
J. W. Jakes & Co	50	191.92
Joe B. Palmer & Co	300	1,151.50
Chas. Belson	50	191.92
Appleton, Wis.: First Trust Co	50	191.92
Green Bay: Peoples Savings & Trust Co	50	191.92
Milwaukee:		
Dahindan-Schmitz-Platner Co	50	191.92
First Wisconsin Co	400	1,535.33
Partridge-Patmythes Co	50	191.92
Second Ward Securities Co	400	1,535.33
R. H. Williams Co	400	1,535.33
Neenah: The E. J. Lachmann Co	100	383.83
Boston, Mass.:		
Blodget & Co	200	767.67
Coburn, Kittredge & Co	500	1,919.17
Collins, Spalding & Co	200	767.67
A. B. Conant & Co	300	1,151.50
Curtis & Sanger	500	1,919.17
Philip S. Davis & Co	75	287.88
Dowling, Swain & Shea, Inc	200	767.67
G. A. Fernald Co	750	2,878.75
Flint, Wellington & Co	300	1,151.50
Long & Nash	300	1,151.50
Minot, Kendall & Co	200	767.67
Eugene F. O'Brien & Co	600	2,303.00
Parkinson & Burr	2,200	8,444.34
Pearson, Erhard & Co	900	3,454.50
Putnam & Storer	200	767.67
Wm. A. Russell & Bro	500	1,919.17
Stone & Webster	750	2,878.75
Townsend, Anthony & Tyson	200	767.67
B. F. White & Co	200	767.67
Whitney & Elwell	400	1,535.33
Waterbury: R. F. Griggs Co	250	959.58
Providence:		
Davis & Davis	200	767.67
Hutchinson & Co	350	1,343.42
Stephen E. Hopkins	75	287.88
C. A. Kilvert & Co	500	1,919.17
Richard S. Moore & Co	450	1,727.25
Pawtucket:		
H. H. Brooks	300	1,151.50
Homer Gray	25	95.96
Hartford: Tripp & Andrews	450	1,727.25
New Haven:		
R. H. Hasset & Co	150	575.75
Chas. W. Scranton & Co	300	1,051.50
Winslow, Day & Stoddard	500	1,919.17
Bridgeport:		
Hincks Bros. & Co	200	767.67
C. H. Gilman & Co	75	287.88
E. B. Merritt & Co	300	1,151.50
Portland: Porter, Erswell & Co	200	767.67
Springfield: John Torrey Hawkins	200	767.67
Philadelphia:		
Janney & Co	3,500	13,434.17
Biddle & Henry	1,700	6,525.16
Elkins, Morris & Co	400	1,535.33
West & Co	500	1,919.17
Harrison & Co	700	2,686.83
Harper & Turner	250	959.58
Fitch, Crossman & Co	1,750	6,697.08

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Name of participant	Participation	Profit and/or commission
OUT OF TOWN—continued		
	Shares	
Sam'l McCreery & Co	1,000	$3,798.33
Wister, Carter & Co	500	1,919.17
Frazier & Co	400	1,535.33
Nixon & Co., Inc	100	383.83
Wm. G. Hopper & Co	1,000	3,838.33
Martin & Co	350	1,343.42
Paul & Co	250	959.58
Cadbury, Ellis & Haines	100	383.83
Lewis & Snyder	250	939.58
Reed A. Morgan & Co	100	383.83
Rufus Waples & Co	100	383.83
Edw. C. Rose & Co	100	383.83
Stroud & Co	1,800	6,909.00
M. F. Middleton & Co., Jr	100	383.83
Kennedy & Co	50	191.92
Wheeler & Co	100	383.83
F. P. Ristine & Co	100	383.83
Wm. Marriott Canby	100	383.83
Parrish & Co	50	191.92
J. H. Crouse & Co	250	959.58
Roland L. Taylor	1,000	3,838.33
Donald J. Smith & Co	100	383.83
Lloyd & Palmer	100	383.83
Walter Stokes & Co	150	575.75
Reid, McClure & Co	100	383.83
Drayton, Pennington & Colket	250	959.58
Chas. T. Brown	100	383.83
John H. Mason	150	575.75
H. B. Hagy	250	959.58
Wm. Jennings	100	383.83
Equitable Trust Co	1,500	5,757.50
Harry Bacharach	400	1,535.33
Abm. Barker Mellor	100	383.83
Total		637,951.49
Dilon, Read & Co., New York:		
Retail	22,472	93,833.00
Boston	6,724	28,100.94
Philadelphia	17,881	74,971.18
Philadelphia special	1,100	2,022.16
Chicago	20,000	82,566.67
Chicago special	8,430	33,217.14
Pittsburgh	5,848	24,750.55
Total	250,000	977,533.13

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STOCK EXCHANGE PRACTICES

WEDNESDAY, OCTOBER 4, 1933

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

The subcommittee met, pursuant to adjournment on yesterday, at 10 o'clock a.m. in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Glass, Adams (substitute for Barkley and proxy for Costigan), Norbeck, Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; George S. Franklin, Wallace P. Zachry, Warren Leslie, Walter G. Dunnington, Clifton Murphy, John T. Cahill, and Bernhard Knollenberg, counsel for Dillon, Read Co.; Root, Clark, Buckner & Ballantine, George H. Murphy of counsel, counsel for United States & Foreign Securities Corporation.

The CHAIRMAN. The subcommittee will come to order. You may proceed, Mr. Pecora.

TESTIMONY RESUMED OF CLARENCE DILLON, OF DILLON, READ & CO.

Mr. PECORA. Mr. Dillon, if you would like, you might come up a little closer toward this end of the table.

Mr. DILLON. I should be glad to do so because by reason of the unusual use of my voice on yesterday I am a little hoarse this morning.

Mr. PECORA. All right. Did you have something you wanted to say before we began with the hearing?

Mr. DILLON. Here are some charts that were not physically attached to committee exhibit no. 2-A that we handed in on yesterday. They were loose, and if I might hand them in now I should be glad to do so. They are just charts referred to in that exhibit.

Mr. PECORA. All right. Let me see them.

Mr. DILLON. They are simply in connection with that exhibit, in regard to the security companies operations. They show the fluctuations in the stock-exchange operations.

Mr. PECORA. Isn't that a fact made clear or alluded to in the textual part of your statement that was offered to the subcommittee on yesterday?

Mr. DILLON. That is true, but that statement refers to the charts.

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Mr. PECORA. It will be somewhat difficult to reproduce these graphs or charts in the printed record. And there is no question being raised as to the manner of operation of the portfolio of the investment trusts. So this would simply be, perhaps, a bit superfluous and unnecessary and would encumber the record, unless there is some special point you want to make with them. These charts are numerous, some 14 or 16 of them. You could tell the subcommittee through the medium of your oral testimony the salient features if you wanted to demonstrate them.

Mr. DILLON. There are no salient features, but there are certain figures in that statement and reference is made in the statement to the charts. There is nothing else.

The CHAIRMAN. You might say for the record orally what the charts show.

Mr. DILLON. We are perfectly willing to drop that matter if you prefer.

Mr. PECORA. I will look over these charts during the recess, and perhaps I can bring out the important features that you want brought out, by questions propounded to you.

Mr. DILLON. They only show the changes in stock market prices. The management of the investment trust thinks there may be some advantage to them to have them in the record rather than just the averages.

The CHAIRMAN. It is very difficult for the Government Printing Office to reproduce these graphs or charts.

Mr. DILLON. Well, we are perfectly willing to have you handle them in any manner you like.

Mr. PECORA. I will look them over during the recess.

Mr. DILLON. All right.

Mr. PECORA. Now, Mr. Dillon, in offering to the public for subscription the 250,000 shares of the first preferred stock of United States & Foreign Securities Corporation, back in 1924: Who prepared or who caused to be prepared the circular or prospectus which accompanied that public offering.

Mr. DILLON. That was prepared by Dillon, Read & Co. No; I am wrong about that. That was prepared by the security company, but Dillon, Read & Co. organized the security company.

Mr. PECORA. Which member was it who prepared it? In other words, was it prepared by a member of the personnel of Dillon, Read & Co.

Mr. DILLON. May I ask for the details? I do not remember that for it was nine years ago.

Mr. PECORA. All right.

Mr. DILLON. They will look that up and see if we have any records to show it. I do not think they are prepared by any one person.

Mr. PECORA. To what extent was circulation given in connection with this offer to the investing public of this prospectus or advertisement?

Mr. DILLON. The advertisement was made in the newspaper. I do not know which one, the New York Times, and——

Mr. PECORA. The prospectus?

Mr. DILLON. The prospectus was used I think as prospectuses are usually used.

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Mr. PECORA. Among whom were copies of the prospectus distributed?

Mr. DILLON. I shall have to inquire.

Mr. PECORA. All right.

Mr. DILLON (after inquiring of associate). We have no record of that. I should say that they were distributed to that syndicate.

Mr. PECORA. That is, to the participants in the selling syndicate?

Mr. DILLON. I should assume that is so.

Mr. PECORA. And not distributed to the general public?

Mr. DILLON. By us, not to the general public, no; excepting the people that bought stock. They saw the circular.

Mr. PECORA. How can you say that the people who bought the stock saw the circulars?

Mr. DILLON. Well, I would naturally assume that.

Mr. PECORA. If the circulars as printed by Dillon, Read & Co. were sent to the dealers, the 300 or more dealers who composed the selling syndicate?

Mr. DILLON. I assume that they used the circulars to sell the stocks.

Mr. PECORA. You mean that they caused reprints to be made of the circulars for distribution among their clients and customers?

Mr. DILLON. That I don't know.

Mr. PECORA. That is what I am trying to get at now, Mr. Dillon, what the general routine is by which these offerings are made to the public.

Mr. DILLON (after conferring with associates). Mr. Pecora, I do not believe that there is a reprint. I think as a general rule the managers print a lot of these circulars and distribute them.

Mr. PECORA. To the selling syndicate, to the dealers?

Mr. DILLON. Yes.

Mr. PECORA. Do you understand that to be the general routine or custom by which these offerings are made to the public?

Mr. DILLON. That is our general routine and custom.

Mr. PECORA. Does that correspond with the routine and custom adopted by other investment bankers to your knowledge?

Mr. DILLON. As far as I know; yes.

The CHAIRMAN. Was this advertisement published anywhere else except in NewYork —New York Times, for instance? Does it go to the other parts of the country?

Mr. DILLON. I should think so, Senator. I will inquire as to where this particular one was. I think it was published in the principal cities, like Chicago, and so forth.

Mr. PECORA. Published on more than one date?

Mr. DILLON. No; I should think the advertisement appears on one day. It may have appeared on two days. Generally just once. Sometimes it appears morning and evening and sometimes evening and the following morning.

Mr. PECORA. Do you get any correspondence from prospective purchasers based upon these published advertisements?

Mr. DILLON (conferring with associate). Very rarely, they say.

Mr. PECORA. The advertisements and circulars are put out in the name of Dillon, Read & Co., are they not?

Mr. DILLON. The circular; yes.

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Mr. PECORA. And the advertisement?

Mr. DILLON. The advertisement of that one.

Mr. PECORA. So that if a prospective investor wanted to learn something more about the security that you are advertising and offering, the only person with whom he could communicate directly would be the dealer whose name appears on the circular or the advertisement as making the offering, would it not?

Mr. DILLON. No; on the circular I should think he would apply to the man who was offering it to him, to the dealer who was offering it. A person seeing an advertisement like that I should think would not know a dealer and he would naturally apply to Dillon, Read & Co.

Mr. PECORA. From the fact that you had very little correspondence——

Mr. DILLON (interposing). As a rule, I should think a man would be much more apt to apply to his own dealer or broker, even though it was signed by Dillon, Read & Co.

Mr. PECORA. Is it fair to conclude from that that in making an offering and distribution of a security of this kind or any other kind where a selling syndicate is organized, formed, by the originating group or issuer, that the actual retail sales are made to the public through the medium of the selling syndicate or the members of the selling syndicate?

Mr. DILLON. I do not quite follow the question, but I think I can answer that in offering the security the sales are made through the selling syndicate.

Mr. PECORA. And in this instance there has been introduced in evidence the list of the participants in the selling syndicate, this list of some three hundred or more dealers that was put in evidence yesterday?

Mr. DILLON. That is correct, the dealers, and in that list I think there are probably others that are not dealers.

Mr. PECORA. Each one of those dealers, I presume, received a copy of the circular or prospectus that was put in evidence here yesterday relating to this offering?

Mr. DILLON. I should assume so.

Mr. PECORA. Was the dealer given originally any other information concerning the issue that was being offered?

Mr. DILLON. That I don't know.

Mr. PECORA. What is the custom and practice in your house in regard to that?

Mr. DILLON. It is to give them the circular and any additional information that they may require or ask for.

Mr. PECORA. But the additional information is not given except in response to questions or requests for such information coming from the distributing dealers?

Mr. DILLON. That is, information in excess of what we give them. Additional information would only come at their request.

Mr. PECORA. When you organize a selling syndicate of the kind that was organized in connection with this offering back in 1924, how do you make up the membership of that selling syndicate?

Mr. DILLON. That is made up by our syndicate department.

Mr. PECORA. By what process? What methods are used by them? We want to get the machinery.

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Mr. DILLON. Yes. I am assuming this is the method because I am not familiar with just how they do it, but I think they keep records of dealers that we have done business with, and whenever we have a syndicate to be formed they go over all records and offer participations to such dealers as in their judgment would be interested in that particular security.

Mr. PECORA. And the issuing house or the originating syndicate or group then determines the extent of participation that is given the dealers who are invited to join the selling syndicate?

Mr. DILLON. Yes.

Mr. PECORA. Where a dealer declines to accept a participation which has been offered him in one of these selling syndicates do you continue to keep his name on your lists for future offerings?

Mr. DILLON. We do, Mr. Pecora. We allow a dealer to take what he likes, and if he doesn't like it he says, "Well, that particular security I don't like," or "I can't sell it," or "My market won't take it." We then offer him the next one. If he again declines a similar kind of security we probably realize that that kind of an issue he cannot use, but we do not hold that in any way against that dealer.

Mr. PECORA. Does his name remain on your list of potential participants in other offerings?

Mr. DILLON. I should think it would remain there unless he repeatedly declined and we felt he was out of business.

Mr. PECORA. Do you know what the general custom has been in the investment banking field generally with regard to that?

Mr. DILLON. I don't know generally other than in our own business, but you do hear stories around that if a person does not take an offering they are offered less the next time or else they are dropped off, but I know of no instances of that.

Mr. PECORA. Have you heard such stories?

Mr. DILLON. I have, sir.

Mr. PECORA. Over a period of years?

Mr. DILLON. Yes, you hear that.

Mr. PECORA. Do you think that might be an instance of where there is so much smoke there might be some flame?

Mr. DILLON. Possibly, but I don't know of any such instances myself.

Mr. PECORA. Then the dealers who are invited to participate in a selling group and do accept such invitation take the portion of the offering that is allocated to them by the originating group?

Mr. DILLON. Not always. Sometimes they ask for more and sometimes they take less.

Mr. PECORA. But as a rule they take the share that is allocated to them?

Mr. DILLON. They accept what they get.

Mr. PECORA. Yes.

Mr. DILLON. But very often they ask for more.

Mr. PECORA. Yes; and they in turn push the sale of those securities among their respective customers in their various communities?

Mr. DILLON. They endeavor to sell them to their customers, yes.

Mr. PECORA. Did you have much correspondence—when I say you, of course I mean your firm—either with investors who purchased

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any of these first preferred shares in the United States & Foreign Securities Corporation or with any of the dealers whose participation in the selling syndicate you invited, with respect to this offering?

Mr. DILLON. (after conferring with associates). Well, I could not answer that without going back and looking up. I assume we had such correspondence as one might have with an issue of this kind.

Mr. PECORA. As a rule do you have much correspondence of that sort in connection with a new offering?

Mr. DILLON. (after conferring with associates). I am trying to find out what that practice is. We do have a certain amount of correspondence with people from time to time, and they have questions to ask and want information.

Mr. PECORA. I assume that in the general operation of the business you have correspondence of that sort generally through the year; but what I am trying to get at is this: When you make an offering of a new issue through the medium of organizing a selling syndicate composed of dealers throughout the country do you get many requests either from the dealers or from prospective investors among the public asking for more information concerning the issue that is being offered than is contained in the prospectus or advertisement which is published at the time of the offering?

Mr. DILLON. I should think you would get some, but not a great deal, that would be my guess, Mr. Pecora.

Mr. PECORA. Now, from that fact is it a fair inference that the general public buying the issue or subscribing to it is guided more by advice or opinions expressed by the local dealer who might be a participant in the selling syndicate?

Mr. DILLON. It would be hard for me to answer that categorically, but I should think that a local investor would have confidence in his local dealer and would probably get such information as he wanted from his local dealer, and if the local dealer didn't have it then he would come to us for it.

Mr. PECORA. Is it your experience that these local dealers except on rare occasions ask for additional information concerning an issue?

Mr. DILLON. I think that—I would not know that definitely. (Addressing an associate.) Do they? We often, they tell me, do get requests for additional information when it is a going business with a record, and they ask for information that we might not have had on the circular, but in a new company like this where there is no past record we probably have less of that than we do in an issue of a going concern.

Mr. PECORA. Is it fair then to infer that in putting out these issues, distributing them among dealers, who in turn distribute to the public, the dealers who are invited to participate in the selling syndicate accept participation mainly because of their confidence in the issuing house or the originating group?

Mr. DILLON. I think that is a fair assumption, I think that has a considerable influence on the dealer.

Senator ADAMS. Mr. Dillon, in sending out offers, or rather perhaps requests for offers, to your outside dealers, do you send telegraphic inquiries or by mail generally?

Mr. DILLON. We do both, Senator.

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Senator ADAMS. For instance, with big issues such as this, what would be your practice, or what was your practice?

Mr. DILLON. The practice is to send a long telegram with an outline of that relative information and then you follow that up by mailing circulars and additional information.

Senator ADAMS. What do you do in the way of allowing time for the local distributor to make up his mind to accept or reject your offer?

Mr. DILLON. Sometimes he has very little time. We try to give him as much time as we can.

Senator ADAMS. For instance, in an offer of this particular kind how much time was given?

Mr. DILLON. In this particular offer I should think he would have had more time than he has in others, because in this we had probably more time, as we were forming the company and the pressure was not there. Again, when you are buying an issue of securities from an outside company they do not like anything said about it until the deal is consummated, because they do not want it rumored that they are doing financing which they may not do. In those cases you sometimes have taken your commitment and you send your telegrams out at once and want your answers right back.

Senator ADAMS. Really, the time limit is reasonably short; you do not permit the dealer really to go out and find out whether he can sell or make the sales, but he has to practically commit himself if he cannot make a rather prompt sale?

Mr. DILLON. They do, I think, see whether they can make sales. I think that is their practice, probably. They do not have a great deal of time, because securities in the market normally sell very fast, that is the securities that we bring out. I mean we open our books in the morning and they are sold during the day, so that a man does not have a great deal of time. If an issue goes slowly then he has a great deal of time.

Mr. PECORA. Those securities sell very fast principally because the machinery that is employed to distribute and sell them is geared to a high rate of speed?

Mr. DILLON. I think there is some justification in that assumption. When you use 360 dealers, for example, they do not have to take very many shares each to absorb your issue.

Senator ADAMS. Mr. Pecora, I would not expect Mr. Dillon to acquiesce, but I gather frequently the impression that this is just a last chance; this is the last thing; if you don't get right in you don't get it.

Mr. PECORA. Mr. Dillon has answered some questions by me somewhat along that line suggesting some such thing, Senator Adams. I asked him what the custom was with regard to extending invitations to a dealer who has been invited to participate in one selling syndicate, if he has rejected that invitation whether he is invited to participate in other offerings in the future.

Mr. DILLON. I think, Mr. Pecora, it would be desirable if you could give more time. I should like to see more time given because I should like to feel that the dealers around the country were more thoroughly familiar with their securities.

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Senator ADAMS. But the speed with which the offerings are taken up indicates that there is a rather high-class and expert salesmanship at the issuing end?

Mr. DILLON. You might say that; but I would say that the way the business is done it is moved with great dispatch—the selling of it. You offer a dealer over the telegraph wire a certain amount, and you often say that the reply should be in by 12 o'clock noon the next day. This man has so many shares or so many bonds available to him until noon of the next day, and he must telegraph in by noon of the next day if he wants them. Well, there is pressure there for this man to answer, and it would be desirable if he could have more time I should think, in many instances. Does that answer your question, Senator?

Senator ADAMS. Yes.

Mr. PECORA. Unless a dealer who was invited to participate in a selling syndicate asks for additional information does he get any more information than that which appears in the prospectus or circular which has been sent to him, or which appears in the advertisement corresponding to the prospectus which might be published in his local paper?

Mr. DILLON. I think that is the information he gets as a rule, unless he requests more. Sometimes we send supplemental data on the industry as a whole. We sometimes have booklets or things of that kind.

The CHAIRMAN. Do you have many instances, Mr. Dillon, where these agents or participants agree to take a certain allotment and then fall down on that allotment, fail to keep up the payments? Do you have many instances of that kind?

Mr. DILLON. Very rarely, Senator, very rarely. Because we know, from experience the people with whom we are dealing. We know their records over a period of time. When we know it has occurred, as it sometimes does, then those people are eliminated from the list. We generally know the standing and character of the people in the lists we use, so that it is very rare that any one does not carry through.

Mr. PECORA. In putting out a new issue, Mr. Dillon, how many groups are organized as a rule to effect the distribution to the public of the issue?

Mr. DILLON. That varies. In certain securities that have a well-known market, that sell very readily, you probably form the purchase group and then allow a selling commission on the sale. For securities where the risk is greater or the market not so well established or so certain you form intermediate groups. There would be the purchase group——

Mr. PECORA. That is called the original terms group?

Mr. DILLON. The original terms group, yes. Then you would form what is generally called the banking group. They would take a commitment from the original group. Then you form after that the selling group, which in turn takes the commitment from the banking group. You often give the same men interests in the different groups; not always in the same amounts. If a man has a large financial responsibility but does not use as many bonds in the ultimate distribution you might give him a larger interest in the

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banking group than you give him in the sellng group, and if it is the other way you sometimes give him a larger interest in the selling group than you give him in the banking group.

Mr. PECORA. Is it usual in such operations for the banking house which organizes the original terms group to also have an interest in the subsequent groups between themselves and the purchasing public?

Mr. DILLON. Yes; they practically always have. The originating house would have an interest in the originating group and the banking group and the selling group.

Mr. PECORA. Yes; so that the originating house participates in the commissions derived by each group in the process of selling to the general public?

Mr. DILLON. By performing service in each group.

Mr. PECORA. They act virtually as managers of the various groups, do they not?

Mr. DILLON. They usually act as the managers of the various groups.

Mr. PECORA. Yes. Now, in passing the issue on from group to group the price is stepped up, is it not?

Mr. DILLON. Yes.

Mr. PECORA. And when it finally reaches the investing public they pay the highest price?

Mr. DILLON. That is correct.

Mr. PECORA. What is the necessity, Mr. Dillon, for organizing so many intermediate groups between the originating group and the actual sale to the public, with all these different commissions that accrue, arise, and obtain?

Mr. DILLON. Suppose that we are the originating group and we take a large commitment. There is time and uncertainty between that commitment and the ultimate distribution. We want to spread that risk. We want others to come in and share that responsibility with us. And we want to form that group quickly. So we go to people whom we know, people that we are in close contact with, and we say, "Here, we have this commitment. We will take a half a point, a quarter of a point, an eighth of a point", as the case may be, "for originating profit, and now we are inviting you to come in and share the financial responsibility in the interim between this time and the time that we form our selling group or actually make the distribution", and we pay them for taking that commitment, that payment depends upon the risk that they are taking. If it is something that moves more readily, we give them a smaller commission. If it is something where their risk is greater, we give them a larger commission. Does that answer your question?

Mr. PECORA. It does. If there is anything more you want to say on that line, go ahead.

Mr. DILLON. No. I was simply elaborating on that line, because the size of the issues that a firm negotiates often exceeds the capital, for example, of that firm, and in ordinary business caution they would naturally want to form a group again to share that financial responsibility in the interim when they are forming the selling group.

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Mr. PECORA. When a banker underwrites an issue with a view of passing it on either through his own immediate facilities or through the organization of intermediate groups to the investing public, is it the custom for the banker to actually underwrite the issue, that is to say, obligate himself by contract to take the issue himself until he has satisfied himself reasonably at least, that he can place it in the market or pass it on to the investing public?

Mr. DILLON. If he did take such a commitment without knowing that I should think that he was not a prudent banker.

Mr. PECORA. In other words, he would not be a prudent banker if he took any more risk than he actually had to?

Mr. DILLON. Yes; I think that is right.

Mr. PECORA. And he seeks to minimize the risk by making sure, or making as sure as he possibly can in advance of his making his commitments that he can place the issue or dispose of it to the investing public?

Mr. DILLON. To be just as sure as he possibly can under the circumstances. You are not at liberty often to go out and make a very general canvass, because the borrower does not like that. If you did go ahead and do that you would hurt his credit or his standing. So you are often compelled to take commitments before you know, as much as you would like to know——.

Mr. PECORA. A banker avoids that as much as possible?

Mr. DILLON. As much as possible. And that is the reason that you keep your organization as well in touch with the markets as you can, so that you can minimize that risk.

Mr. PECORA. Now, of course, when the stage is reached where a banker has underwritten an issue and obligated himself legally to take the issue, the terms are fully agreed upon, of course?

Mr. DILLON. At the time he takes his commitment?

Mr. PECORA. Yes.

Mr. DILLON. I should think the terms would be to his satisfaction.

Mr. PECORA. Yes. Are fully agreed upon?

Mr. DILLON. Well, he must be satisfied with the terms as far as they have gone or the issue would not be taken.

Mr. PECORA. Yes. In other words, before he obligates himself he knows what the spread is going to be—that has been fixed and determined by negotiation with the issuer—does he not?

Mr. DILLON. Well, generally speaking, yes.

Mr. PECORA. Yes?

Mr. DILLON. But you might say to a borrower whom you have considered in high standing, "Yes, I will take the issue. Yes, I will do that." Now, that is a commitment on your part, though you might yet not have agreed definitely on just the price or on the exact terms, that might happen.

Senator ADAMS. Mr. Dillon, in the case of issues such as your investment trusts of course you had no financial obligation, no commitment, because you were putting out an issue, you yourself were originating. That is, there was no obligation on your part, so that so far as they were commitments, you passed them out without making them yourselves?

Mr. DILLON. No; that would not be correct, Senator, because if we sold one share of stock, or if any dealer sold one share of stock to any-

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one, that is sold on a prospectus with the complete set-up, and we are committed to go through with that set-up.

Senator ADAMS. That is, you felt when you put out the $25,000,000 issue that you were obligated if you sold one share to take the remainder yourselves?

Mr. DILLON. Oh certainly, certainly. You see we paid in the junior money. Then if you offer the senior security you must go through with it whether you sell it all or not. I mean, suppose you sold part of that; you could not say, "Now, we are not going to take all of this", because you have represented to the men to whom you have sold the part what the ultimate set-up of the capitalization is going to be.

Senator ADAMS. The obligation then arose by reason of representation, implied or expressed, to those who were purchasers of part of the issue?

Mr. DILLON. No; we had contractual obligations with the securities company. The letters were read in the record yesterday.

Senator ADAMS. That is true, but, of course, the security company was your company and entirely subject——

Mr. DILLON (interposing). You mean might have been dissolved or something?

Senator ADAMS. Yes.

Mr. DILLON. Well, I suppose a thing like that might have been possible if there had been no sales of securities; yes.

Mr. PECORA. Let us take a concrete case if we can, Mr. Dillon, with a view of illustrating the routine employed by an underwriting banker. Let us assume, for instance, that a foreign government wants a loan. A banker loaning on that negotiates with the government to make the loan to it. The government agrees to issue its bonds, we will say, long term bonds, for the amount of the loan. Now, before the banker agrees to underwrite that issue he knows as a rule, does he not, that he can place those bonds in his market through the medium of bankers' groups and selling syndicates composed of dealers?

Mr. DILLON. He may not know it actually, but certainly in his judgment he feels convinced that he can.

Mr. PECORA. Well, does he not as a rule obtain commitments from these distributing dealers before he actually commits himself to underwrite or to buy the bonds from the foreign government that is issuing them?

Mr. DILLON. Not necessarily from the distributing dealers, but I should think a prudent banker would from the banking group.

Mr. PECORA. Well, from the banking group, and they, in turn, may get commitments from the members of the distributing syndicate?

Mr. DILLON. Not necessarily, because the manager of the originating group is the manager of the banking group, and always forms the selling syndicate, and as a rule the banking group is formed before the selling syndicate is formed.

Mr. PECORA. Well, conceivably no banker would underwrite a foreign issue unless he felt quite certain that he could sell it in his market?

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Mr. DILLON. I should not think he would underwrite any issue unless he felt that, sir.

Mr. PECORA. All right. Now in many of these issues the underwriting banker gets a spread varying from 4 to 8 or 9 points?

Mr. DILLON. From the price that you pay to the price that it goes ultimately to the public?

Mr. PECORA. Yes.

Mr. DILLON. That varies I should think, in the range you suggest.

Mr. PECORA. From 4 to 8 or 9 points?

Mr. DILLON. Well, I think 8 or 9 points is usual. It occurs, when a security is new to the market probably. I should think as a rule it is not as high as that.

Senator ADAMS. May I ask a question? The more risk that the investor takes the larger the commission that the distributor takes, I gather?

Mr. DILLON. I should think the commission is commensurate with the risk.

Senator ADAMS. But it is the risk of the ultimate investor; the ultimate investor takes the risk and the banker or distributor takes a larger commission in the instance where the investor takes a larger risk?

Mr. DILLON. Senator, the banker does not get the commission on account of the risk or goodness of the loan. He gets his commission on account of the risk in the selling of the loan. He may be stuck with it and may not be able to sell it, and that is the basis for his commission.

Senator ADAMS. But the fact is that the investor pays a larger spread on the less secure investment that he makes than upon the more secure investment?

Mr. DILLON. I should not say that. I do not think the spread——

Senator ADAMS. Your 8 or 9 point spread is in the security which is unseasoned?

Mr. DILLON. Yes; but it is, Senator, because of the uncertainty of your being able to sell the security. It is the risk you take in the marketing. Not necessarily in the goodness of the security.

Senator ADAMS. But the uncertainty of the sale depends upon the quality of the security itself, does it not?

Mr. DILLON. I did not hear what you said, Senator.

Senator ADAMS. I said that the question or the doubt, in greater or less degree, which may exist as to the salability depends certainly in part upon the quality of the security as having been seasoned or being new, or having elements of hazard involved in it?

Mr. DILLON. But the spread is not made on that basis. The spread that you take is not on the risk of the goodness of the loan. Your spread is based upon the work, upon the uncertainty, as to the ability to sell it. Because if you had any question of the goodness of the loan you would not make it at all; I mean a reputable banker would not.

Senator ADAMS. There is a gradation in securities; some are better than others, necessarily.

Mr. DILLON. Oh, yes; certainly.

Senator ADAMS. Now, is it not true that there is a bigger spread in those that are of the lower grade than those that are of the higher grade when they are distributed?

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Mr. DILLON. The difference in spread is in the salability rather than in the goodness of the security.

Senator ADAMS. Yes; but there actually is the wider spread in the less attractive and less desirable security?

Mr. DILLON. I do not like to keep saying it, but that is not the way we make the spread.

Senator ADAMS. I know it is not the way you make the spread, but that is the way it happens to be when it comes to the ultimate purchaser?

Mr. DILLON. No, sir; because sometimes the securities sold with the smallest spread prove to be the unhappiest investment.

Mr. PECORA. They are the exception rather than the rule, are they not?

Mr. DILLON. I would not like to be specific, but I think some of the greatest losses we have had in securities in the past few years have been in what we call the high-grade securities having small spread. There have been many disappointing investments in them.

Mr. PECORA. How is the amount of spread determined in the first instance? That is to say, what factors are taken into consideration by the negotiating parties in fixing the spread?

Mr. DILLON. That is what the Senator is asking.

Senator ADAMS. Yes.

Mr. PECORA. Yes.

Mr. DILLON. It is the risk we take in the selling of the security. We are buying that security. The risk we take in being left with those securities on our hands, our inability to sell them, that is how we fix our spread.

Senator ADAMS. We had a gentleman before use here earlier in the year who illustrated some of his answers by reference to the medical profession. I wonder if the same illustration would apply here? You know the surgeon is disposed to charge the patient more because of the greater seriousness of the operation; that is, the more hazard the patient takes the larger the surgeon's fee.

Mr. PECORA. Is that a fair analogy?

Mr. DILLON. No; I should not say so, because if a banker were conscious that there was a risk in the goodness of the security he was selling to the ultimate investor, I do not think that banker ought to sell that security, no matter what his spread might be.

Senator ADAMS. Of course, we are talking about the ones he is willing to sell.

Mr. DILLON. If he thinks they are good, his spread is on the risk he takes in making sales.

Senator ADAMS. But does not this follow, that there are other houses that will sell less desirable securities, what we might call second or third-grade securities, and you run into wider spreads in those cases?

Mr. DILLON. I am glad you asked me that, Senator. Those of us that deal in the more seasoned securities, those of us that deal in securities of the higher qualities, as you might call it, are apt to be a little smug; we are apt to think that, taking our total issues, our record of mistakes is very small, and we take that as a virtue unto ourselves. As a matter of fact, I am not at all sure that the courageous financier who raises money for industries on securities such as we do not buy, and who raises money for industries where there are real

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risks—I am not sure that he is not rendering just as great, if not a greater, service to the community and to his country as the smug, conservative bankers like ourselves.

Take, for example, the automobile industry in your lifetime and in mine. We would have been "holier than thou" and would have said, "We don't sell that; that is a new industry. It is too speculative. We do not handle those securities." If you had relied on houses like ourselves you probably would not have had the automobile industry in this country. We would not have risked it, and we would have taken it upon ourselves as a virtue. There were men who would go out and take those risks and ask the public to give their money to a new industry that was risky, with the result that we do have a great industry grown up in this country which today, I think, is probably our greatest industry, and which with its affiliated industries, gives employment to many, many people. And we, the smug, conservative bankers, now are very pleased to handle automobile securities.

Mr. PECORA. Once that safety has been established and the experimental stage passed?

Mr. DILLON. Exactly We must not, in fairness, criticize the man who took the initial risks—although probably many went wrong. He is rendering a great service. The one thing we must be sure of is that when that security is offered, its nature is clearly stated, the risk in it, the fact that the investor may have a greater reward the greater the risk of loss. I, for one, am not willing to put on a lower plane than ourselves that financier who does take those risks, provided he states frankly and openly to the investors the nature of the investment, and I am not sure he is not rendering a greater national service than the smug fellows who sell the city bonds, first mortgage railroad bonds, and so forth.

Senator ADAMS. All those bonds on which there are no defaults?

Mr. DILLON. That is right. I do not think that is such a terrible word, Senator, because if we did not take risks we would not have had the country that we have. If there was not somebody who would take a risk, we should not have the automobile industry. We today are a bit smug. We would not handle airplane financing. We might not handle radio financing. It is a new industry; but if every one took that attitude we should have no progress.

Senator ADAMS. I am thinking about a fellow like Senator Townsend. He is the fellow that puts the money up and buys the security—rather than the fellow that persuades him to do it. That goes back to my illustration of the surgeon again. The banker is not supposed to be operated on.

Mr. DILLON. That is another thing. In the selling of securities by a house like ours, a large percentage of our sales do not go to individuals. The great bulk of them go to institutions who are professional investors, who have departments and organizations to pass on investments—insurance companies, savings banks and institutions of that nature. They are the large buyers of securities. They make a research as they go into our indentures; they go very thoroughly into the matter. That is the bulk of the buyers of our securities, I should say—people of that nature. We are apt to think of the great buyers as individual investors. The great buyers of securities are

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the institutions who are professional buyers. They get voluminous information on all issues. They even go over a lot of the work we have done ourselves.

Senator ADAMS. It is a little bit surprising, is it not, that very frequently in recent years these careful buyers have made mistakes and have accumulated bonds that are now in default?

Mr. DILLON. I think they have gotten into the habit of relying on the larger banks; and I think some of the larger banks have become sellers of bonds rather than just advisers to the country banks.

Senator ADAMS. The country banks are fully advised of that. I happen to be interested in a country bank.

Mr. DILLON. That is right. I think that was probably one of the things that may have affected the advice that your correspondents may have given you—the mere fact that they may have had an affiliate selling securities. I think it would have been a help to you if there had been a statute requiring a bank each year to publish in detail its portfolio of investments, rather than just saying, "bonds", so much, in the statement. If you had to publish the detail of what your bonds were, just that mere fact probably would have made your organization a bit more cautious, a bit more careful in scrutinizing the portfolio. Don't you think so?

Senator ADAMS. Of course, we have all accumulated a lot of experience. Unfortunately, my view of experience is that it is something that you get when it is too late to do you any good.

Mr. DILLON. But let us try to use it not to do the same thing again. It is in that spirit——

Senator ADAMS. A lot of us have taken the pledge.

Mr. DILLON (continuing). It is in that spirit that I am very happy to be here to answer your questions and to be of any help I can to see that we do not make the same mistakes twice. We have probably made as many as others have. I do not know anyone who has not made any.

Mr. PECORA. With regard to the subject about which you last expressed your views, the advisability or desirability of banks publishing at regular intervals the contents of their portfolios, do you know of that having been done at any time in the past by any bank?

Mr. DILLON. No; I do not.

Senator ADAMS. Insurance companies do that, do they not?

Senator TOWNSEND. Some do; not all of them.

Mr. DILLON (after conferring with associates). I am informed that the United States Trust Co. in New York does do that, but of their own initiative. They are the only ones that I know of.

Mr. PECORA. Do you think that such a practice, if generally adopted by banks, would be helpful?

Mr. DILLON. I do.

Mr. PECORA. Because it would serve to make banks and all others more careful and circumspect in their investments?

Mr. DILLON. I do. I think whoever is running that investment account, naturally if he has to come up with this portfolio to his president he would be a little more careful. If he has to go before his board he is still more conscious; and if he has to go before the public he naturally would use greater care, even though he thinks

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he is using the greatest of care all the time. I think that is the ordinary human reaction.

Senator ADAMS. In your investment trust did you publish the portfolio contents from time to time of the different trusts?

Mr. DILLON. We do so fully, and have right from the start, Senator. [After conferring with associates.] I am told that right in the beginning we did not, but soon after that we did; and at the time we did it there were certain suggestions that we should not do it.

Mr. PECORA. Coming from whom?

Mr. DILLON. From various people; not only those interested in the trust, but from outsiders.

Mr. PECORA. Can you give us an example?

Mr. DILLON. I can give you an example of the sort of things they said; yes.

Mr. PECORA. All right.

Mr. DILLON. It was that if we published that portfolio it would just lead to a lot of trouble and wrangling, because in 1 year we might show we had stock of the X Y Bank or the X Y Company in such and such amounts, and the next time we published our statement it might show that the investment was materially reduced. Those people said it would have a bad effect, because people would think, "You are experts", and if they saw you had gotten rid of a security they held that that would reflect unfavorably on the company, and we should have a lot of complaints and criticisms. As a matter of fact, we did not have that experience except in rare instances.

Mr. PECORA. You think the sounder and safer policy from the public standpoint is for full disclosure to be made from time to time of investments contained in the portfolio, whether it be the portfolio of a bank or of an investment trust?

Mr. DILLON. I should think it would give the public the maximum of information. I think that is the way to reestablish confidence; and I think probably our entire profession, if I may call it that, should feel that they should give the fullest information to the public.

Mr. PECORA. When these suggestions, as you refer to them, were made to you with respect to publication of your portfolio in your reports to your stockholders, were they advanced to you with a view of deterring your investment trust from making such a publication?

Mr. DILLON. That might be the inference. They were certainly advanced to us, that we should stop and reconsider——

Mr. PECORA. Was it suggested that by your adopting that form of procedure you were establishing a precedent that was regarded unfavorably by bankers?

Mr. DILLON. I should not want to say, by bankers; but we were establishing a precedent that might not be a wise practice.

Mr. PECORA. Might not be wise for whom?

Mr. DILLON. For the people who issued the statement, I should think.

Mr. PECORA. Not that it might not be wise for the investing public?

Mr. DILLON. No.

Mr. PECORA. As a matter of fact, your opinion seems to be, as I have interpreted your words here, that such a thing is a wise and beneficial thing for the enlightenment of the investing public?

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Mr. DILLON. It is.

Mr. PECORA. Even though it might operate against the interests of the banker?

Mr. DILLON. Personally I do not think it does operate against his interests.

Mr. PECORA. But those were the suggestions made to you by others?

Mr. DILLON. That it might cause harm to the market in those securities, if the public saw that you owned them 1 year and did not own them the next.

Mr. PECORA. It has not been your experience in conection with the publication of the portfolio of those investment trusts that those things have happened?

Mr. DILLON. No, sir; it has not. The result is that we have got a large list of satisfied stockholders, because they do know everything we do. They see a complete statement of our operations and a complete itemized list of our portfolio.

Mr. PECORA. How frequently do you make those reports to your stockholders in the investment trust?

Mr. DILLON. I think that portfolio is published once annually. I think the reports are made more often. The reports are semi-annual, and the detailed portfolio annually. We are now considering giving the detailed portfolio quarterly, and we shall proceed to do that, I think, from now on.

Mr. PECORA. While we are on that subject of making full disclosures of these facts to the stockholders, do you think that it would be in the public interest for corporations generally whose securities are distributed among the general public through listing and trading on the stock exchanges to issue to their stockholders reports of as complete a character as you have outlined here, at frequent intervals?

Mr. DILLON. You understand I give a large part of my time to those companies as well as to my firm. I am speaking now from the point of view of those investment companies which are large investors. There we often find that we cannot get sufficient of the right kind of information to allow us to form an intelligent judgment on this, that, or the other security. There are some securities that are even listed on stock exchanges that are widely dealt in concerning which we are unable to get the particular kind of information we want at the intervals that we would like to have it, in order to form a fair judgment.

Mr. PECORA. And you have sought such information as a large stockholder in those corporations, have you?

Mr. DILLON (after conferring with associates). Yes. There are specific instances where we have sought certain information, such as the gross sales of a company, where they said they felt it was not wise to give that out.

Senator ADAMS. There are certain large organizations in the country that are so complicated and involved that no man has ever felt that he knew the inside of the story, are there not?

Mr. DILLON. We do not buy many of those securities.

Senator ADAMS. But I say, there are some of those on the market, some stocks of that kind?

Mr. DILLON. Probably.

Senator ADAMS. You know that.

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Mr. DILLON. I have not devoted my attention to that kind particularly, Senator.

I think, Mr. Pecora, answering your question, that if corporations were required to give much more regular, frequent, and more detailed information, it would be highly desirable.

Mr. PECORA. More detailed information of what kind?

Mr. DILLON. Of every character. That would take some study, to make up just the points.

Mr. PECORA. Just give us a comprehensive idea of what you have in mind.

Mr. DILLON. I have in mind information of every nature—income accounts broken down into such details that you can see and know just where the income came from; gross sales in a way that you would know where they were made, whether they were increasing—every sort of information that you would have, practically, if you were operating that company, if you were sitting in its management. It would be a great help in forming your judgment. It would also give you a chance to form a true picture of the value of that security. You would not be so much affected by market quotations, by the public reaction to this and to that if you always had complete information of recent date. If your information is 8 or 9 or 10 months' old, you do not know what is going on; but if you can have that information quarterly, or, certain parts of it even monthly, I think it would be desirable.

Mr. PECORA. Desirable to the general public and for the public interest?

Mr. DILLON. Yes; to the investor.

Mr. PECORA. Do you think the dissemination of such information at frequent intervals, like monthly, would give the general public or that portion thereof which holds stock of corporations and whose securities are listed on the public exchanges, a body of knowledge, a mass of data, that would enable the investor to follow more accurately and more in conformity with the actual facts the intransic value of his investments?

Mr. DILLON. I should think that the more information he had, and the more regular the intervals, the better he would be able to form that judgment.

My associates have just suggested that, of course, I do not mean a chemical company should give out secret formulas. Of course, I do not mean that.

Mr. PECORA. In the light of your experience, Mr. Dillon, would you say that such a requirement imposed upon corporations whose securities are publicly listed would impose upon them any inconvenience or hardship?

Mr. DILLON. No; I should not think it would. It might if you required too detailed or too frequent information—monthly, for example—but it certainly would not impose a hardship on them if it was at fair intervals of time, because they should have that information for themselves, for their own guidance, and I see no reason why it should not be given to the stockholders.

Mr. PECORA. A stockholder, by virtue of being a stockholder, is, of course, a part owner of the corporation issuing the stock.

Mr. DILLON. That is correct.

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Mr. PECORA. And you think that the stockholders should have the advantage of such information currently supplied to them at frequent intervals.

Mr. DILLON. I do think that.

Mr. PECORA. What effect do you think that would have on market quotations?

Mr. DILLON. That is rather difficult to have an opinion on, but I should certainly think it would tend to steady those quotations, because if the investing public owning those securities had more detailed knowledge of the operations of the company, its profits and its progress, they would have fairer judgment themselves of the value of that security, and I should think it would tend to prevent the violent fluctuations that we have in securities from time to time. Whether it would prevent them I cannot say, but the tendency I should think, would be in that direction.

Mr. PECORA. Would you say, as a matter of either observation or experience, that these violent fluctuations in the stock market are often the result of manipulation by pool operations?

Mr. DILLON. I think that is a difficult thing to say. By "pool" I suppose you mean a group of people buying and selling for profits, or to affect the market.

Mr. PECORA. Yes.

Mr. DILLON. That is very difficult to say, because unless the market is moving in the one direction or the other, it would be difficult, I should think, for any group to affect it artificially. But if the market is moving in one direction or another, I should think great activity in one security probably might make it move out of line with the market.

Mr. PECORA. And quotations might be stimulated up or down by the operations of such a group.

Mr. DILLON. That is possible.

Mr. PECORA. Under existing conditions, so far as you know them, is there any way by which the investor could ascertain whether or not daily tradings in the stock of a corporation represent normal buying and selling, in a free and open market, or whether they represent, in part at least, the operations of a pool or syndicate?

Mr. DILLON. I think that practically all the buying and selling is in a free and open market, but whether that buying and selling is being done by just a general scattered public or by the concentrated buying of a group, there is no way of knowing, that I know of.

Mr. PECORA. Under those circumstances, would you say that it is possible for a group to manipulate prices, through their own buying and selling operations, so as to influence the general public either to buy or to sell at a given time?

Mr. DILLON. I do not think that is an easy thing to do. I think that has been done, and I think that is probably the object when those accounts are formed, but when you are accumulating stock, buying it, you have to have in mind always how you are going to sell it, and unless the market is moving with you, and the public have come in, I should think it would be a very difficult thing for that group to dispose of that stock afterwards. But if the market is moving in that direction, I should think a group like that might have a successful operation.

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Mr. PECORA. Do not the operations of such a group have the effect, frequently, of stimulating the movement of the market?

Mr. DILLON. In that particular security; yes.

Mr. PECORA. Is it not possible, by that process, to create, temporarily, at least, false values through the medium of these market quotations?

Mr. DILLON. You might stimulate prices rather than values.

Mr. PECORA. By values I mean the values as represented in market quotations. I recognize that there is a distinction between value and market quotation.

Mr. DILLON. Yes.

Mr. PECORA. Mr. Dillon, in the portfolio of the investment trust called the United States and Foreign Securities Corporation, were there entered from time to time securities of companies in the issuance of which your firm, at some time or other, had been identified?

Mr. DILLON. Yes. I think we bought some such securities from time to time.

Mr. PECORA. Will you enumerate those securities as they occur to you now?

Mr. DILLON. I should have to look at the list (after conferring with an associate). Mr. Pecora, they say they think Mr. S. C. Ross of your staff has such a list that he made up, and I am willing to accept that, if you have it there, to save time.

Mr. PECORA. While they are looking that up, I will pass on to another subject.

Mr. DILLON. Mr. Pecora, that would take a good deal of time, unless we can use the list you have, if you have one.

Mr. PECORA. We can probably help you out with the information in the return to the questionnaire.

The CHAIRMAN. Mr. Dillon, before you pass from this subject of giving information, which you think ought to be collected by corporations and given to their stockholders, for the benefit of their stockholders, largely, how about these organizations where the stockholders do not get a look-in, these trusts manipulated and managed by trustees? The stockholders have nothing to do with the management of the corporation.

Mr. DILLON. I am not familiar with that sort of organization, Senator. You mean not a corporation?

The CHAIRMAN. Holding corporations, and corporations of that kind, operating where stock has been sold, and there are a large number of stockholders, but a few men, three or four, are the trustees, and they have power, as trustees, to manage and control the corporation without any regard to the stockholders.

Mr. PECORA. Voting trustees?

The CHAIRMAN. Voting trustees.

Mr. DILLON. There may be some particular condition or circumstance that makes that desirable. As a general practice I should think that would not be desirable.

Mr. PECORA. What special circumstances, for instance, would in your opinion make that sort of thing desirable? When I say "desirable" I mean from the standpoint of the investing public.

Mr. DILLON. I cannot think of any at the moment, but there might be some particular situation where, for a temporary period of time, it

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might be desirable to have the control of stock vested in voting trustees for some particular reason at that time.

Mr. PECORA. Where voting trust certificates are resorted to, to meet such special circumstances as you have in mind, do you think it fair to the investing public that those voting trust agreements should be made for anything more that a short period of time?

Mr. DILLON. I think that would vary with the necessity of the situation. I do not think I could pass judgment or express an opinion generally, because I do not know what particular situation they might be trying to handle, but I should not think they should be made to run for a longer time than is necessary to take care of the situation for which they were created.

Mr. PECORA. There was some evidence introduced before this committee at one of its earlier sessions, as I recall it now, concerning a holding company which was organized, its stock issued and sold to the public, and listed on the public exchanges, which holding company acquired blocks of stock, principally of railroad corporations. The stock of this holding company, as I recall the evidence, was sold to the public, tied up in voting trust certificates that deprived the stockholder of any voice in the management of the company for a period of 15 years. Can you conceive of any situation, Mr. Dillon, that would justify such a thing, from the standpoint of the investing public?

Mr. DILLON. I do not know the conditions surrounding the particular situation.

Mr. PECORA. The issue I have in mind is the stock of the Pennroad Corporation. You are probably familiar with that in a general way.

Mr. DILLON. I am familiar, in a general way, with the fact that the Pennsylvania Railroad did have such a company, but I was not aware of the fact that it was tied up with voting trust certificates, and I do not know the conditions which made that desirable. I am not familiar enough with that, Mr. Pecora, to express an opinion.

Mr. PECORA. From the standpoint of your experience in the banking and investment field, can you conceive of any circumstances that would justify such a condition?

Mr. DILLON. If I knew more about just what the Pennroad Corporation did, or why it was formed——

Mr. PECORA. It is a holding company which has acquired for its portfolio practically only railroad securities, and when it was launched and its stock issued and sold to the public, what were sold to the public were voting trust certificates.

Mr. DILLON. What was the object in that? I do not know the detailed story or history of that company, so I hestitate to express an opinion about a specific case.

Mr. PECORA. The object, perhaps, can best be told by those who were responsible for the creation of that condition. I am merely asking you, from the standpoint of your knowledge and experience in the banking and investment field, if you at this time can conceive of any circumstances that would justify a corporation in selling to the public millions and millions of dollars of its stock, but depriving the purchasers of that stock of any voice in the management or operation of the corporation for a period of perhaps 10 or 15 years.

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The CHAIRMAN. The object and purpose of that, as it was given, was to centralize and concentrate the management in the hands of a few people. I think they had three trustees.

Mr. PECORA. Three trustees, but they chose their own successors. It was a self-perpetuating body.

The CHAIRMAN. A self-perpetuating body, to centralize the management of the corporation.

Mr. DILLON. Without knowing the particular thing they were trying to accomplish, I do not feel that I can express an opinion. It sounds like an unusual arrangement.

Mr. PECORA. I am not asking you to express an opinion, but I am asking you if you can conceive of any circumstances which, in your mind, would justify the issuance and sale of that sort of security to the investing public.

Mr. DILLON. No; I cannot say why they did it, without knowing all the facts. Just as you ask me now, I see no reason for doing that, unless they had some reason about which I do not know. To have an opinion, I should have to know the whole subject, and what they were trying to accomplish.

Mr. PECORA. Mr. Dillon, going back to the acquisition by Dillon, Read & Co. of the common stock of the United States & Foreign Securities Corporation, as brought out in the testimony yesterday, do you know whether or not any of the members of Dillon, Read & Co., subsequent to 1924, when this common stock was acquired, disposed of any portion of their holdings?

Mr. DILLON. Yes.

Mr. PECORA. When did that happen?

Mr. DILLON. There were some few sales in 1928, but I think the ones you are referring to were in 1929.

Mr. PECORA. Did you have anything to do with any of those transactions personally?

Mr. DILLON. No; I did not.

Mr. PECORA. Do you know which of your associates did have?

Mr. DILLON. Mr. Christie is familiar with it, as he handled the question in our office.

Mr. PECORA. Then I will ask, Mr. Chairman, that we suspend the examination of Mr. Dillon at this point and proceed with the examination of Mr. Christie. Mr. Dillon, however, is not excused thereby from further attendance. I shall probably call you back to the stand later.

The CHAIRMAN. Is Mr. Christie present?

Mr. CHRISTIE. Yes, sir.

The CHAIRMAN. You will please be sworn. You solemnly swear that you will tell the truth, the whole truth and nothing but the truth, regarding the matters now under consideration by the committee, so help you God.

Mr. CHRISTIE. I do.

TESTIMONY OF ROBERT E. CHRISTIE, JR., A MEMBER OF THE FIRM OF DILLON, READ & CO., NEW YORK CITY

Mr. PECORA. Mr. Christie, what is your full name and what is your address?

Mr. CHRISTIE. Robert E. Christie, Jr. My business address is 28 Nassau Street.

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Mr. PECORA. Your residence?

Mr. CHRISTIE. My residence is at Scarsdale, N.Y.

Mr. PECORA. Are you a member of the joint stock company called Dillon, Read & Co.?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. How long have you been connected with it?

Mr. CHRISTIE. I have been connected with Dillon, Read & Co., and its predecessor, William A. Read & Co., since July 1919. I have been a member of the association since January 1, 1927.

Mr. PECORA. Also a stockholder and as a member?

Mr. CHRISTIE. No, sir. I am not a stockholder. I have an interest in the profits, but I am not charged with the losses, and in addition to that I have a salary.

Mr. PECORA. You know a corporation called the United States & Foreign Securities Corporation, do you not?

Mr. CHRISTIE. I do.

Mr. PECORA. You heard the testimony given by Mr. Dillon, the preceding witness, with respect to that corporation, its organizations and operations, before this committee?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. Are you an officer of the United States & Foreign Securities Corporation?

Mr. CHRISTIE. Not now.

Mr. PECORA. Have you been in the past?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. What office or offices have you held in that corporation?

Mr. CHRISTIE. I believe I held several at different times. I should have to look at the dates in order to see. The testimony yesterday, I believe, showed that I was the treasurer.

Mr. PECORA. At one time.

Mr. CHRISTIE. At one time; and probably the original treasurer. I think I was the treasurer at the time the corporation was formed.

Mr. PECORA. What other offices have you held in that securities corporation?

Mr. CHRISTIE (after conferring with an associate). I was vice president of the United States & Foreign Securities Corporation from January 14, 1926, to December 10, 1930. I was treasurer from October 10, 1924, to May 12, 1925. I was also assistant treasurer for a while, from May 12, 1925, to June 17, 1926.

Mr. PECORA. Were you also a member of the board of directors of that securities corporation at any time?

Mr. CHRISTIE. From May 28, 1925, to July 13, 1925, I was a director, and again from March 2, 1927, to May 10, 1927. I believe that is all.

Mr. PECORA. Are you familiar with the factual circumstances under which the capital stock, consisting of first preferred, second preferred and common stock of this United States & Foreign Securities Corporation, was issued and sold to the public?

Mr. CHRISTIE. I am familiar with that in a general way. I heard Mr. Dillon's testimony yesterday, and according to that testimony I took part in some of those papers that were put in evidence yesterday. I am familiar with it in a general way; yes, sir.

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Mr. PECORA. Well, as a result of the transactions whereby the capital stock of that Securities Corporation was disposed of, Dillon, Read & Co. or its associates acquired a large block of this stock, didn't they, the common stock?

Mr. CHRISTIE. That is right.

Mr. PECORA. Were any of those shares of common stock actually acquired by you in the transaction?

Mr. CHRISTIE. By me personally?

Mr. PECORA. Yes.

Mr. CHRISTIE. None at that time. I did not acquire any stock in that company until January of 1927.

Mr. PECORA. And when you acquired it in January of 1927, did you acquire it in the open market, or how?

Mr. CHRISTIE. No, sir. I bought it from some of our associates.

Mr. PECORA. From associates of Dillon, Read & Co.?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. How many shares did you buy?

Mr. CHRISTIE. Ten thousand shares—no; wait a minute. I am sorry. It was 5,000 shares.

Mr. PECORA. Was that sold to you by your associates composing the legal entity of Dillon, Read & Co., or by them as individuals?

Mr. CHRISTIE. By them as individuals.

Mr. PECORA. Did you or any of your associates in the firm of Dillon, Read & Co. thereafter sell any of those shares of common stock in the open market?

Mr. CHRISTIE. Yes; I sold part of mine.

Mr. PECORA. Did you make that sale as a member of a joint or syndicate account that was formed in order to effect those sales and which was managed by the brokerage firm of Dominick & Dominick?

Mr. CHRISTIE. Yes, sir. But I think your previous question, perhaps, I answered too quickly. I think you asked me if——

Mr. PECORA (interposing). If you want to modify your answer, you may do so.

Mr. CHRISTIE. I think you asked me if I sold in the open market, or used some qualifying phrase. The sales were made through the account that you now refer to, to Dominick & Dominick. There was a group of ten or eleven of us, I think, that sold our stock to Dominick & Dominick.

Mr. PECORA. Who composed that group of ten or eleven persons? Were they all associates of Dillon, Read & Co.?

Mr. CHRISTIE. Yes; they were all associates of Dillon, Read & Co.

Mr. PECORA. Did they include all of the associates of Dillon, Read & Co., or only some of them?

Mr. CHRISTIE. No; only some of them. My recollection is that there were about seven, including Mr. Dillon and some others, who did not sell any stock.

Mr. PECORA. Can you give me the names of those who did sell through the medium of this joint or syndicate account that was managed by Dominick & Dominick?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. All right.

Mr. CHRISTIE. There were two accounts through which stock was sold, both through Dominick. The names I have before me were

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people who sold stock through both. That is, I think they were in both accounts, but of that I am not positive. Those names were Mr. C. N. Miller, Mr. H. G. Riter, III, Mr. W. Wilcox, Jr., Mr. R. H. Bollard, Mr. E. J. Bermingham, Mr. Deane Mathey, Mr. W. A. Phillips, The Beekman Co., Ltd., Mr. R. O. Hayward, W. A. Read, and myself.

The CHAIRMAN. Making how many shares?

Mr. CHRISTIE. The total number of shares that were sold through these two accounts was—I am told that the total amount was 74,198 shares.

Mr. PECORA. In both accounts?

Mr. CHRISTIE. That is right.

Mr. PECORA. Or in only one of them?

Mr. CHRISTIE. That is the total number that were sold to Dominick & Dominick. This group of gentlemen sold slightly more than that, but this is the amount sold to Dominick & Dominick.

The CHAIRMAN. What price did they get for it?

Mr. CHRISTIE. The average price was 53.188.

Senator TOWNSEND. Was that the total number of shares the group held?

Mr. CHRISTIE. No, sir. That was just a part of what they held.

The CHAIRMAN. What had they paid for this stock?

Mr. CHRISTIE. Well, I am not sure what all of their costs were. You had the cost of some of it in the testimony yesterday, and other stock was acquired later on, and——

Mr. PECORA (interposing). Was that the stock that was purchased or acquired originally at 20 cents a share?

Mr. CHRISTIE. I believe that some of that stock was the original stock that had that nominal value or price placed upon it of 20 cents a share.

Mr. PECORA. Didn't all of it come out of the block of 500,000 shares that were so acquired by the associates of Dillon, Read & Co. in October of 1924?

Mr. CHRISTIE. I believe that all of this stock might be traceable back to that block of 500,000 shares, because the other block of 250,000 was kept intact and is still kept intact. But I can only speak for myself. I bought stock, as I have said, in 1927, and that stock cost me $10 a share.

Mr. PECORA. You bought that stock from your associates?

Mr. CHRISTIE. That is right.

Mr. PECORA. Associates in the firm of Dillon, Read & Co.?

Mr. CHRISTIE. That is right.

Mr. PECORA. Now, the stock that went into this syndicate account managed by Dominick & Dominick was all stock that came from the block of 500,000 shares which was sold by the United States & Foreign Securities Corporation in 1924 upon its organization, to associates of Dillon, Read & Co. for an aggregate consideration of $100,000, or 20 cents a share, wasn't it?

Mr. CHRISTIE. It was from the 500,000 shares which were a part of the whole original operation of the issuance of the 750,000 shares to Dillon, Read & Co. and the individual associates of Dillon, Read & Co.

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Mr. PECORA. You say it was a part of the whole. Wasn't it a separate part or a distinct part rather, or a step in the entire transaction?

Mr. CHRISTIE. The letters that you referred to yesterday, and which went step by step, showed the mechanics of the way that was carried out, that it was a separate step, although we naturally considered the 750,000 shares of common and the second preferred as one package, for which was paid $5,100,000.

Mr. PECORA. But the 500,000 shares that were specifically mentioned in one or more letters that were put in evidence here on yesterday went not to Dillon, Read & Co. as a separate legal entity, but were distributed in various proportions among the different associates of Dillon, Read & Co., weren't they?

Mr. CHRISTIE. Correct.

Mr. PECORA. And it was that block of 500,000 shares that was separately paid for in the aggregate sum of $100,000 by the personal check of Mr. Horner, one of Dillon, Read & Co. associates, wasn't it?

Mr. CHRISTIE. That is right.

The CHAIRMAN. How much of those 74,198 shares was yours?

Mr. CHRISTIE. Two thousand nine hundred shares of it. That 2,900 shares is my part of a total of 81,552 shares rather than the 74,198 figure that you have, Senator Fletcher.

Mr. PECORA. Are you familiar with the circumstances under which this joint or syndicate account was organized and formed some time in 1928, with Dominick & Dominick as managers, to sell this stock?

Mr. CHRISTIE. Well, in 1928, in the fall of that year, either November or December. So far as I know, it was no joint account; the word has slipped me that you used to describe the account; but that account Dillon, Read & Co. had no interest in. So that account was not a joint account, nor did those individuals have a joint account, except that they granted options to the firm of Dominick & Dominick at the end of 1928.

Mr. PECORA. Some time at the end of 1928, you say, some options were given by individual members of Dillon, Read & Co., who owned portions of this 500,000-share block; is that right? That some time in the latter part of 1928 such options were given to Dominick & Dominick.

Mr. CHRISTIE. Yes; previous to that, some time, as I say, in the fall of 1928—I would not be sure of the month—Dominick & Dominick came to us and told us that they had made a study of various investment trusts——

Mr. PECORA (interposing). When you say "they came to us", whom did they come to?

Mr. CHRISTIE. They came to one of our partners.

Mr. PECORA. Were you present?

Mr. CHRISTIE. I do not remember whether I was present at the original conversation or not, but——

Mr. PECORA (interposing). Were you present at any of the conversations that led up to the formation or granting of this option?

Mr. CHRISTIE. I think I was.

Mr. PECORA. From your own personal knowledge, tell what you know about the conversation that led to the granting of those options to Dominick & Dominick.

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Mr. CHRISTIE. Well, my recollection is that Dominick & Dominick came to us and said that they had made a study of various investment trusts, and that they liked United States & Foreign Securities Corporation; that they would like to be able to sell stock of that corporation to their clients and, naturally, at the same time they would like to be able to do it so that they could make something out of it. And they wanted to know if we had any stock that they could sell.

Mr. PECORA. Did they say how they expected to make some money in any such transaction? Was it through earning the usual commissions by a broker, or was it through a participating interest?

Mr. CHRISTIE. I believe that their idea was that they would buy a quantity of the stock at some price below the market.

Mr. PECORA. From whom?

Mr. CHRISTIE. Well, they wanted to know if they could buy it from us. And that was done, I am quite clear, partly through me, at least I checked with our firm, and the firm had no stock for sale, and we told them so. Neither did any company that was associated with us. Some time later, how much later now I could not recall, but I should imagine perhaps a week or so, they came back and were still insistent, or quite desirous of being able to get the stock to distribute, and asked us if we thought any individuals would be willing to sell any stock. At that time, to the best of my recollection, I personally checked with other members of the firm, with the result, as I said a minute ago, that some 7 or 8 partners were not desirous of selling any stock; and those 10 or 11 names that I have read off were willing to sell portions of their stock. In my own case that stock represented a substantial amount of what little I was worth, and for the sake of diversification I was willing to sell a part of my stock. So that some time in December of 1928 options were given to the firm of Dominick & Dominick. There was a series of options, the first part starting in December of 1928, covered 30,000 shares of stock. As I remember it, the first lot was 10,000 shares at 47½, and the second lot was 10,000 shares at 50, and the other lot was 10,000 shares at 55.

Mr. PECORA. What was the date of that option agreement?

Mr. CHRISTIE. What was what?

Mr. PECORA. The date of that option agreement.

Mr. CHRISTIE. The first option was dated December 20.

Mr. PECORA. December 20, 1928?

Mr. CHRISTIE. Yes.

Mr. PECORA. At that time on what exchange were the shares of the United States & Foreign Securities Corporation listed?

Mr. CHRISTIE. I believe they were listed on the New York Curb Exchange. I think they may have been also listed in Boston, but I am not sure about that.

Mr. PECORA. What period of time was consumed in the conversations that Dominick & Dominick had with you and your associates that resulted in this option?

Mr. CHRISTIE. I should think several weeks.

Mr. PECORA. Several weeks. Dominick & Dominick was a firm of stock brokers, members of the New York Stock Exchange and the New York Curb Exchange?

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Mr. CHRISTIE. They are a well-known stock exchange firm.

Mr. PECORA. And you say that it was one of their representatives that came to you initially or came to your associates initially and discussed with you the desirability of entering into a market operation involving purchase and sale of the common stock of this investment trust?

Mr. CHRISTIE. No; I didn't say that.

Mr. PECORA. Is that a fair statement to make?

Mr. CHRISTIE. I do not think that is a fair statement, necessarily.

Mr. PECORA. Just what did Dominick & Dominick propose to you and your associates that they would do or would like to do with you?

Mr. CHRISTIE. I am clear that they came to us. Their approach was naturally to see if they could get any stock or if they could get options on any stock. As I said, the first time that they did that we told them that we had no stock, that there was no stock for sale. Later on, on checking with individual members of the firm, these options that you speak of materialized out of those conversations.

Mr. PECORA. Well now, you simply said they came to you and asked you if you had stock for sale, you told them there was no stock for sale, but later on you checked up and you found that some of your associates would be willing to part with some of their individual holdings. That was not the substance of the conversations that led to the granting of this option on December 20, 1928, was it?

Mr. CHRISTIE. Most of the balance of the conversation had to do with their trying to convince us as individuals that they should be allowed to have some stock to distribute to their customers, to sell to their customers. They felt that our stock was selling out of line with other investment trusts.

Mr. PECORA. By that do you mean that they said they thought this common stock was selling below its value, its market value?

Mr. CHRISTIE. Only in relation to other securities. This investment trust at that time, I don't remember the exact book value of it, was selling at perhaps twice or less than twice its book value whereas many other securities were selling at a much higher ratio, perhaps two, three times their book values.

Mr. PECORA. Did you find as a result of those conferences with Dominick & Dominick that they had a better knowledge of the value of this stock of the corporation that your firm organized and of which you were an officer?

Mr. CHRISTIE. A better knowledge than who?

Mr. PECORA. Than yourselves, than you had, for instance?

Mr. CHRISTIE. No, sir.

Mr. PECORA. They didn't tell you anything concerning the value of your stock which you didn't really know, did they?

Mr. CHRISTIE. No.

Mr. PECORA. As a matter of fact, didn't you feel you knew more about it than they did?

Mr. CHRISTIE. Probably.

Mr. PECORA. How do you account for Dominick & Dominick coming to you with such a proposition in the first instance?

Mr. CHRISTIE. Well, I account for that by the fact that Dominick & Dominick are a large firm, with a great many clients, and that

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they are continuously looking for securities which they can recommend to their clients. They study the merits of a particular security and its market price in relation to the price of similar securities on the market, and in that field they probably know more than we do. They were looking for a stock which they felt would be worth more as time went on and which, at the same time, could be purchased by them, partly, at least, in bulk, at a price slightly below the market. They could offer such a stock to their clients at the market with some profit to themselves and with confidence that their clients would also make a profit.

Now, the stock of this company did not have a very broad distribution. Ordinarily, in my opinion, a better market condition exists—I don't mean by that necessarily a better market as to price—if a stock is held by a large number of people. A stock has a better market if it is known favorably and people have had good experience with it over a period of years. This is of importance even to the holder of a stock who may think he is never going to sell it, because he cannot tell what circumstances may arise which would cause him to change his mind.

Mr. PECORA. Now, let's see if we understand you: Dominick & Dominick came to you in the first instance, said they had made a study of the stock of this company, the United States & Foreign Securities Corporation, felt that it was selling out of line in the open market at that time by comparison with similar stock of other investment trusts, and also said to you that they felt that they could recommend it to their customers and that their customers if they acted upon their recommendation would be entitled to make a profit. Is that in substance what Dominick & Dominick told you?

Mr. CHRISTIE. That is in substance my recollection of it; yes, sir.

Mr. PECORA. Dominick & Dominick does a commission business, doesn't it, in the exchange?

Mr. CHRISTIE. I believe so.

Mr. PECORA. Whatever sales they made of stock which was obtained by them through the medium of this option that was given to them following these conversations by you and your associates were made on the exchange, weren't they?

Mr. CHRISTIE. That I don't know. I don't know what they did with the stock, naturally.

Mr. PECORA. Didn't they sell in the open market and through the medium of the exchange?

Mr. CHRISTIE. That I don't know. I believe you have a record of that.

Mr. PECORA. Can you tell us whether or not they did by the charges they made?

Mr. CHRISTIE. If I had bought the stock from them as an individual, or any individual had bought it from them, I could tell from the slips whether or not Dominick & Dominick were acting as agent or principal, and the commission would disclose whether or not the stock had been bought on the exchange or direct.

Mr. PECORA. You know that Dominick & Dominick is a brokerage firm and not dealers in securities?

Mr. CHRISTIE. I know they are.

Mr. PECORA. They are commission brokers, aren't they?

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Mr. CHRISTIE. I believe that they are largely a stock exchange firm, but they have also done an investment business for years.

Mr. PECORA. Are you familiar with the ledger account on the books of Dominick & Dominick covering this syndicate account in United States & Foreign Securities Corporation?

Mr. CHRISTIE. The ledger account of Dominick & Dominick's?

Mr. PECORA. Yes.

Mr. CHRISTIE. No, sir.

Mr. PECORA. I show you this photostat copy of what purports to be a letter addressed to Messrs. Dillon, Read & Co. by Dominick & Dominick under date of December 20, 1928. Will you be good enough to look at it and tell us if you recognize that as being a true and correct copy of the option agreement that you have referred to?

Mr. CHRISTIE (after examining document). Shall I give this to the reporter, Mr. Pecora?

Mr. PECORA. First answer the question as to whether you recognize that and identify it as being a true and correct copy of the so-called "option" that you and your associates gave Dominick & Dominick.

Mr. CHRISTIE. That is right.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. It may be received in evidence and spread upon the record.

(Option agreement between Dillon, Read & Co. and Dominick & Dominick, dated December 20, 1928, was thereupon designated "Committee Exhibit No. 9, October 4, 1933", see p. 1688.)

Mr. PECORA. The option agreement reads as follows: Dated December 20, 1928:

UNITED STATES & FOREIGN SECURITIES CORPORATION

COMMON STOCK (NO PAR VALUE)

Messrs. DILLON, READ & Co.,
28 Nassau Street, New York City.

DEAR SIRS: We wish to confirm that, in consideration of the formation by us of an account, of which we shall be the managers with full discretionary powers, you hereby extend to us for and on behalf of such account, options to purchase from you an aggregate of thirty thousand (30,000) shares of United States & Foreign Securities Corporation common stock at prices and under conditions as follows:

You will sell to us at any time or times, prior to the close of business February 20, 1929, all or any part of ten thousand (10,000) shares of the above stock at $47.50 a share in such amounts and at such times as we may call it;

Provided we exercise our rights as managers to purchase all of the stock optioned to us at $47.50 a share, you will thereupon immediately extend to us the right to purchase from you, all or any part of ten thousand (10,000) shares additional of such stock at $50 a share, in such amounts and at such times as we may call it, within a period of 2 months from the date of the completion of our call of the entire amount of stock optioned us at $50 a share.

Provided we exercise our right as managers to purchase all of the stock optioned to us at $50 a share, you will thereupon immediately extend to us the right to purchase from you, all or any part of ten thousand (10,000) shares additional of such stock at $55 a share, in such amounts and at such times as we may call it, within a period of 2 months from the date of the completion of our call of the entire amount of stock optioned us at $50 a share.

During the period in which these options exist you agree to loan us at our call, all or any part of twenty thousand (20,000) shares of stock at the then prevailing market price.

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Stock borrowed or called by us shall be deliverable upon one day's notice against payment of the amount due.

It is understood that until all of these options have either been exercised or have lapsed, you have the right to place stock privately but that you will exercise your best efforts to prevent such stock from coming into the market. If it should be necessary, however, for you to dispose of stock in the market, you agree to give us 5 days notice before doing so.

If the above is in accordance with your understanding, please so confirm by signing and returning to us the duplicate of this letter.

Very truly yours,

DOMINICK & DOMINICK.

Confirmed and agreed to:
DILLON, READ & CO.

Now, as you heard me read this so-called "option agreement" Mr. Christie, doesn't it strike you as being nothing more nor less than an agreement under which a pool for the buying and selling of this common stock was formed and agreed to be operated and conducted by Dominick & Dominick as managers thereof?

Mr. CHRISTIE (after conferring with associates). In the first place, I would like to——

Mr. PECORA (interposing). Now, Mr. Christie, was it really necessary for you to get advice or confer with one of your associates before you can answer that question?

Mr. CHRISTIE. No. I didn't start the conference.

Senator GLASS. I submit that the witness has a right to start a conference just as much as you have to confer with your associates.

Mr. PECORA. I am not objecting to it; I am simply wondering if it was necessary for this witness, in view of his experience.

Senator GLASS. Well, do you put it on the record, Mr. Pecora, whether it is necessary for you to confer with your accountants here?

Mr. PECORA. I do not think the situation is analogous, Senator Glass.

Senator GLASS. It makes a difference from whom it comes.

Mr. PECORA. All right, but if it is necessary for this witness with his experience to get advice and assistance from anyone else in order to answer that question I think the committee ought to know it.

Senator GLASS. You ought to get it if it is necessary, and if it is necessary for you after 2 months of investigation to confer with your associates here, you should put that on the record just as much as this. We ought to be fair all the way through.

Mr. PECORA. I do not think the position of counsel and that of witnesses are analogous or comparable in any way.

Senator GLASS. I think the truth is the truth whether it comes from a witness or whether it comes from your clients.

Mr. PECORA. I have not objected, Senator Glass, to the witness getting the benefit of that assistance if he needs it, but I want to find out if he needs it.

Senator GLASS. Well, the assumption is that he would not get it if he did not need it, or that you would not get it if you did not need it from your associates here.

Mr. PECORA. I need all the assistance I can possibly get, Senator Glass, from my associates or any other persons, in the handling of this task, and I am glad to get it at any time.

Senator GLASS. Well, I assume the witness is too.

The CHAIRMAN. Let us see what the question is. Do you object to answering the question?

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Mr. CHRISTIE. Not at all, Senator.

The CHAIRMAN. Let us go on and answer it.

Mr. CHRISTIE. The question was, was it necessary——

Senator GLASS (interposing). And get all the information you want from your associates too. I shall insist upon that.

Mr. CHRISTIE. It was not necessary, Mr. Pecora, for me to confer before answering your question. As I said a minute ago, I did not turn for any help or for a conference, but I don't mind making it clear on the record that the suggestion was that the fact that that letter was addressed to Dillon, Read & Co. should be made clear because of the fact that the options referred to covered stock that belonged to these individuals. As a matter of convenience the transaction was handled in the name of Dillon, Read & Co. We had a memorandum account which your investigators have which shows the detail of how all the transactions were carried on our books.

Mr. PECORA. Whose convenience was served by handling the transaction in the name of Dillon, Read & Co., whereas it really was a transaction involving individual interests of some of the associates of Dillon, Read & Co.?

Mr. CHRISTIE. I should say it was the convenience of those individuals.

Mr. PECORA. Well, how was that convenience served by putting a transaction on paper and in the agrements in the name of Dillon, Read & Co. if it was not a Dillon, Read & Co. transaction?

Mr. CHRISTIE. The firm of Dominick & Dominick otherwise would have had letters from 10 or 11 individuals covering their own separate stock.

Mr. PECORA. They were dealing with the stock of these 10 or 11 separate individuals and not with the stock of Dillon, Read & Co. as an entity, weren't they?

Mr. CHRISTIE. That is right.

Mr. PECORA. How was the convenience of anybody served then by putting the transaction in the name of Dillon, Read & Co., which actually was not a party to it?

Mr. CHRISTIE. It seemed to me much simpler to have one letter cover it. It was easier to handle in our account.

Mr. PECORA. Was this account entered as a Dillon-Read transaction on the books of Dillon, Read & Co?

Mr. CHRISTIE. I do not believe so. You have the ledger account, and I think you will find that it showed clearly what individuals put the stock in and then the distribution of the proceeds later on.

Mr. PECORA. Who agreed to the proposal embodied in this option agreement which has been offered in evidence and marked "Exhibit 9" of this date in behalf of Dillon, Read & Co.? Look at the signature reading "Dillon, Read & Co.," and tell us whose handwriting it is in.

Mr. CHRISTIE (after examining document). I am not sure now, Mr. Pecora, whose firm signature that is. It was one of our associates, one of our members.

Mr. PECORA. Don't you recognize the handwriting of that signature?

Mr. CHRISTIE (after showing document to associates and conferring). It is a signature 4 or 5 years old, and I am just not sure who

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signed it. I am sure that some member of the association signed it. It is a firm signature.

Mr. PECORA. You mean it is a signature of a member of the firm?

Mr. CHRISTIE. Yes.

Mr. PECORA. Or rather written by a member of the firm?

Mr. CHRISTIE. That is right.

Mr. PECORA. You cannot tell us whose handwriting it is?

Mr. CHRISTIE. I am sorry, sir, I cannot.

Mr. PECORA. Will you pass it around among such of your associates as are gathered about you and see if you can get some enlightenment on that from any one of them?

Mr. CHRISTIE. Apparently it has been circulated.

(Exhibit 9 was thereupon circulated among various persons present.)

Mr. CHRISTIE. Mr. Pecora, there is no question about disclaiming that as the firm signature, but as to which of possibly 17 or 18 members at that time signed that name at this time—apparently a good many of us have looked at it and nobody——

Mr. PECORA. Nobody recognizes it as their handwriting?

Mr. CHRISTIE. No one is willing to say whose it is.

Senator GLASS. Whether it is one member of the firm or another, it is the firm's responsible signature, isn't it?

Mr. CHRISTIE. That is right, Senator; yes.

Senator GLASS. The firm is responsible for it?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. It was not intended to make the firm responsible as a party to this agreement, was it, by those who negotiated it?

Mr. CHRISTIE. It was clear to the firm just what was being done. There were some members of the firm who were not willing to sell any stock. When this was being done it was perfectly clear, as you say—an obligation on the firm to carry that out, but it was done as a matter of convenience to keep this account for these 10 or 11 men, whatever it was, together in one account; that was done in correspondence in the name of Dillon, Read & Co.

Mr. PECORA. Tell us this, Mr. Christie, please. At the time that Dominick & Dominick made this proposal to you and some of your associates in Dillon, Read & Co. to grant them this option, was the matter discussed among all of the associates of Dillon, Read & Co. with the view of finding out if the firm wanted to give such an option?

Mr. CHRISTIE. At the first instance when they first approached us—you say whether it was taken up with all of the members?

Mr. PECORA. Was it discussed as a proposition or proposal for and on behalf of the firm?

Mr. CHRISTIE. Yes.

Mr. PECORA. By all of the members of the firm?

Mr. CHRISTIE. That I could not say.

Mr. PECORA. Well, you said that 10 or 11 of the members of the firm were agreeable to granting an option of some kind to Dominick & Dominick, and 7 or 8 of the others were not. Now was there a discussion of the matter among the members of the firm when Dominick & Dominick first came to you with this proposal for an option?

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Mr. CHRISTIE. There were at least two distinct proposals. One, that Dillon, Read & Co. grant some options on some stock. That was declined. To the best of my recollection this other idea that some individuals might be willing to sell was not brought up or was not thought of at that time. And at a later date when we were approached again my recollection is that the suggestion came from them as to whether or not there would not be individuals, or whether we knew or could find out where any stock might be obtained or for sale. At that time a careful survey was made and different individuals were asked whether or not they individually cared to sell any stock. That consideration was entirely separate and distinct from the first approach, which was as to the firm.

Mr. PECORA. Well now, when the first proposal which related to the firm giving this option to Dominick & Dominick was first made to you by Dominick & Dominick was it discussed by the firm?

Mr. CHRISTIE. Yes.

Mr. PECORA. Were all the members of the firm consulted about it?

Mr. CHRISTIE. That I could not say.

Mr. PECORA. When you say it was discussed by the firm do you mean to indicate that all of the members of the firm discussed it, considered it, and rejected it as a firm proposition?

Mr. CHRISTIE. No; because some were out of New York.

Mr. PECORA. At that time the firm of Dillon, Read & Co. as a separate legal entity apart from its individual members, did have 250,000 shares of the common stock of this corporation, did it not?

Mr. CHRISTIE. Well, in round figures that is approximately correct.

Mr. PECORA. Yes. And Dominick & Dominick's proposal to get an option from the firm of Dillon, Read & Co. covering 30,000 or more shares could have been agreed to by the firm as a separate legal entity and the requirements of stock under the option made by them from this block of 250,000 shares, could it not?

Mr. CHRISTIE. Well, to have given any options out of the 250,000 shares that you refer to naturally would have meant disposing of some of the stock of those individuals who did not want to have their own holdings reduced. I told you a few minutes ago that Mr. Dillon and several other stockholders were not willing to sell any of their stock.

Mr. PECORA. Was this discussed with Mr. Dillon at the time?

Mr. CHRISTIE. That I do not remember. I should imagine so.

Mr. PECORA. Can you not tell us whether or not it was?

Mr. CHRISTIE. No; I can not.

Mr. PECORA. He is the head of the firm?

Mr. CHRISTIE. Right.

Mr. PECORA. The firm of Dillon, Read & Co. had 250,000 shares of this stock, apart from the 500,000 shares that had been distributed among the individuals who composed the firm, did it not?

Mr. CHRISTIE. That is right.

Mr. PECORA. And this request of Dominick & Dominick for an option covering 30,000 shares of that stock could have been agreed to by the firm of Dillon, Read & Co. out of the 250,000 shares that it held?

Mr. CHRISTIE. It could have been.

Mr. PECORA. It could have been?

Mr. CHRISTIE. Yes.

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Mr. PECORA. And Dominick & Dominick's original proposal to you was that the firm of Dillon, Read & Co. do that very thing, was it not?

Mr. CHRISTIE. As I remember it, it was.

Mr. PECORA. Now, was that taken up by the members of the firm and considered as a business proposition made to the firm and disposed of accordingly?

Mr. CHRISTIE. That is my recollection; yes. You are asking me about conversations and happenings of several years ago, so that I am trying to be careful in my testimony, that I tell you that to the best of my knowledge and recollection.

Mr. PECORA. Then to the best of your knowledge and recollection the proposal of Dominick & Dominick was presented to the members of the firm, considered by them as a firm, and rejected?

Mr. CHRISTIE. Right.

Mr. PECORA. All right. Then Dominick & Dominick learned somehow or other that 500,000 shares of this same common stock were owned in various amounts and varying amounts by the individual members of the firm, or some of them?

Mr. CHRISTIE. Well, I would not know whether they learned about the 500,000 shares or not. They came back with the suggestion that there might be individuals who would have stock, and would they be willing to sell?

Mr. PECORA. Well now, was that taken up as a proposition of the firm, or was it taken up among the various individual members?

Mr. CHRISTIE. Among the various individual members.

Mr. PECORA. Who canvassed the situation among the various individual members at that time for the purpose of ascertaining how many of them were willing to enter into such an option agreement with Dominick & Dominick?

Mr. CHRISTIE. I think I did.

Mr. PECORA. Did you then speak to all of the members of the firm about it?

Mr. CHRISTIE. I think so.

Mr. PECORA. Are you sure you did?

Mr. CHRISTIE. Well, I hope so. I think they all should have been told of the suggestion that had been made and that they should all have the same opportunity to either reject it or to go along with any one who was selling stock. I have no tabulation or no record to show whether I overlooked one or not. I do not suppose that I did.

Mr. PECORA. Did you overlook the head of the firm at that time, do you think?

Mr. CHRISTIE. Not if he were in New York.

Mr. PECORA. Do you recall whether or not you actually consulted the head of the firm?

Mr. CHRISTIE. No; I do not recall.

Mr. PECORA. Now, when the firm which, as you say met and considered the original proposal of Dominick & Dominick that the firm of Dillon, Read & Co. give to them an option agreement covering 30,000 shares of this stock, turned down the proposal, for what reason did they turn it down as a firm?

Mr. CHRISTIE. I think that the controlling reason was that we considered the stock primarily as that 250,000 shares; in as much

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as the balance of the stock belonged to these individuals they were free to do with that as they chose, and that the firm did not want to sell any of that stock.

Mr. PECORA. But for what reason? What reason was advanced upon which the firm's determination was eventually based not to part with any of that block of 250,000 shares that was in the firm name?

Mr. CHRISTIE. In the first place some of the stockholders—or rather, some of the members who had a very substantial interest in that block were unwilling to sell any of their stock. That, in itself, it preclude selling out of that block of stock, because, as I said, they would reduce their holdings and their interest in that situation if stock was sold out of that block.

Mr. PECORA. Were Dominick & Dominick told after the rejection of the proposal which they made to the firm, that individual members of the firm had large holdings of this common stock in their individual capacity as distinguished from their position as members of the firm of Dillon, Read & Co.?

Mr. CHRISTIE. Not as far as I know. They may or may not have been told. But I do not recall telling them.

Mr. PECORA. The fact that these 500,000 shares were originally acquired in various proportions by individual members of the firm of Dillon, Read & Co. back in October 1924 was not publicly known, was it?

Mr. CHRISTIE. Well, it was publicly known that the 750,000 shares had gone to Dillon, Read & Co. and its associates. I think that was very generally known.

Mr. PECORA. Is it not a fact that the circular and advertisement which accompanied the offer of the first preferred stock to the public merely said in that respect that Dillon, Read & Co. had purchased for $5,000,000 the 50,000 shares of the second preferred stock, and that 750,000 shares of the common stock would go to Dillon, Read & Co. and to the organizers, without disclosing the identity of the organizers?

Mr. CHRISTIE. Unless you want me to refer to the circular to testify in some detail as to that language—as I recall it the circular we put in evidence yeterday substantially had the description that you have given.

The CHAIRMAN. Would it have made any difference to Dominick & Dominick whether the stock that they were attempting to acquire came out of the 250,000 shares that Dillon, Read & Co. owned, or out of the other 500,000 shares?

Mr. CHRISTIE. I should not think it would make the slightest difference.

The CHAIRMAN. It would not have made any difference to them whether it came out of the 250,000 shares or out of the 500,000 shares that the individuals owned?

Mr. CHRISTIE. I cannot see, Senator, what difference it would make to them where the stock came from.

The CHAIRMAN. The fact is that the control of 750,000 shares, three fourths of the shares issued, would give a great opportunity, would it not, for manipulation in case one desired to do that?

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Mr. CHRISTIE. I do not quite follow that, Senator. Do you mind if I have the stenographer read that question?

The CHAIRMAN. If one concern owns and controls three fourths of the capital issue of the common stock of the corporation, does not that ownership give a power for manipulation of the market that otherwise would not exist?

Mr. CHRISTIE. Well, rather indirectly, I think. Only because the balance that is outstanding is perhaps relatively small. If they want to buy stock and have it go up, they know exactly how much they would have to buy, if they have to buy at all, to put it up. Whereas if it was the other way around, the threat of the majority of the stock going on the market naturally is pretty indefinite as to what might happen.

Senator ADAMS. Mr. Christie, in the letter which made up this option there was an agreement to keep the stock, so far as they could, off the market. That is, your group—whether it was Dillon, Read & Co. or individual members of the group—Dillon, Read & Co. signed the option agreement to do their best to keep the stock off the market. They reserved the right to make private sales, but agreed to not put it upon the market, with the idea, of course, of protecting the market for Dominick & Dominick. So that the fact that Dillon-Read held the large block and agreed to keep it off was a very material circumstance in preserving that market?

Mr. CHRISTIE. Quite. And that intention was expressed in that letter.

The CHAIRMAN. In other words, only one quarter of the stock, 25 percent of it, was in the hands of the public?

Mr. CHRISTIE. That is right.

The CHAIRMAN. All the rest of the stock was in your hands?

Mr. CHRISTIE. Yes.

Senator ADAMS. But the letter was intended to obligate Dillon, Read, as a concern, to keep stock off the market, as well as the individuals, was it not?

Mr. CHRISTIE. That is right. But that was a very obvious and a very easy intention to comply with inasmuch as those members who were not included in this transaction did not want to sell any of their stock in any event, and to a large extent still hold that stock.

Senator ADAMS. At the same time, Mr. Christie, it did not require the unanimous consent of the stockholders and associates of Dillon, Read in order for your company to sell. That is, you formed a joint stock association, and if your managing group, your officers, saw fit to sell it would not make any difference that some stockholder or some member did not want to sell; that would not preclude a sale. You made the statement a while ago that the fact that some members did not want to sell would preclude the company from making the sale.

Mr. CHRISTIE. No; but when you have the situation where the head of your firm and some of your principal executive officers are those who do not want to sell, that is rather controlling.

Senator ADAMS. But if Mr. Dillon had decided that he wanted to sell, the fact that some other member did not want to sell, would not have prevented the sale from being made?

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Mr. CHRISTIE. Well, technically no. But I think that we try to run our picture and we do run it so that if there is any great difference of opinion the stock would not be sold. I think Mr. Dillon would be very much influenced by——

Senator ADAMS. But it does not require a unanimous verdict in every case in order to do business?

Mr. CHRISTIE. It does not.

Mr. PECORA. Mr. Christie, do you recall what the market quotation was for this stock on the date of this option, namely, December 20, 1928?

Mr. CHRISTIE. I can tell you I think in a minute. It was around $54 a share, I am told.

Mr. PECORA. That was the open market quotation on the Exchange, it then being listed on the New York Curb Exchange, was it not?

Mr. CHRISTIE. What is that?

Mr. PECORA. Around $54?

Mr. CHRISTIE. Yes.

Mr. PECORA. In this option agreement you and those of your associates comprising ten or eleven in number who agreed, although in the name of Dillon, Read & Co., to give this option to Dominick & Dominick, undertook to deliver 10,000 shares of your holdings to Dominick & Dominick at any time between December 20, 1928, and February 20, 1929, at the price of $47.50 a share, which was considerably below the then market, did you not?

Mr. CHRISTIE. On the first block of 10,000 shares at that price—there were three——

Mr. PECORA. But I will take them up one after the other.

Mr. CHRISTIE. The average of all of them was a little over 50.

Mr. PECORA. I am taking them up as the contract itself was made out. You agreed, first, to sell Dominick & Dominick any or all of 10,000 shares between December 20, 1928, and February 20, 1929, at the price of $47.50 a share, did you not?

Mr. CHRISTIE. That is right.

Mr. PECORA. And when you made that agreement, the public market quotation was around $54 a share?

Mr. CHRISTIE. That is right.

Mr. PECORA. What prompted you and your associates who agreed to this option to enter into it, in view of the fact that you could have sold such of your holdings as you wanted to sell on the open market for considerably more than the option price to Dominick & Dominick?

Mr. CHRISTIE. You refer, and I have no objection to it, to taking the option step by step. There are other factors, however. The three options involved would total 30,000 shares at prices which I believe averaged something a little over 50. They were a consideration. In other words, Dominick & Dominick were not talking about taking an option of 10,000 shares at $47.50, and that is all. They were talking about 30,000 shares, 10,000 shares at $47.50, which ran for 2 months, with another option that they could take up or which would run for 2 months beyond the time they exercised the first option, and then the third step, with another 10,000 shares at $55 running 2 months beyond the exercise of the second option. That is as I recall that.

Mr. PECORA. This option was split up into three parts. On the first part you agreed to sell to Dominick & Dominick 10,000 shares

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between December 20, 1928, and February 20, 1929, for $47.50 per share. In the second part you agreed to deliver to Dominick & Dominick on their call another 10,000 shares within the next 2 months period from February 20, 1929, to April 20, 1929, for $50 a share; and the third part of the option agreement called for your delivering to Dominick & Dominick within the next 2 months period, namely, from April 20, 1929, to June 20, 1929, another 10,000 shares at $55 a share. That is correct, is it not?

Mr. CHRISTIE. No. I think that is only assuming that they did not exercise the options until the last day of each option.

Mr. PECORA. That is assuming that they exercised their options within the prescribed periods of time?

Mr. CHRISTIE. Well, at the maximum amount of the time.

Mr. PECORA. Yes.

Mr. CHRISTIE. I would appreciate it if you would correct me, but as I remember that letter, if they exercised the first option on January 20 instead of on February 20, the period of the second option would have been from January 20 to March 20 instead of the particular months that you put into your question.

Mr. PECORA. But the option gave them the right to call for the stock, for the first 10,000 allotment, gave them the right to call for it, during all of the 2 months period?

Mr. CHRISTIE. That is right.

Mr. PECORA. And with regard to the second block of 10,000 shares, the option likewise gave them the right to call for that and draw it down from the associates who entered into this agreement, in another two months time from the date of the exercise of the previous option?

Mr. CHRISTIE. Right.

Mr. PECORA. And the agreement with respect to the delivery to them of the third block of 10,000 shares again gave Dominick & Dominick 2 months' time within which to exercise that portion of the option, did it not?

Mr. CHRISTIE. That is right.

Mr. PECORA. So it was possible for Dominick & Dominick in exercising this option to draw down these 30,000 shares over a full period of 6 months' time from the date of this option agreement?

Mr. CHRISTIE. That is right.

Mr. PECORA. And you and your associates obligated yourselves by this agreement to sell and deliver to Dominick & Dominick an aggregate of 30,000 shares over a period of possibly 6 full months' time from December 20, 1928, at prices averaging below what was the market price for this stock on the public exchange on December 20, 1928, when this agreement was entered into. Is not that correct?

Mr. CHRISTIE. The average was slightly below the market at that time; yes.

Mr. PECORA. It was several points below; not slightly below.

Mr. CHRISTIE. Three or four points below.

Mr. PECORA. That is not a slight difference, is it—3 or 4 points? Where the security is selling for around $50, is that a slight difference?

Mr. CHRISTIE. With the stock selling around 50, it is 6 percent. I do not know who is to decide whether it is slight or great. The stock was selling around about 54 at that time, and these options averaged a little over 50.

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Mr. PECORA. What were the considerations that prompted you to enter into this option agreement?

Mr. CHRISTIE. The considerations that prompted me personally to enter into it were that I had more of that particular stock than I had of any other stock, and the stock was, I think, about one third of the total amount that I had, and I thought that I would be willing to sell a part of it for the sake of diversification.

Mr. PECORA. You could have sold it on the open market for your own account?

Mr. CHRISTIE. I could have; but up to that time it had not occurred to me to do it. We got together with our associates and talked it over. Those of us that did go in felt this was a perfectly proper thing for us to do. It was our stock to do with as we pleased, and we felt that, as a group, it was not harmful to any of our associates, and if we wanted to sell it to Dominick & Dominick by giving them options slightly below the market, as you say——

Mr. PECORA. No; I didn't say "slightly below the market." That is what you said.

Mr. CHRISTIE. I beg your pardon.

Senator GLASS. As a matter of fact, is not the plainer and shorter answer that you wanted to make money, and that that is what all of these things are done for?

Mr. CHRISTIE. I wanted to sell that stock, Senator Glass.

Senator GLASS. You wanted to make money on it?

Mr. CHRISTIE. Not to make money on it. I had a profit in it at the time; but the sale of the stock was more for the purpose of diversification than it was to register the profit that I had at that time.

Senator GLASS. You did not mind making money on your diversification, did you?

Mr. CHRISTIE. I have never minded making money.

Mr. PECORA. How many shares of your own personal holdings did you put into this option agreement?

Mr. CHRISTIE. I think it was 2,900 shares.

Mr. PECORA. Mr. Christie, if you had wanted to sell for the purpose of making a profit these two thousand-odd shares of your personal holdings that you put into this option agreement, you could have sold it at that time in the open market for a good deal more than the price you were getting over a six months period of time under this option agreement, could you not?

Mr. CHRISTIE. It does not necessarily follow. I might have. The fact that the stock, you say, was selling at 54 would indicate that there were orders in the market to buy my stock, and if I wanted to disregard my associates or sell ahead of them, perhaps I could have gotten 54 for it; I cannot tell.

Mr. PECORA. Was there any understanding of an informal or other character among the associates not to part with any of their individual holdings without the knowledge and consent or approval of the others? Were you bound together by any such understanding, either express or implied?

Mr. CHRISTIE. No. I think a few had sold previous to this time.

Mr. PECORA. Without consultation with the associates?

Mr. CHRISTIE. I think so.

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Mr. PECORA. They felt free to do it and they were free to do it, were they not?

Mr. CHRISTIE. Yes; they were free to do as they pleased.

Mr. PECORA. And you were free, if you wanted to sell 2,000 shares at a price on the open market that would have given you a profit, to make such a sale, were you not?

Mr. CHRISTIE. Yes.

Mr. PECORA. If you were willing to put these two thousand and odd shares of yours into this syndicate arrangement in order to make a profit, why didn't you sell them directly and individually in the open market at the time when the stock was selling for $54.50?

Mr. CHRISTIE. I don't know. Perhaps I should have.

Senator GLASS. Is it not a fact that when a pool handles stock through a responsible stock brokerage concern they are more apt to get a better price for it than otherwise?

Mr. CHRISTIE. In this case our price was not dependent upon what they did with the market. Our price was fixed by these options.

Senator GLASS. But they were willing to take that option because they could operate a pool and sell the stock, were they not?

Mr. CHRISTIE. If we had made that kind of——

Senator GLASS. I am asking questions now that I do not know anything about, and there is scarcely a member of this committee, not more than one, that knows a thing in the world about what Mr. Pecora wants to prove here—the thing which I have protested against from the first. The committee ought to know exactly what he is asking so that they may intelligently ask questions.

And while I am firing off now, I would like to ask Mr. Dillon if he would feel that he could morally or legally repudiate that proposition [handing a paper to Mr. Dillon].

Mr. DILLON. No; that is an obligation of Dillon, Read & Co.

Senator GLASS. Exactly. It doesn't make any difference who signed it; it is Dillon, Read & Co.

Mr. DILLON. It does not make any difference whose stock it was. It is Dillon, Read & Co.'s obligation to deliver the stock to Dominick & Dominick under the terms of that letter.

Senator GLASS. So far as I am concerned, it is not necessary for me to put on record my opposition to pools. We long ago disclosed the fact that many of them were conducted in a rascally way, that they employed specialists, or when they did not employ specialists, they employed the specialists' way, and they conduct them in a rascally way, and I am opposed to pools. I would break them up if I could do it; and I think I could if they would let me do it. I do not mean, if the pools would let me do it, but if Congress would legislate sanely. But I would like to know what all this is about.

Mr. DILLON. This letter, Senator Glass——

Senator GLASS. I do not want to come in here like an idle spectator and sit around the table and not know what is going on, not know what is attempted to be proved, and whether it is something that might be corrected by legislation or that could not be corrected by legislation.

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Mr. PECORA. Senator, I outlined to the members of the subcommittee in charge of this investigation, at an executive session which was called by its chairman and which was attended by all of the members, with the exception of yourself, yesterday morning, in advance of the public hearing.

Senator GLASS. I was not in town yesterday morning, but I was in town on Monday.

Mr. PECORA. I was in town on Monday and I had a 2-hour talk with the chairman of the committee.

Senator GLASS. You did not have it with me and did not have it at an executive meeting of the committee.

Mr. PECORA. That was held yesterday morning.

Senator GLASS. If you will examine the records of the committee you will see that a textual resolution is there requiring that counsel shall come beforehand and state to the members of the committee what it is he proposes to prove, whether it is something that may be corrected or not; and that ought to be done, Mr. Pecora. It ought to be done in justice to the members of the committee. The members of the committee ought not to sit around here in utter ignorance as any spectator here, as to what is going on and what you expect to prove.

Mr. PECORA. I have on every occasion when I was so requested, come on here and consulted with members of the committee and apprised them of the work that the investigating staff was doing.

The CHAIRMAN. The meeting of the subcommittee was called on yesterday morning for that purpose. Mr. Pecora was here and attempted to comply with the resolution. The Senator from Virginia had an election in his State and could not be present, but the subcommittee was called regularly.

Senator GLASS. I asked my colleague on the right here, who is a lawyer, if he knew what all this was, and he did not know.

Mr. PECORA. I did not understand that it was expected that I was going to place before the executive meeting all of the evidence that I had been collecting and was going to introduce at the public hearing. That would have involved a duplication of time and work.

Senator GLASS. You should not impute any such nonsense as that to me, Mr. Pecora.

Mr. PECORA. You say you do not understand what the evidence is that is being introduced. You could not have understood it in that way unless I had given it all to you beforehand, which I do not think you had in mind my doing.

Senator GLASS. My understanding is a little superior to your imagination. I could have understood if you had come before the committee and told us just exactly what you proposed to do.

Mr. PECORA. I did that yesterday morning, sir, in executive session called by the chairman of the committee, which I attended. I was responsible for my own attendance at that executive session and for no other individual's, and I accepted my responsibility.

The CHAIRMAN. Let us go on.

Senator GLASS. I intend to insist upon carrying out the order of the committee made at the largest meeting of it that has been held, and that is that counsel shall explain to the committee in executive session just what he proposes to adduce.

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Mr. PECORA. I did that yesterday morning, sir, and I placed some emphasis on the very evidence that is now being adduced.

Senator GLASS. Yes. Well, I unfortunately was not there.

Mr. PECORA. I hope the Senator does not hold me responsible for that.

The CHAIRMAN. It is now 1 o'clock, and we will take a recess until 2 o'clock.

(Whereupon, at 1 p.m., a recess was taken until 2 p.m.)

AFTERNOON SESSION

The subcommittee reconvened at 2:10 p.m., Wednesday, October 4, 1933, at the expiration of the noon recess.

The CHAIRMAN. The committee will come to order. Proceed, Mr. Pecora.

TESTIMONY OF ROBERT E. CHRISTIE, JR., A MEMBER OF THE FIRM OF DILLON, READ & CO., NEW YORK CITY—RESUMED

Mr. PECORA. Mr. Christie, you will probably recall that just prior to the taking of recess today I asked you a series of questions with a view to finding out from you why you did not sell your two thousand-odd shares of the common stock of the United States & Foreign Securities Corporation which you put into this option arrangement with Dominick & Dominick in the open market, and thereby have obtained a price for them higher than that which you were to receive under this option agreement. I do not recall that you have as yet answered that question specifically. Will you do so please?

Mr. CHRISTIE. Yes, sir. I remember you asked me that question, and I think I said I might have sold my own stock, if that were all that had been involved, on the market at a higher price than the option price, but this was a grouping of some associates of mine, with a total of 30,000 shares, which obviously, if just thrown on the market, would not have been sold, probably, at the quoted price at that date.

Mr. PECORA. I think you did make one answer to the question, the substance of which was that it did not occur to you to sell your two thousand and odd shares in the open market. Was that the only reason why you did not so dispose of them in the open market?

Mr. CHRISTIE. No; I meant by that that I had not been selling any stock up to that time, and had not offered it 100 shares at a time, or piecemeal, and that frankly I had not decided to sell any of it until a number of us in this group decided to sell together.

Mr. PECORA. You know what is meant by the term "pool operation" as applied to stockmarket activities, do you not?

Mr. CHRISTIE. I do not know that I could give a very good definition of it.

Mr. PECORA. You know what is conveyed by the use of that term, do you not?

Mr. CHRISTIE. To me it sounds like some kind of a joint market operation, buying and selling securities.

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Mr. PECORA. You have heard the term "pool activities" or "pool operation" applied to stockmarket transactions, have you not?

Mr. CHRISTIE. Yes; I have.

Mr. PECORA. What do those terms convey to you—referring to what kind of an operation? Just tell us in your own way.

Mr. CHRISTIE. Well, I believe that they might work either with the idea of distributing stock or of accumulating stock.

Mr. PECORA. And unloading it at a higher price?

Mr. CHRISTIE. Or distributing or selling it at a higher price.

Mr. PECORA. You have heard of pool manipulations, have you not?

Mr. CHRISTIE. Yes; I have heard of them. I am not familiar enough with them, though, to describe them.

Mr. PECORA. As one engaged in the business of investment banking, I presume you frequently read the financial pages of the daily press.

Mr. CHRISTIE. Yes.

Mr. PECORA. Particularly in the city of New York.

Mr. CHRISTIE. Yes.

Mr. PECORA. Don't you come across, very, very frequently, references to pool operations and pool manipulations in referring to stockmarket activities?

Mr. CHRISTIE. Yes.

Mr. PECORA. What do those terms mean to you when you read them?

Mr. CHRISTIE. As a matter of fact, they mean very little to me. They do not interest me.

Mr. PECORA. Do you think the financial writers who employ them are using terms that are enigmas to bankers?

Mr. CHRISTIE. No, sir. I do not have any reaction when I read that in the newspaper at all.

Mr. PECORA. What do they mean to you when you read in the financial pages of the press of the activities or operations of pools in the stock market? For instance, you sometimes read, do you not, that a pool is operating in the stock of the ABC Company, do you not?

Mr. CHRISTIE. Yes.

Mr. PECORA. What does that mean to you?

Mr. CHRISTIE. It means that some group of individuals are buying and selling that stock, and are active in the purchase and sale of it.

Mr. PECORA. Where such pool operations are so referred to, you know, do you not, that those pool operations are usually conducted by those who compose the pool, on the basis of their having for their benefit in such operations an option agreement with the owners or holders of large blocks of the stock that they are dealing in, so that they know at any time during the pool operation that they can depend upon the delivery to them of a certain number of shares of that stock?

Mr. CHRISTIE. I am not at all familiar with the mechanics of any pool operations. I should assume that they might either buy stock and accumulate stock for the pool, or they might do it by way of an option.

Mr. PECORA. They frequently do it by means of an option.

Mr. CHRISTIE. I assume so.

Mr. PECORA. Given to them by holders of sufficiently large blocks of the stock to protect them in their pool operations.

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Mr. CHRISTIE. Very likely.

Mr. PECORA. Having in mind the letter which has been put in evidence here, known as "Committee's Exhibit 9", and which constitutes the option agreement that was entered into by you and your associates who were participants therein, with Dominick & Dominick, would you say that this letter indicates that Dominick & Dominick had formed a pool to buy and sell the common stock of the United States & Foreign Securities Corporation at the time this option agreement was made?

Mr. CHRISTIE. No; I would not say that that indicated that they were necessarily going to carry on any pool operation. In the conversation that led up to it, as I said this morning, a good deal of emphasis was put on the fact that they had a large clientele that they would like to distribute this kind of stock to. We were not—that group of individuals were not participants in the account of Dominick & Dominick. Our sole participation in that business was the granting of those options.

Mr. PECORA. Why were you willing to tie up your stock in this kind of an option agreement for a period of possibly 6 months?

Mr. CHRISTIE. So as to have a better opportunity of distributing the total amount of 30,000 shares.

Mr. PECORA. But you at that time had not been especially anxious to sell any of your holdings, as I understood your testimony this morning.

Mr. CHRISTIE. That is right.

Mr. PECORA. What do you think the interest of Dominick & Dominick was in seeking to get you people to enter into this option agreement with them? What do you think they were trying to do?

Mr. CHRISTIE. So that they could carry on a transaction profitably to them.

Mr. PECORA. How would they be enabled to carry on such a transaction on a profitable basis, as distinguished from buying and selling or trading in the open market?

Mr. CHRISTIE. With these options they were protected at the price of the options, so that any sales that they made at a price above that would represent their profit.

Mr. PECORA. Did it not all indicate that they were managing or conducting a pool operation?

Mr. CHRISTIE. On the basis of that letter, I do not think that that necessarily indicates that they were, although whether they did or not I do not know.

Mr. PECORA. Well, let us see. In the opening paragraph of the letter they say to you as follows:

"We wish to confirm that in consideration of the formation by us of an account of which we shall be the managers with full discretionary powers, you hereby extend to us, for and on behalf of such account, options to purchase from you an aggregate of 30,000 shares of United States & Foreign Securities Corporation common stock at prices and under conditions as follows."

From that, am I justified in inferring that in the course of the conversations which Dominick & Dominick had with you and your associates preliminary to the making of this option agreement, they informed you that they had formed or were going to form an account of some kind, of which they were to be the managers with full discretionary powers?

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Mr. CHRISTIE. That is right. In the formation of that account, we knew that they had other houses associated with them in the account.

Mr. PECORA. Did they tell you for whose benefit they were forming and were going to operate this account?

Mr. CHRISTIE. It would naturally be for their benefit.

Mr. PECORA. For whose benefit?

Mr. CHRISTIE. For the participants in their account.

Mr. PECORA. Did they tell you who those participants were?

Mr. CHRISTIE. I don't believe so.

Mr. PECORA. Was it of any interest to you to know who they were?

Mr. CHRISTIE. No.

The CHAIRMAN. Did they have any other stock in the corporation?

Mr. CHRISTIE. That I do not know.

Mr. PECORA. You knew, did you not, as an officer of the United States & Foreign Securities Corporation at the time of the granting of this option to Dominick & Dominick, that 250,000 shares of the common stock of that corporation had been distributed to the general public back in October 1924 in connection with the purchase by the public of the 250,000 shares of the first preferred stock of this corporation?

Mr. CHRISTIE. I knew about the 250,000 shares that you speak of. Whether the dates we had this morning regarding the time I was an officer of the corporation coincided with the date of this option, I do not remember. At the beginning of your statement you asked me if I knew that, being an officer at the time the option was granted. I am not sure whether I was an officer at that time or not.

Mr. PECORA. You had been an officer prior to December 20, 1928, had you not?

Mr. CHRISTIE. That is right.

Mr. PECORA. And you were familiar with all the facts and circumstances surrounding the organization and flotation of the stock of the United States & Foreign Securities Corporation back in 1924.

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. And that information included the information that 250,000 shares of the common stock had been issued to the public that subscribed for the 250,000 shares of first preferred stock.

Mr. CHRISTIE. Right.

Mr. PECORA. That made available for open-market operations a substantial block of this common stock, did it not?

Mr. CHRISTIE. Two hundred and fifty thousand shares.

Mr. PECORA. Yes. Do you know of any reason why Dominick & Dominick could not have purchased the 30,000 shares that are covered by this option agreement in the open market, in view of this floating supply of 250,000 shares that was available?

Mr. CHRISTIE. No; no reason.

Mr. PECORA. From the fact that they came to you and your associates, comprising a small group of individuals, and sought this kind of an arrangement to enable them to purchase at fixed prices, over a period of 6 months, possibly, 30,000 shares of this stock, would you not say that they were organizing a pool operation?

Mr. CHRISTIE. I would say that if they were going to go in and offer to buy the 30,000 shares in the market, they would not know at what price they might be able to get it. They might get just a

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few thousand shares, not enough to distribute to their clients, and they probably would not be interested in that sort of thing, so they came to us to see if they could get a sizeable block of stock, which was this 30,000 shares.

Mr. PECORA. You see, from the terms of this option agreement, the period of operation or management of this account referred to in this letter was possibly 6 months.

Mr. CHRISTIE. That is right.

Mr. PECORA. That was a pretty substantial period of time to accumulate in the open market 30,00 shares, was it not?

Mr. CHRISTIE. Oh, yes; but the 6 months' time was the time within which they wanted to both buy and sell.

Mr. PECORA. Both accumulate and unload; is that right?

Mr. CHRISTIE. And distribute.

Mr. PECORA. When you say "distribute" you are using it in the same sense in which I am using the term "unload", are you not?

Mr. CHRISTIE. Very likely; to get out of it at a profit.

Mr. PECORA. Just a difference of terminology.

The CHAIRMAN. Was this stock listed on the New York Stock Exchange at that time?

Mr. CHRISTIE. It is now, Senator Fletcher.

Mr. PECORA. It was not then.

Mr. CHRISTIE. It was not then. It was listed some time the following year.

Mr. PECORA. It was listed on the Curb.

Senator ADAMS. May I ask if you can give me, in a very rough way, what the requirements are for listing on the Curb Exchange? I am thinking of the number of stock certificates and the number of stockholders you have to have. What are those requirements, generally?

Mr. CHRISTIE. I am afraid I could not give you a very accurate idea of it.

Mr. DILLON. I think it requires that a certain percentage of the total issue of stock must be outstanding and distributed. For example, if I owned 100 percent of the stock, I could not list it on the Curb. If I owned 90 percent, I probably could not. There is some point there.

Senator ADAMS. What is the approximate figure?

Mr. DILLON. I think the so-called Big Board, the regular stock exchange, requires a broader distribution for listing than the Curb does. I am not sure what the Curb requirement is. I know it cannot be more than 25 percent, because this was listed, and there was only 25 percent in the hands of the public.

Senator ADAMS. Did your organization make the application for listing?

Mr. DILLON. No. The company must make its own application. The United States & Foreign made the application.

Mr. PECORA. Mr. Christie, can you tell us the reason for including in this option agreement the following provision, which I will now read to you therefrom:

"During the period in which these options exist you agree to loan us, at our call, all or any part of 20,000 shares of stock at the then prevailing market price."

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What was the reason for the inclusion of that?

Mr. CHRISTIE. In this account that Dominick & Dominick had with some other firms, if they were going to sell stock to their clients, they would use the stock that they would borrow from us against delivery of that stock. That, I believe, would be a protection to them should the stock be sold back by their clients. If they bought it back, or the sale was canceled, they would then not be long the stock, because they used borrowed stock to make the delivery; and also, if the stock, for any reason during the period during which they had it optioned, might sell lower, they could buy the stock in the market and make a larger profit, and return the borrowed stock to us.

Mr. PECORA. That is to say, it indicated to you that, among other things, the managers of this account—we will abandon for the time being the word "pool"—contemplated making some short sales, and in order to have stock available to cover those short sales without making it necessary for them to go into the open market and cover, they provided for this arrangement under which they could borrow from you 20,000 shares for such covering purposes.

Mr. CHRISTIE. Yes, sir. It would be clear that they could do that, and I think it was later extended to the whole 30,000.

Mr. PECORA. Is it not clear to you that that is what they had in mind by the inclusion in this option agreement of these provisions to which I have just called your attention?

Mr. CHRISTIE. I think that is a fair statement.

Senator ADAMS. They could have borrowed the stock and made the sales without exercising any of the options.

Mr. CHRISTIE. Yes.

Senator ADAMS. If it were just a matter of the disposal of this option stock, why would it be necessary for them to have arrangements with other brokerage or stock-selling houses, which I understand they had?

Mr. CHRISTIE. Why they invited other people to join with them in this?

Senator ADAMS. You said there were others operating with them when they came to you to get this option.

Mr. CHRISTIE. Yes; and the letter said that they were forming an account of which they were to be the managers. Why it was necessary to do that, I am sure I do not know. It probably made a broader operation. They probably had more people talking this stock to their customers all at the same time than if they undertook it alone.

Senator ADAMS. It would obviously indicate that it was not merely to be sold on the market. That is, it involved the aid of other institutions.

Mr. CHRISTIE. Yes, that is right.

Senator ADAMS. And possibly the other institutions were to buy as well as to sell.

Mr. CHRISTIE. It might very well be. They do not say how many, and the letter does not indicate how many people they had in their account. At least they had other people associated with them.

Senator ADAMS. It would be possible for someone who had a misunderstanding as to what a pool might be to think that a pool was going to do a reasonable amount, not of manipulating, but of buying and selling to maintain a market.

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Mr. CHRISTIE. That is right.

Mr. PECORA. Let me read this other provision to you from this so-called " option " agreement.

It is understood that until all of these options have either been exercised or have lapsed, you have the right to place stock privately, but that you will exercise your best efforts to prevent such stock from coming into the market.

What would you say was the reason for the inclusion of that particular provision in this option agreement?

Mr. CHRISTIE. Well, if they were offering this stock to their customers at the then market price, which was slightly above this option price, and if we were to offer a substantial amount of additional stock on the market, it might naturally spoil that market, the supply being greater than the demand, and knock it below the option price, so that they could not do anything with this account.

Mr. PECORA. Then, by virtue of this provision that I have just read to you, they were assuring themselves, so far as it was possible for them so to do, that in their market operations which they were going to manage for the benefit of this so-called " account ", they were not going to be disturbed by owners of the stock, such as yourself, interfering with their market operations by putting your own stock through the market.

Mr. CHRISTIE. That is right.

Mr. PECORA. In other words, to that extent they were seeking to dam up the normal, natural flow of these securities in the public market, were they not?

Mr. CHRISTIE. As far as we were concerned, and this large block of stock, that is what they were trying to do, obviously.

Mr. PECORA. And that is the purpose that is always sought to be attained in the operation of pools, is it not?

Mr. CHRISTIE. Well, that is a generalization. As I say, I hesitate to comment on pool operations because I have never run one, and I am not a specialist in pools. It would seem, however, to be a reasonable precaution that anyone would take if he wanted to work and distribute a stock.

Mr. PECORA. As a result of the conduct of operations by this account, or in behalf of this account, in the manner that was indicated to you by the terms of this option agreement, that that account was to be operated, do you, Mr. Christie, think it was fair to the general investing public to enter into such an arrangement with the managers of this account?

Mr. CHRISTIE. Well, I think it was perfectly fair to the holders of the other 250,000 shares of preferred stock to grant these options and to be willing to hold the stock off the market, according to the provisions of that letter as they required of us.

Mr. PECORA. To what extent did you bind yourselves by this agreement to withhold your stock from the market? Weren't you interfering with the operation of the normal law of supply and demand?

Mr. CHRISTIE. Not necessarily, Mr. Pecora. We were only binding ourselves.

Senator ADAMS. Mr. Pecora, it was more a case where they were taking unfair advantage of the law of supply and demand, wasn't it?

Senator GLASS. Well, do you know of anybody today in the Government who is not taking unfair advantage of the law of supply and demand?

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Mr. PECORA. Senator Glass, the reason I am asking these questions is that I have read the testimony given before this committee, in hearings held last year, and it was contended that the stock exchange affords a market for the free and open buying and selling of securities, and that usually the prices of securities are fixed in obedience to the law of supply and demand. It seems to me here we may have some definite proof of circumstances, in regard to this transaction at least, where somebody sought to interfere with that natural law of supply and demand.

Senator GLASS. But what I asked you was: If you know of any government official or agency which is not now undertaking to interfere with the law of supply and demand. [Laughter.]

Mr. PECORA. Well, Senator Glass——

Senator ADAMS (interposing). Aren't they, rather, interfering with the supply rather than interfering with the law?

Mr. CHRISTIE. Our interest was only in the granting of these options. And the options were not harmful to us, and I could not see that they would be harmful to the 250,000 shares that you spoke of as being outstanding. If there was at all any interference with the law of supply and demand it was on the side that I should think would work to the benefit of the holders rather than in any way against them.

Mr. PECORA. It might work to the benefit of the holders, but do you think it would work to the benefit of an investor going into the market at that time and purchasing this stock? Wouldn't he be buying in a market where prices were fixed not in response to the natural law of supply and demand but under circumstances where that price is interfered with because of interference with the natural law of supply and demand?

Mr. CHRISTIE. Well, it was only interfered with to the extent that we were not going to dump any more of our stock on the market, which we probably would not have done anyhow. Those 250,000 shares were still there, there was still an available supply there, and if anything was added to it through these operations we did not take away from any of the available supply that did exist.

Mr. PECORA. Do you know how many shares were actually traded in by this account referred to in this option agreement of December 20, 1928?

Mr. CHRISTIE. No; I do not.

Mr. PECORA. Didn't you ever learn from Dominick & Dominick how many shares were actually traded in both on the buying and the selling side?

Mr. CHRISTIE. No, sir; I never learned that.

Mr. PECORA. Did you ever learn from them the profits realized by the participants in that account as a result of that operation?

Mr. CHRISTIE. No; I never did.

Mr. PECORA. Do you know how long the operation of the account lasted under this option agreement?

Mr. CHRISTIE. Well, I have the record of the date on which they exercised their options, and I think there were some additional options granted, and they ran I suppose for several months. They formed a second account along in June or July of 1929, and I think this account ran right up to that account, and the second account went on through.

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Mr. PECORA. This account was in operation for a period of about 6 months?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. Do you know the total number of shares of the account traded in?

Mr. CHRISTIE. No; that information I do not have.

Mr. PECORA. Don't you know it was considerably more than 30,000 shares which were embodied in this option agreement?

Mr. CHRISTIE. Well, we granted them additional options, and they took down additional stock. So I know it was over 30,000 shares.

Mr. PECORA. What was the total amount of the shares which you and your associates actually delivered to Dominick & Dominick for the purpose of the operation of this account under this option agreement or any supplemental agreements that followed?

Mr. CHRISTIE. By the use of the words "supplemental agreements", do you still mean this first account?

Mr. PECORA. This first account; yes. This one based upon the option agreement of December 20, 1928.

Mr. CHRISTIE. Mr. Pecora, I am told that during the first account the total options granted to them was 40,000 shares, but that the total amount they took down under those options in the first account was 25,000 shares. Then they ran into the second account.

Mr. PECORA. Do you happen to know what the total volume was of transactions on the New York Curb Exchange during the period of time covered by the operation of this account; namely, from December of 1928 to June of 1929?

Mr. CHRISTIE. No.

Mr. PECORA. In the common shares of the United States & Foreign Securities Corporation?

Mr. CHRISTIE. No; I do not think I know that.

Mr. PECORA. Well, for your information and subject to correction by you if you wish to seek means of confirmation of this information, a compilation of statistics made by members of the investigating staff of the committee shows that the total volume of trading during that period of time on the New York Curb Exchange in this security was 145,800 shares, both on the buying and on the selling side, and that the account operated by Dominick & Dominick was responsible for trading to the extent of 129,650 shares in that period of time, and that about 48 percent of the entire volume of the trading on the New York Curb Exchange was by Dominick & Dominick. Now, does that information, assuming it to be correct, accord with your general recollection?

Mr. CHRISTIE. Well, I have no recollection of the activity in the market at that time, but I am perfectly willing to accept those figures compiled by your people.

Senator ADAMS. Mr. Pecora, you speak of trading on both the buying and selling sides of the market.

Mr. PECORA. Yes; the total number of shares traded in.

Senator ADAMS. Well, let us say that there are 100 shares traded in. You do not mean 100 shares bought and 100 shares sold, do you?

Mr. PECORA. No. 100 shares traded represents 100 shares bought and sold.

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Senator ADAMS. Then if 100 shares are sold and bought it would show up as 200 shares traded in.

Mr. PECORA. The figures would be shown on both the selling and buying sides.

Senator ADAMS. Then in the case of a total of 145,000 shares traded in, if this one concern had dealt in 129,000 shares, quite necessarily they had purchased a great many shares?

Mr. PECORA. Yes.

Senator ADAMS. Because there could have been only about seventy-odd thousand shares sold.

Mr. PECORA. Unless they were doing both buying and selling themselves.

Senator ADAMS. If their transactions represented 129,000 shares out of a total of 145,000 shares traded in, it could be only half of the 145,000 shares.

Senator GLASS. Mr. Chairman, it has been developed over and over again in these hearings that that is exactly what they do. They buy their own shares and they sell their own shares. All those pools do that in order to control the market.

Mr. PECORA. Senator Glass, the reason I am trying to put on the record through the medium of the testimony of this witness, plus the documentary evidence that we have here, the information called for in the question, is to give a concrete example of the formation and operation of such a pool account.

The CHAIRMAN. Well, of course, the manager of a pool will offer certain stock and the price will go down as a result of such sale, and then he will come in and buy and will push the price up.

Senator GLASS. Oh, well, you have abundant testimony of concrete examples of that having been done over and over again.

The CHAIRMAN. Mr. Christie, did you sell all of your individual holdings to Dominick & Dominick?

Mr. CHRISTIE. No; I did not.

The CHAIRMAN. You had some left?

Mr. CHRISTIE. Yes, sir.

The CHAIRMAN. You and your friends and associates in this transaction with Dominick & Dominick did not dispose of all the stock that you had as individuals?

Mr. CHRISTIE. No. The total of this first account that is under discussion now was 25,000 shares, which they bought in that account. And then they had a second account, which I imagine Mr. Pecora will bring up in order to carry this complete story through, which will come in. In the whole account we sold, I think, 74,000 shares, the figure that you had this morning, to Dominick & Dominick. This account which Dominick & Dominick ran we had no interest in and had no first-hand knowledge of as to how they did it or what the volume was. I take it that the tabulation which Mr. Pecora has is the total of the daily sales as reported on the exchange.

Mr. PECORA. Yes; as reported on the exchange.

Mr. CHRISTIE. And then it is doubled so as to make purchases and sales, and does not include the 25,000 shares that Dominick & Dominick bought from us.

The CHAIRMAN. It only refers to transactions on the exchange.

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Mr. PECORA. Those sales did not go through the exchange, did they?

Mr. CHRISTIE. No.

Mr. PECORA. That is why they are not included in the volume of trading. The volume of trading I am referring to is open market trading.

Mr. CHRISTIE. But you also gave a figure—and I am not disputing any of it but am only trying to get a clearer picture of what you mean—of the account traded in, and I assume that included the 25,000 shares?

Mr. PECORA. No.

Mr. CHRISTIE. It was without that, then.

Mr. PECORA. Yes.

Senator GLASS. Let me ask you this question for my own particular information, though any other member of the committee with my consent may make use of it. What percentage of the people who trade on the stock market actually know the true financial status of your company or of any other company in the matter of the stocks in which they trade?

Mr. CHRISTIE. Well, this particular stock was the stock of the United States & Foreign Securities Corporation. It is an investment trust, and the testimony this morning—and I am saying this, Senator Glass, because I am not sure that it was not before you came in, and I think it was—this investment trust publishes annually a complete list of its holdings, and a complete statement. It also publishes semiannually a statement of its general operations and income account. Mr. Dillon also testified this morning that——

Senator GLASS (interposing). That I know. I am not suggesting that you have been guilty of any concealment. I am trying to test the intelligence of people who gamble in stocks on the stock exchange. [Laughter.]

Senator ADAMS. Senator Glass, let me cite a little experience of my own—and I do not want this placed on the record.

(Thereupon there was some little discussion off the record.)

Senator GLASS. Four years ago I suggested putting a United States Government tax on stocks that are clearly in the gambling category rather than in an investment category, but everybody in Congress got frightened to death because of the statements and claims made by brokers and stock speculators. And Mr. Untermyer tried the same thing in New York the other day, and the stock exchange proposed to move the whole dad bum caboodle over to New Jersey, and very likely they would have moved over to New Jersey, but they bluffed him out of his position, and he recanted, and there you are. But if they had done it here in Congress they would not have had anywhere to move.

The CHAIRMAN. They might have gone to Canada, they say.

Senator GLASS. Well, I would rather they would be in Canada than ruining all of us in this period of distress that we have had, and that is what brought it on. And if Canada wants to be ruined, why, that will be Canada's affair.

Mr. PECORA. As I recall the testimony before this committee last year the officials of the New York Stock Exchange disclaimed that

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responsibility, disclaimed any responsibility on the part of the exchange for gambling operations. I fully agree, Senator Glass, with your views in respect to that. And in that connection I recall testimony given here last June by Mr. Taplin, who stated, as I remember it, that in his opinion not one investor in a thousand knew anything at all about the security that he traded in.

The CHAIRMAN. Those are really not investment trades, but speculation and gambling.

Senator GLASS. Well, gentlemen, I am tired of making this hearing interesting. I have to go to see a doctor.

The CHAIRMAN. We are sorry to see you go, Senator Glass.

Mr. PECORA. Mr. Christie, shortly after the completion of the operation of this first account that was managed by Dominick & Dominick, a second option agreement was entered into with Dominick & Dominick by you and your associates, was there not?

Mr. CHRISTIE. Yes; that is right.

Mr. PECORA. And this second option agreement was dated June 22, 1929, wasn't it?

Mr. CHRISTIE. Well, I would have to see.

Mr. PECORA. I show you what purports to be a photostatic copy of a letter addressed to Messrs. Dillon, Read & Co. under date of June 22, 1929, signed by Dominick & Dominick, and I ask you if you recognize that as being a true and correct copy of a letter addressed to Dillon, Read & Co., by Dominick & Dominick on that date.

Mr. CHRISTIE (after examining photostat). On June 22, 1929; yes.

Mr. PECORA. I offer that letter in evidence and ask that it be spread on the record of our hearings.

The CHAIRMAN. It will be received and made a part of the record by the committee reporter.

(A photostat of a letter dated June 22, 1929, addressed to Dillon, Read & Co., and signed by Dominick & Dominick was marked "Committee Exhibit No. 10, Oct. 4, 1933", and will be found where read by committee counsel during the afternoon's hearing. (See p. 1675.)

Mr. PECORA. Now, Mr. Christie, before I go into the details of the account carried under this second option agreement, let me ask you how much in the aggregate you and your associates received from Dominick & Dominick for the 25,000 shares of stock that you delivered to them under the terms of this first option agreement, dated December 20, 1928.

Mr. CHRISTIE. I will have to look that figure up for you.

Mr. PECORA. All right.

The CHAIRMAN. While Mr. Christie is looking up that data, Mr. Dillon, may I ask your judgment as to what proportion of a stock ought to be offered to the public over and above what is controlled by some one concern before it is listed on a stock exchange? What would be your estimate about that?

Mr. DILLON. I think the New York Stock Exchange have a definite and adequate ruling on that, but I am not familiar with just what the proportions are.

THE CHAIRMAN. I was trying to get your judgment about that matter. For instance, it does not seem to me that the New York

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Stock Exchange ought to list this stock at all when only 25 percent is held by the public and 75 percent by one interest. I do not know what their rule is, but I was seeking to get your idea about a percentage that would be reasonable and fair.

Mr. DILLON. I think there is general distribution. I do not know as they have that much, but I can find what the rule is and will be glad to give you my opinion of their rule.

The CHAIRMAN. Very well.

Mr. CHRISTIE. Mr. Pecora, I seem to be delayed in order to get the exact amount, but the average price of that 25,000 shares was about 49. That would make it about $1,225,000 as the proceeds of the 25,000 shares.

Mr. PECORA. Now, the exact figure which I have and which we have compiled from your own records is $1,229,125. That would seem to be right, wouldn't it?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. And you are willing to accept that figure subject to any correction that you may see fit to make subsequently?

Mr. CHRISTIE. Right.

Mr. PECORA. That is, 25,000 shares that were sold by you and your associates for an aggregate of $1,229,125 came out of the block of 500,000 shares, and hence cost your associates upon their original acquisition of these shares at the rate of 20 cents a share the aggregate sum of $5,000, didn't they?

Mr. CHRISTIE. It cost my associates originally 20 cents, as you say. It cost some of us, as I told you this morning, in my own case, $10 a share.

Mr. PECORA. Now, we will proceed to a consideration of the second account under this option agreement of June 22, 1929, which has been marked in evidence as exhibit 10. Prior to the making of this option agreement of June 22, 1929, I assume there were further conversations between Dominick & Dominick or their representatives with you and your associates with respect to the subject matter of this option agreement?

Mr. CHRISTIE. Yes, sir; that is right.

Mr. PECORA. What was the general substance of those conversations, please?

Mr. CHRISTIE. As I recall it, the first account that had options granted to the extent of 50,000 they had——

Mr. DILLON. Forty.

Mr. CHRISTIE. Forty thousand I think was the maximum amount at any one time, but there were some overlapping options. At any rate, the maximum was 40,000 and they exercised 25,000. So there were conversations about the options as they came due or were renewed or changed, and the options on 15,000 shares expired, and then there were preliminary conversations about the letter which is exhibit 10.

Mr. PECORA. Well, is that all they said?

Mr. CHRISTIE. This was a different account, in that Dillon, Read & Co. had a participation, a 25-percent interest in this account.

Mr. PECORA. In the course of the conversations that immediately preceded and led up to this option agreement of June 22, 1929, were any references made to the listing of this stock on the New York Stock Exchange?

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Mr. CHRISTIE. That I don't remember. There may well have been, but I don't remember it.

Mr. PECORA. Do you recall when the common shares of the United States & Foreign Securities Corporation were listed on the New York Stock Exchange?

Mr. CHRISTIE. Early in July 1929.

Mr. PECORA. July 5, 1929, wasn't it?

Mr. CHRISTIE. One of my associates says July 5 and the other one says July 9. July 5.

Mr. PECORA. July 5, 1929. Was anything said in the conversations that preceded the making of this option agreement of June 22, 1929, about having this stock listed on the New York Stock Exchange?

Mr. CHRISTIE. There may well have been, Mr. Pecora, but I do not believe the conversations were had with me. I have no recollection of them. They might have been with one of my associates.

Mr. PECORA. What prompted the United States & Foreign Securities Corporation to list its stock on July 5, 1929, on the New York Stock Exchange?

Mr. CHRISTIE. I do not believe I can answer that question. I don't know.

Mr. PECORA. Who made the application for the listing?

Mr. CHRISTIE. I suppose that the company did. Who for the company I do not know.

Mr. PECORA. Who attended to the formalities of it? Who actually attended to the formalities of it?

Mr. CHRISTIE. I think I could tell that by referring to the application for listing or asking the company to refer to the listing application, that might show that. I do not know.

Mr. PECORA. Who made the compilation of the statistical data that was required by the New York Stock Exchange be inserted in the listing application?

Mr. CHRISTIE. That I don't know.

Mr. PECORA. Wasn't it done in the office of Dillon, Read & Co., Mr. Christie?

Mr. CHRISTIE. That I don't know. The company did it.

Mr. PECORA. Do you know who would know that? Now, you were an officer of the investment trust. You were also an associate of Dillon, Read & Co. Can't you tell us?

Mr. CHRISTIE. I don't think I was an officer of the company on this date. I might have been. I had been.

Mr. PECORA. You had been prior thereto one of its executive officers?

Mr. CHRISTIE. I had been; yes. I could find out, I should think, who made that application blank up if you would like to have that information here.

Mr. PECORA. We know that the application must have been made in the name of the United States & Foreign Securities Corporation.

Mr. CHRISTIE. That is right.

Mr. PECORA. Because the rules of the stock exchange required the application to be made by the corporation seeking to list its securities on that board?

Mr. CHRISTIE. Right.

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Mr. PECORA. Now, who were the individuals, or from whose personnel did they come, who actually obtained and supplied to the New York Stock Exchange the statistical information required to be set forth in the application for listing?

Mr. CHRISTIE. Well, the United States & Foreign Securities Corporation, and their accountants, I think, were Price, Waterhouse & Co.

Senator ADAMS. Mr. Christie, did the United States & Foreign Securities Corporation maintain an independent office of its own, or were its affairs looked after on the part of the offices of Dillon, Read & Co.?

Mr. CHRISTIE. At that time I think it had an independent office at Newark.

Mr. PECORA. That was just a formal office, wasn't it?

Mr. CHRISTIE. Books and records were kept there.

Mr. PECORA. But the active operations of the company did not proceed from the Newark office, did they? The board meetings were held there for technical purposes, weren't they?

Mr. CHRISTIE. I think that you will find from the dates that I gave this morning that I was not officially connected with [addressing associates] was I? I didn't think that I was an officer of the security company at that time. I didn't take any part in preparing those listing applications.

Mr. PECORA. Will you be good enough to confer with your associates now and then inform us one of them among those present who is better qualified to answer the questions along this line that I am now addressing to you?

Mr. CHRISTIE. Regarding the listing application of the stock on the stock exchange?

Mr. PECORA. Yes.

Mr. CHRISTIE (after conferring with associates). Mr. Pecora, the listing application was apparently prepared by the firm of Root, Clark, Buckner & Howland.

Mr. PECORA. That is a firm of attorneys, isn't it?

Mr. CHRISTIE. For the United States & Foreign, and Price, Waterhouse & Co. prepared the financial statement and audit of the books, so the counsel for the company tells me.

Mr. PECORA. Who furnished the statistical information or the data from which the information was gathered and compiled by Price-Waterhouse & Co. do you know?

Mr. CHRISTIE. Counsel for the company say that the books were furnished by Price, Waterhouse & Co. and that they compiled all the information to fulfill the requirements from the records of the company.

Mr. PECORA. Can you give us the reasons for causing this to be listed on the New York Stock Exchange at this time?

Mr. CHRISTIE. No; I could not do that, Mr. Pecora.

Mr. PECORA. The listing application, a copy of which I have before me, recites among other things that at that time you were vice president of the United States & Foreign Securities Corporation.

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. That does not conflict with your recollection, does it?

Mr. CHRISTIE. No, sir.

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Mr. PECORA. Well now, in view of the fact that you were vice president, do you recall any discussion by the officers or board of the United States & Foreign Securities Corporation at which there was considered the question of listing its stock on the New York Stock Exchange?

Mr. CHRISTIE. No; I do not.

Mr. PECORA. Do you recall ever participating in any such discussion?

Mr. CHRISTIE. No, sir. (Conferring with associates.) I am advised that there was a directors' meeting at which listing was taken up and approved.

Mr. PECORA. Can you tell the committee what advantages, if any, accrued to the corporation from having its securities listed on the New York Stock Exchange?

Mr. CHRISTIE. Well, I think that it naturally gives a broader market to list it on the New York Stock Exchange. This also, I think, was one of the first investment trusts that were admitted to the New York Stock Exchange. I think that it was one of the first investment trusts to be listed on the stock exchange, and there was a certain amount of distinction to have the listing committee go over all that and pass on it and have it listed. That and the broader market are the only things that occur to me at the moment.

Mr. PECORA. As a matter of fact, the open market operations in the stock of this company while it was listed on the stock exchange were not of any large volume outside of the volume that evidenced itself during the operation of this first account by Dominick & Dominick?

Mr. CHRISTIE. Your figures of the volume on the New York Curb Exchange for the 5 or 6 months preceding this showed a substantial trading in substantially all of it.

Mr. PECORA. Forty-eight percent of which Dominick & Dominick were responsible for, weren't they?

Mr. CHRISTIE. That is right, according to your figures, which I have accepted, with the exception that I have no knowledge of my own of the Dominick volume.

Mr. PECORA. Now, when this second option agreement was entered into were you informed by Dominick & Dominick who the participants were in the account referred to in this second option agreement?

Mr. CHRISTIE. I do not believe so, except that we were to have 25 percent interest. Who the other participants were I do not recall.

Mr. PECORA. To that extent this second option agreement differed from the first option agreement, didn't it?

Mr. CHRISTIE. That is right.

Mr. PECORA. That under the second option agreement you and your associates who were to supply 20,000 shares to Dominick & Dominick under the terms of this second option agreement were to have a participation of 25 percent in the profits of the account if any accrued?

Mr. CHRISTIE. The participation of the 25 percent was taken as a firm and the individuals that granted the option were the same group of individuals that supplied stock in the first account.

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Mr. PECORA. I want to read for the information of the committee the text of the second option agreement, on the letterhead of—

DOMINICK & DOMINICK,
115 Broadway, New York, June 22, 1929.

UNITED STATES & FOREIGN SECURITIES CORPORATION

COMMON STOCK (NO PAR VALUE)—TRADING ACCOUNT

Messrs. DILLON, READ & Co.,
Nassau and Cedar Streets, New York City.

DEAR SIRS: We are forming an account on the basis of twenty thousand (20,000) shares for the purpose of dealing in common stock of United States & Foreign Securities Corporation (a Maryland corporation). We shall be the managers of the account with full discretionary powers as such and shall participate in it.

As managers, we have obtained, for and on behalf of the account, options to purchase all or any part of nineteen thousand one hundred and ninety-eight (19,198) shares of said common stock of the United States & Foreign Securities Corporation at $52 a share, such option to continue in full force and effect for a period of 60 days from this date.

The account will terminate at the close of business August 21, 1929, but we as managers reserve the right to extend it for a period of 60 days or to terminate it at any earlier date in our discretion.

As managers, we shall have the sole management and entire conduct of the business and affairs of the account, with all the usual powers, including the right on behalf of the account to make or procure loans and to pledge the obligations of the account participants therefor, to pay all commissions and expenses of every nature, and for the account to purchase, sell, sell short, repurchase, resell, or hold shares of the common stock of the United States & Foreign Securities Corporation, to such an amount, at such prices and in such manner as we may deem advisable, and generally to act in all respects as in our opinion may be to the best interests of the account; provided only that the account shall at no time be short or own or be committed for an amount of stock in excess of twenty thousand (20,000) shares.

Notwithstanding our relations as managers, we shall enjoy as participants in this account—

I like the use of the verb "enjoy."

all the rights and benefits and be subject to all the liabilities hereby respectively granted to and imposed upon other participants. We shall in no way be liable for any error of judgment or mistake of law or fact, or failure of any party contracting with us to live up to his agreement, nor shall we be liable except for our own failure to exercise good faith. The failure of any participant to adhere to the terms of this agreement shall in no respect relieve the other participants from their account obligations. It is understood that this agreement shall bind and benefit the several parties and their respective heirs, executors, administrators and assigns.

At our option as managers, each participant shall take up and pay for in full, or margin to our satisfaction his pro rata share of stock held by the account and shall meet his other account obligations, if any, upon call by us. Stock so taken up during the life of the account shall be for carrying purposes only and shall be subject to call by the account managers at any time. No partnership relations shall arise herefrom.

At the expiration of the account, we as managers shall distribute the stock and/or cash remaining in our hands among the participants pro rata in the proportion which the number of shares of their respective participations bears to twenty thousand (20,000) shares. The participants shall share pro rata in the said shares and in the profits or losses of the account after allowing for all expenses incurred by the managers, and the apportionment and distribution of the said shares, profits or losses, shall be conclusive upon the participants.

As compensation for our services in forming and managing this account, we shall receive a sum equivalent to 10% of the net profit. We shall also receive the usual commissions on purchases and sales of stock made for the account.

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In accordance with the understanding between us, we have reserved for you in this account a participation of 5,000 shares, or 25%.

Please confirm your acceptance of this participation by signing and returning to us the enclosed duplicate of this letter.

Very truly yours,

DOMINICK & DOMINICK,
Managers.

Confirmed and accepted:
DILLON, READ & Co.

Mr. PECORA. I noticed, Mr. Christie, you were following me while I was reading this exhibit. I presume I read it correctly?

Mr. CHRISTIE. Yes.

Mr. PECORA. Did you follow me by means of another photostatic copy of this exhibit?

Mr. CHRISTIE. Yes.

Mr. PECORA. Do you recognize the handwriting of the signature reading "Dillon, Read & Co." at the lower left-hand corner of this letter?

Mr. CHRISTIE. That letter was signed by Mr. R. M. Shedden.

Mr. PECORA. Who?

Mr. CHRISTIE. Mr. R. M. Shedden, who has the power to sign.

Mr. PECORA. R. M. Shedden?

Mr. CHRISTIE. Yes.

Mr. PECORA. Is he a member of the firm of Dillon, Read & Co.?

Mr. CHRISTIE. No; but he has the power to sign.

Mr. PECORA. Was this agreement actually entered into as a firm transaction and obligation by the legal entity known as Dillon, Read & Co.?

Mr. CHRISTIE. Yes.

Mr. PECORA. Why did Dillon, Read & Co. as a legal entity go into the second operation or option agreement when it was unwilling to go into the first one as a legal entity?

Mr. CHRISTIE. Well, the extent of their interest in this was the 25 percent interest in the account which they went into with the hope of making a profit. The 19,198 shares—I think it is—that the account as a whole got options on, is still the stock of those same individuals that sold the 25,000 shares in the first account.

Mr. PECORA. That is, the 19,198 shares referred to in this option agreement were likewise shares owned by the various individuals who went into the first option agreement?

Mr. CHRISTIE. That is correct.

Mr. PECORA. None of the shares in the name of the legal entity known as Dillon, Read & Co. went into this second option agreement?

Mr. CHRISTIE. None. That letter, as I read it, is not the option agreement. You see, that is confirming really the formation of the account and confirming the 25 percent interest in the account. There is another letter that covers the option on the 19,198 shares.

Mr. PECORA. Have you got a copy of that letter?

Mr. CHRISTIE. I have a copy of it here if you like to have it.

Mr. PECORA. Will you kindly produce it?

Mr. CHRISTIE. This seems to be a very poor photostat. It is a photostat of a carbon. The type was not very clear.

Mr. PECORA. What is that?

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Mr. CHRISTIE. I say it is a hard copy to read. It is a photostat of a carbon copy, apparently made on a typewriter on which the type was not very sharp.

Mr. PECORA. Mr. Christie, I show you what purports to be the photostatic copy of a letter addressed to Messrs. Dillon, Read & Co. by Dominick & Dominick, under date of June 22, 1929. Will you please look at it and then tell us if you can identify it as a true and correct copy of such a letter, and then tell us whether that letter constitutes the so-called "option" agreement that you have just referred to?

Mr. CHRISTIE. Yes; that is right.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. It may be admitted in evidence as Committee Exhibit No. 11 and spread on the record.

(Photostatic copy of letter from Dominick & Dominick to Dillon, Read & Co., dated June 22, 1929, was received in evidence and marked "Committee Exhibit 11 of October 4, 1933.")

Mr. PECORA. It is on the letterhead of Dominick & Dominick, and reads as follows:

NEW YORK, *June 22, 1929.*

UNITED STATES AND FOREIGN SECURITIES CORPORATION COMMON STOCK (NO PAR VALUE)

MESSRS. DILLON, READ & CO.,
28 Nassau Street, New York City.

DEAR SIRS: We wish to confirm that, in consideration of the formation by us of an account, of which we shall be the Managers with full discretionary powers, and in which we may participate, you hereby extend to us, for and on behalf of such account, an option to purchase from you all or any part of nineteen thousand one hundred and ninety-eight (19,198) shares of common stock of United States and Foreign Securities Corporation at $52 a share, said option to remain in full force and effect for a period of 60 days from this date.

During the existence of this option agreement, you agree to loan us, at our call, from time to time all or any part of 19,198 shares of stock at the then prevailing market price.

Stock called or borrowed by us shall be deliverable upon one day's notice against payment of the amount due.

Please confirm that the above is in accordance with the understanding between us by signing and returning to us the duplicate of this letter.

Very truly yours,

DOMINICK & DOMINICK.

Confirmed and agreed to:
DILLON, READ & CO.

Mr. PECORA. Now, from the two documents that have last been offered in evidence, namely, committee exhibits 10 and 11, would you say that the account referred to in these two exhibits was a pool account or a basis for a pool operation?

Mr. CHRISTIE. Both accounts were similar. I would not say that they did not form the basis of a pool nor would I say that they clearly were a pool. I mean that a "pool" is so vague—the term—that I hesitate to make any definite statement about it.

Mr. PECORA. I notice that in connection with the documentary evidence relating to the first option agreement the option agreement

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gave Dominick & Dominick the right to borrow from you and your associates up to 20,000 shares, although the agreement gave them the right to buy from you at the prices fixed in the agreement 30,000 shares. But I notice in this exhibit no. 11 that Dominick & Dominick are given the right to borrow the full amount of the shares that you had agreed on the same day to deliver to them at $52 a share, namely, 19,198 shares. What was the reason for that Mr. Christie?

Mr. CHRISTIE. Well, I thought that the first option that started off with their right to borrow 20,000 shares out of the 30,000 was later amended so that they could borrow the entire amount of the 30,000 shares.

Mr. PECORA. Well, from that circumstance would you say that it was evidence of the fact that Dominick & Dominick in the operation of this account, either the first or the second one, were merely going to conduct trading operations that might not necessarily involve actual delivery of the sales?

Mr. CHRISTIE. Oh, well, any sales that they made they would have to make delivery of. They were undoubtedly going to use the borrowed stock to make delivery on sales that they made whether they were what you call trading sales or any other kind of sales.

Mr. PECORA. I notice in the exhibit marked "Exhibit No. 10" which relates to this second option agreement, Dominick & Dominick as managers of the account referred to therein are specifically given the right, among other things, on behalf of the account to purchase sell, sell short, shares of the common stock of this investment trust. Was a similar right given to them in the first account?

Mr. CHRISTIE. I do not remember that language in the first account. However, the reason for that would be that we were not participants in the first account so that we did not receive a letter corresponding to that letter. That is a general trading account letter that gives the managers very broad powers and relieves them of a lot of liability, and defines how much your participation is and how much profit they are going to take as managers of the account. And any other general terms provided in the account.

Mr. PECORA. Well, in the light of the provisions embodied in the agreements with respect to the second account—and I am referring now particularly to exhibit no. 10—would you say that the trading account to be conducted by Dominick & Dominick as managers, was of the character that would stamp the transactions and the operation of such trading account as gambling transactions, using that term as Senator Glass used it a few minutes ago?

Mr. CHRISTIE. Senator Glass said a good deal about that. I though that the exhibit was no. 11. Is that not the number of it? The trading account?

Mr. PECORA. Exhibit no. 10.

Mr. CHRISTIE. But the one that confirms our participation in the account.

Mr. PECORA. And establishes and fixes the rights, duties and privileges of Dominick & Dominick as managers of the account, and the powers that they may exercise thereunder as such managers.

Mr. CHRISTIE. And gives the managers the power to make any kind of a transaction that they want to.

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Mr. PECORA. Yes; whether to buy or to sell or to sell short.

Mr. CHRISTIE. Yes, sir. Broad trading——

Mr. PECORA. Broad trading privileges, were they not, including the conduct of transactions that might be characterized as gambling transactions, as distinguished from investments?

Mr. CHRISTIE. I suppose so.

Mr. PECORA. Is that a fair inference?

Mr. CHRISTIE. I suppose so.

Senator COUZENS. Would you consider those operations as constructive?

Mr. CHRISTIE. The history of this transaction, Senator, was that this house and the other houses associated with it were going to distribute this stock to their clients. They claimed to have made a thorough study of investment trusts, and they thought that they could sell this stock to their clients, make some money themselves by doing it, and they thought that the stock, in view of all the conditions, was cheap and that they might make some money for their customers.

Senator COUZENS. Well, is that a constructive operation for a concern that is engaged in the investment trust business to diversify the investments of small investors and protect their interests? Would you call that a constructive job for a trustee such as you were, under the circumstances?

Mr. CHRISTIE. Well, the trust was not involved in this. These sales——

Senator COUZENS. Oh, no. I do not like that quibbling about the trust.

Mr. CHRISTIE. I do not mean to quibble with you, sir. But I thought you were out when this started. These were sales that were made by a group of 10 or 11 individuals of a part of their stock, some of whom had acquired it in 1927, and it was their own stock that they were selling this way. It was not stock offered or new stock offered by the trust, nor was it the firm stock of Dillon, Read & Co.

Senator COUZENS. No; but the same group of men was charged with the very great responsibility of handling millions and millions of the public's money and to invite small investors who were not able to make their own investments or diversify their securities. You were engaged in a speculative short selling operation, which hardly seems the ethical thing for trustees to do.

Mr. CHRISTIE. Well, we were participants in this account and had the power to do all these things that you say.

Senator COUZENS. And yet you were trustees for millions and millions of the public's money.

Mr. CHRISTIE. But I do think you should note the distinction between this stock that belonged to these individuals who had bought it some time ago and were free to do as they pleased with it. It was not stock that was held together as a trust.

Senator COUZENS. Yes; and yet you went on and did not pay any dividends on this stock at any time. You did not pay any dividends then and have not paid any dividends since, as I understand it?

Mr. CHRISTIE. On the common stock?

Senator COUZENS. Yes.

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Mr. CHRISTIE. No. It was the policy of the company only to pay dividends on the common stock if the earnings from the capital invested was sufficient to pay the dividends on the first and second preferred, and if anything was left over, and that had not been true.

Senator COUZENS. Well, you had that inside information. You knew that you had accumulated $10,000,000 out of this undertaking and then went and invested it in a second-class security in another investment trust, and all this time you were posing to the public as good trustees for some $90,000,000 of their money. What I am trying to bring out is whether that was what you men from Wall Street think is good ethics.

Mr. CHRISTIE. Well, that $10,000,000 in the second trust—the United States & International Investment Corporation—I think had been put in slightly before this stock was sold. Had it not [addressing his associates]?

Mr. PECORA. The Senator's question was not directed specifically to that phase of it. As I understand it, it was directed to getting from you your opinion as to whether or not in view of the trusteeship that you occupied toward the shareholders of the common stock of the investment trust you think it was ethical to participate in this trading account, which included short selling?

Mr. CHRISTIE. Well, I do not think that the participation in the trading account had any effect on the handling of the funds of the trust.

Mr. PECORA. Was it not calculated to have an effect on the public market quotations for the common stock of the investment trust?

Mr. CHRISTIE. Not to put it down. It was contemplated to distribute that stock, have more stockholders, and this firm of Dominick & Dominick, and probably people associated with them, had a great many clients, and they thought that they were bringing to the attention of those clients a good investment when they offered this stock to them.

Mr. PECORA. Who were the clients that Dominick & Dominick were seeking to serve in this account? Do you know who they were?

Mr. CHRISTIE. No; I do not. I know that they did have a big clientele. Their primary interest was to run this account and make some money, of course.

Senator COUZENS. You admitted a while ago that it was not the policy of the company to pay dividends on the common stock, and yet you are unloading on the public the common stock at prices which you hope eventually to still raise, knowing all of the time from the inside as operators of this trust that it was not the policy to pay any dividends. I do not care much about those legal ethics that you lawyers keep talking about. I am talking about the general public, which has a right, it seems to me, to rely upon men of integrity to protect their trust and not to engage in these operations.

Mr. CHRISTIE. Well, this company had a policy of making available to its stockholders very complete information. That was available to the stockholders. There was no attempt to conceal it.

Senator COUZENS. When you created this pool and this short-selling arrangement, and all other tricks of the trade, you did not tell the public, as I recall the testimony, that you had adopted a policy of not paying any dividend on this common stock.

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Mr. CHRISTIE. No. This operation was conducted by another firm in which, it is true, we participated at this time, and it was in 1929, and the trust was formed in 1924. A part of this common stock had been distributed to some of the individuals as distinct from Dillon, Read & Co. Some of those individuals had that stock. If they withdrew they either still had that stock or they could sell it. But the obligation of the management of that fund was not affected whether I have it or some other person has some of that common stock, as far as I see it.

Senator COUZENS. That is where you and I see differently, because you had inside information as to the policy when you were selling this stock.

Mr. CHRISTIE. I do not believe so.

Senator COUZENS. Well, you said the company had adopted a policy of not paying any dividends on the common stock, and still you were creating a market for it, knowing well there were no contemplated dividends to be paid upon it. That is the kind of thing that I think the public ought to know about.

Mr. CHRISTIE. Most of these people, as far as I know—I feel fairly sure that the people who sold the stock at that time only sold a part of their stock. It was a very limited number of our associates that did it. We did it as individuals and not as a firm.

Senator COUZENS. But still, individuals go to make up the firm. You cannot segregate your responsibility, it seems to me, as a member of the firm and as an individual. You are responsible for the firm's conduct and its reputation. At least, I think the public has a right to assume that, whether you do or not.

The CHAIRMAN. Why didn't you sell all the stock you had? Did Dominick & Dominick want to buy more than these agreements provided for, and were you unwilling to sell any more?

Mr. CHRISTIE. I was unwilling to sell any more, Senator Fletcher.

The CHAIRMAN. What is the process of borrowing stock? I mean, what actually takes place? If Dominick & Dominick would come to you and say, "I want to borrow 20,000 shares of stock", what took place? What did they give you in place of the stock?

Mr. CHRISTIE. When they borrow stock like that they pay whoever lends the stock the market value of the stock at the time they borrow it. In other words, they would give us a check equivalent to the market value of the stock that they borrow at the time they borrow it, and then when they return the stock we give them back an amount equal to that.

The CHAIRMAN. What is the use of their borrowing stock if they have got to give their check for it? They could go out and buy it.

Mr. CHRISTIE. Because they can get their money back when they return the stock; and if they bought it and any change takes place in the market, they might lose.

Senator ADAMS. How much of a charge is made on the lending of stock?

Mr. CHRISTIE. On these transactions there was no charge at all.

Senator COUZENS. What is the ordinary charge?

Mr. CHRISTIE. The charge varies. It is a market that we do not ever take any part in. Sometimes stocks are loaned at a premium. It depends on supply and demand pretty much.

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Senator ADAMS. Regardless of the ethics of the transaction, if one were looking for an investment, you would suggest, for the firm of Dillon, Read & Co., that he had better inquire of those who sold their stock rather than those that held it?

Mr. DILLON. I should say so.

Mr. PECORA. You are a member of the Investment Bankers Association of America, are you not?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. And an officer of it?

Mr. CHRISTIE. I have been a governor of it for 3 years.

Mr. PECORA. And you are slated to be its next president, are you not?

Mr. CHRISTIE. I have been nominated for the next presidency.

Mr. PECORA. By the regular nominating committee of the organization?

Mr. CHRISTIE. By the governors.

Mr. PECORA. The annual election is to be held some time next month, is it not?

Mr. CHRISTIE. At the end of this month or the 1st of November.

Mr. PECORA. And you are the only candidate for the office of president for the ensuing year?

Mr. CHRISTIE. So far I am; yes, sir.

Mr. PECORA. Do you anticipate any independent candidacies?

Mr. CHRISTIE. No.

Mr. PECORA. I take it from the circumstance that this responsible organization of bankers thinks enough of your capacity to make you president of the organization for the coming year that you are not entirely unsophisticated in the ways of Wall Street. That is not a violent assumption, is it?

Mr. CHRISTIE. I think someone else should judge of that.

Mr. PECORA. We recognize your modesty.

When Dominick & Dominick formed this second account giving 25 percent participation therein to your firm and arranged with you and your associates as individual owners of common stock of the investment trust which was to be the subject of market operations of this account, they also arranged, in addition to that, an option through you and your associates to have these 19,198 shares delivered at a definite, fixed price set forth in the option agreement. They were also to have the right to borrow all of that stock from you and your associates for purposes of their market operation, were they not?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. Why was it necessary to give them the right to borrow the stock which they had contracted to buy from you at $52 a share?

Mr. CHRISTIE. Well, those were the terms of their agreement, and the same reasons applied to that as applied to the first account.

Mr. PECORA. In the face of those terms of this agreement, do you still maintain that the primary purpose of Dominick & Dominick was to acquire stock for distribution to their clients, or do you really think that they were operating a pool account to manipulate the prices of the security through the medium of their trade on the stock exchange?

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Mr. CHRISTIE. I think there was no question that their primary object was to trade in the stock to make money.

Mr. PECORA. Apart from the question of distributing the stock to their clients?

Mr. CHRISTIE. I know that they did anticipate, and I assume that they did distribute stock to their clients in addition to whatever trading they did.

Mr. PECORA. If they really wanted to apply 19,198 shares of stock for distribution to their clients, what occasion was there for giving them the right in this agreement to sell short up to the full amount of the 19,198 shares that you and your associates agreed to deliver to them?

Mr. CHRISTIE. I think they had a right to sell short the whole 20,000 shares.

Mr. PECORA. Yes; I know that.

Mr. CHRISTIE. Not limited to the 19,000.

Mr. PECORA. There is such a small difference between the two amounts——

Mr. CHRISTIE. That was the usual provision in a trading account; and in any event, Dominick & Dominick in that letter from them to us—those are the provisions and the things they ask for.

Mr. PECORA. You agreed by affixing the signature of your firm by way of confirmation and assent to their proposal and offer, did you not?

Mr. CHRISTIE. Yes.

Mr. PECORA. So thereby you would make it your contract as well?

Mr. CHRISTIE. We had no objection to accepting that contract on those terms, and thereby we did consent to their provisions.

Mr. PECORA. At the time you agreed to do this you were not only a stockholder in your individual right in this investment trust; you were not only a member of the firm of Dillon, Read & Co. who were the managers of this investment trust, but you were also an officer of the investment trust, were you not?

(Witness confers with associates.)

Mr. PECORA. I will show you the list of July 1929, which recites you as being its vice president.

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. Do you think it was fair or ethical for you, under those circumstances and in view of these relations that you bore to this investment trust, to lend yourself to an agreement with a firm of brokers under which they could, in the exercise of their sole discretion, sell the stock of this corporation short? You agreed to loan them the stock in the event that they needed it to cover those short sales?

Mr. CHRISTIE. This provision for short sales was the usual provision in a trading account.

Mr. PECORA. Whether it was the usual provision or not, the unqualified right was given to Dominick & Dominick as the managers of this account, to sell short, if necessary, in the exercise of their sole discretion, was it not?

Mr. CHRISTIE. Yes. [Conferring with associates.]

Mr. PECORA. May I interrupt just a moment? Mr. Christie, the question that I have asked you calls for your individual judgment

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and opinion. I notice that you have been conferring with your associates. I want to get your individual judgment or opinion on this specific matter.

Mr. CHRISTIE. Yes; I appreciate that.

Mr. PECORA. Uninfluenced by the judgment or opinion of any of your associates.

Mr. DILLON. May I correct you? I was not suggesting the answer.

Mr. PECORA. I was not accusing you, sir. Won't you, Mr. Christie, give me your individual opinion about that?

Mr. CHRISTIE. I am trying to visualize whether or not I did participate, which I do not think I did. I participated individually only to the extent of putting up the stock, the firm had the participation as an identity in the trading account, the terms of which are general; to have power to buy, sell, trade in and sell short, if necessary, and to borrow stock. I do not assume that it was at all contemplated selling the stock short. In any event, the participation account was one thing which Dillon, Read & Co. had, I as an individual only put up part of the 19,198 shares, which was optioned to the account.

Senator COUZENS. May I ask you whether in your new capacity as head of the Investment Bankers Association you will approve of such practices as that among the investment bankers?

Mr. CHRISTIE. I am not head of it.

Senator COUZENS. We assume that you are not going to have any independent candidates, and that you will be. Let us say that you do become head of the Investment Bankers Association; would you as the leader of that association approve of this practice among investment bankers?

Mr. CHRISTIE. You mean, the practice of having a trading account at all?

Senator COUZENS. Selling short, the loaning of stock, and so on.

Mr. CHRISTIE. In the first place, of course, I would very much prefer not to make any campaign or statements before I am elected to that office, because I have not been, as yet; and ordinarily that association acts after consultation with the board of governors, and their opinions are not the opinions of just one individual, but they are carefully considered opinions of a number of gentlemen in the business.

Senator COUZENS. If you were head of it you would be influential, I assume, in the policies of the association?

Mr. CHRISTIE. I hope that when I am head of it neither the association nor I individually will sponsor any policies that you or this committee would consider unethical; and I should prefer not to give——

Senator COUZENS. Assuming that I wanted to take the advice of the Investment Bankers Association which you freely give out to the public and to your investors, I should like to know whether I should take that advice based on the hearings here as to what the policy of the Investment Bankers Association has been or will be.

Mr. CHRISTIE. The Investment Bankers Association is concerned primarily with the purely investment business. We are discussing a trading account and stock listed on the stock exchange. I hardly think it would be a proper subject that would come before the Investment Bankers Association.

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Senator COUZENS. But if the members of the Investment Bankers Association approve of this sort of policy which you have been conducting here as an individual and as a member of Dillon, Read & Co., I perhaps would hesitate to invest my money in anything you recommended if you were going to play with it that way.

The CHAIRMAN. Is the Investment Bankers Association interested very largely in opposing the Securities Act?

Mr. CHRISTIE. In opposing it?

The CHAIRMAN. Yes.

Mr. CHRISTIE. No; I don't think so.

The CHAIRMAN. Have they not been opposing it?

Mr. CHRISTIE. Certainly not.

The CHAIRMAN. Did they not oppose the passage of the act?

Mr. CHRISTIE. They were interested and felt that some of the provisions should have been made different; but I know that they are heartily in accord with the principles of the bill and what is behind it, and certainly we want to see the safeguards that that bill undertakes to set up for the investor——

The CHAIRMAN. Are they trying now to promote amendments to that act?

Mr. CHRISTIE. No.

Mr. PECORA. Mr. Christie, all told, how many shares of common stock of the United States & Foreign Securities Corporation were traded in through the medium of these two accounts that were managed by Dominick & Dominick?

Mr. CHRISTIE. How many did Dominick & Dominick trade in?

Mr. PECORA. Yes.

Mr. CHRISTIE. There, again, I would have to——

Mr. PECORA. Well, how many of the shares traded in by Dominick & Dominick for the purposes of those two accounts came from you and your associates in Dillon, Read & Co.?

Mr. CHRISTIE. That figure I have: 74,198. I spoke of that this morning. Does that agree with your figures?

Mr. PECORA. What was the total consideration that was received by you and your associates for the stock which entered into these two accounts?

Mr. CHRISTIE (after conferring with associates). It was about $4,000,000, Mr. Pecora.

Mr. PECORA. And that was for 74,198 shares?

Mr. CHRISTIE. That is right.

Mr. PECORA. And those 74,198 which were sold by you and your associates through these two accounts for an aggregate of about $4,000,000 were out of a block of 500,000 shares originally acquired by individual members of Dillon, Read & Co. for 20 cents a share, or for a total of less than $15,000, in 1924?

Mr. CHRISTIE. Some of them had changed hands in between 1924 and 1929.

Mr. PECORA. But they had only changed hands among the associates of Dillon, Read & Co.?

Mr. CHRISTIE. Yes; that is right.

Mr. PECORA. During the operation of these two accounts by Dominick & Dominick did you and your associates who were participants

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in those accounts also sell through your own facilities and agencies other shares of this common stock?

Mr. CHRISTIE. Yes; there were some sales.

Mr. PECORA. During the period of time covered by the trading in these two accounts what was the total number of shares of the common stock of the United States & Foreign Securities Corporation which you and your associates disposed of either through the medium of the two accounts or by sales in the open market?

Mr. CHRISTIE. Up to what date would that be, Mr. Pecora?

Mr. PECORA. Well, up to—the first account ran from December 1928 to June 1929. The second account dated from June 22, 1929, and continued for about 2 months.

Mr. CHRISTIE (after conferring with an associate). I am not sure, Mr. Pecora, that our figures coincide exactly with the same dates, but the total——

Mr. PECORA. Approximately what was the total in that approximate period of time?

Mr. CHRISTIE. The total amount that was sold during the period of those two accounts and possibly a few days after—a month or so afterward, perhaps——the grand total of that was about 120,000 shares, which includes these two accounts.

Mr. PECORA. Yes.

Mr. CHRISTIE. So that I think there are about 50,000 shares outside of the Dominick & Dominick account—46,000 and some.

Mr. PECORA. The figures we have compiled from your records would show that during this approximate period of time covered by the life of these two accounts, and perhaps a month in addition to that, you and your associates, who, as individuals, owned some of this common stock for which the corporation originally received 20 cents a share, disposed of 120,552 shares.

Mr. CHRISTIE. That sounds right.

Mr. PECORA. That is about correct, is it?

Mr. CHRISTIE. Yes.

Mr. PECORA. And 74,198 shares of that total were disposed of through the medium of these two accounts operated by Dominick & Dominick; is that correct?

Mr. CHRISTIE. And——

Mr. PECORA. And the balance, or a little less than 50,000 shares, were disposed of by you and your associates in open-market transactions, is that correct?

Mr. CHRISTIE. That is right.

Mr. PECORA. What was the average price received by you and your associates, or, rather, if you can give us the total consideration you received for the sale of the 120,552 shares in this period.

Mr. CHRISTIE. The total consideration was somewhere around $6,000,000. I have the exact figure here.

Mr. PECORA. It is nearer $7,000,000, is it not? Let me give you the exact figure as we have compiled it—$6,843,380.66.

Mr. CHRISTIE. That is right, Mr. Pecora.

Mr. PECORA. That is about right, is it?

Mr. CHRISTIE. The average is around 56.

Mr. PECORA. If my calculations are correct, the 120,552 shares which you and your associates individually sold in this manner dur-

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ing this period of time were sold for an aggregate of $6,843,380.66, and the corporation, this investment trust, received only $24,110.40 for the stock when it issued it in 1924. That is at the rate of 20 cents a share.

Mr. CHRISTIE. May I confer?

Mr. PECORA. Yes. Are my figures correct, Mr. Christie?

Mr. CHRISTIE. Yes. The figures, I think, are right, Mr. Pecora, but, as you have said, I would like to be clear that this group of individuals did not all have a cost of 20 cents a share. Some of them had changed, and had a higher cost.

Mr. PECORA. I said it was stock that originally was issued by the investment trust for 20 cents a share, and the persons to whom it was originally issued were all associates of Dillon, Read & Co. That is correct, is it not?

Mr. CHRISTIE. Yes. At the time that was issued, the stock was worth less than 20 cents a share. That was the nominal price for it.

Mr. PECORA. Are you trying to tell us now that the associates of Dillon, Read & Co. consciously paid more than they thought the stock was worth when they bought it for 20 cents a share?

Mr. CHRISTIE. I have not finished, Mr. Pecora. It was clear that when they did take the stock at a cost of 20 cents, the company, when it started, had no book value for that common stock. There was the $1,000,000 that had come out of the first preferred——

Mr. PECORA. You mean by that that the associates or the members of Dillon, Read & Co. in 1924, when they bought these 500,000 shares of this common stock for $100,000, or 20 cents a share, had any misgivings as to whether or not they were taking a risk in buying that stock for 20 cents a share?

Mr. CHRISTIE. No; I did not say that, Mr. Pecora. I just wanted to make it clear——

Mr. PECORA. I know you did not say that, but is that the thought you mean to convey to the committee?

Mr. CHRISTIE. No; that is not the thought at all. I wanted to convey that that stock was bought with the second preferred for the $5,100,000, and actually the 20 cents is a mere nominal assigned valuation. Say it cost nothing, if you will, but in August 1929, which is nearly 5 years later, the company had a book value back of that stock of around $48 a share, so that the picture had changed, and this stock that was sold at an average of 56 was quite a different stock in value than it was 5 years earlier.

Mr. PECORA. We know that; but the figures which I embodied in my previous question are correct, to the following effect, that the 120,552 shares which you and some of your associates in Dillon, Read & Co. sold to the public through the medium of these two accounts conducted by Dominick & Dominick, as well as through the medium of individual sales made in the open market for a total consideration of $6,843,380, was stock which cost those associates, or those of them who got the stock upon its original issue in October 1924, the sum of $24,110.40, at the rate of 20 cents a share.

Mr. CHRISTIE. Up until just the very end—where you said that some of those associates paid 20 cents a share, that was correct. Just at the very end of your statement, I think, where you say it cost

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those associates that total amount of 20 cents times that, that is not technically correct, but I gather that what you mean is that that stock goes back to the original stock that had this nominal valuation placed upon it.

The CHAIRMAN. He means an original cost of 20 cents.

Mr. PECORA. Exactly. That is what I said.

Mr. CHRISTIE. Quite right.

Mr. PECORA. The cost when originally issued.

The CHAIRMAN. You paid as high as $10 for some of yours, and sold it at 53.

Mr. CHRISTIE. That is right. I paid $10 for all of mine, Senator.

Mr. PECORA. All these sales were made after the stock was listed on the New York Curb Exchange, were they not?

Mr. CHRISTIE. Yes; that is right.

Mr. PECORA. The stock was not listed on the New York Curb Exchange until sometime in February 1928. Does that accord with your recollection?

Mr. CHRISTIE. May I check that date?

Mr. PECORA. Yes.

Mr. CHRISTIE. I think it was quite a little while before the account was formed.

Mr. PECORA. The specific date being, as I have it, February 8, 1928.

Mr. CHRISTIE. I think that is correct.

Mr. PECORA. I think, Mr. Chairman, we might take a recess now until tomorrow.

The CHAIRMAN. The committee will take a recess now until 10 o'clock tomorrow morning. We will continue the session tomorrow until 1:30 tomorrow afternoon. We will not have any afternoon session.

(Thereupon, at 4:10 p.m., Wednesday, October 4, 1933, the subcommittee adjourned until 10 o'clock the following morning.)

COMMITTEE EXHIBIT No. 9, OCTOBER 4, 1933

UNITED STATES AND FOREIGN SECURITIES CORPORATION COMMON STOCK (NO PAR VALUE)

DOMINICK & DOMINICK,
115 Broadway, New York, December 20, 1928.

Messrs. DILLON, READ & Co.,
28 Nassau Street, New York City.

DEAR SIRS: We wish to confirm that, in consideration of the formation by us of an account, of which we shall be the managers with full discretionary powers, you hereby extend to us for and on behalf of such account, options to purchase from you an aggregate of thirty thousand (30,000) shares of United States and Foreign Securities Corporation Common stock at prices and under conditions as follows:

You will sell to us at any time or times, prior to the close of business February 20, 1929, all or any part of ten thousand (10,000) shares of the above stock at $47.50 a share in such amounts and at such times as we may call it;

Provided we exercise our right as managers to purchase all of the stock optioned to us at $47.50 a share, you will thereupon immediately extend us the right to purchase from you, all or any part of ten thousand (10,000) shares additional of such stock at $50.00 a share, in such amounts and at such times as we may call it, within a period of 2 months from the date of the completion of our call of the entire amount of stock optioned us at $47.50 a share.

Provided we exercise our right as managers to purchase all of the stock optioned to us at $50.00 a share, you will thereupon immediately extend us the

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right to purchase from you, all or any part of ten thousand (10,000) shares additional of such stock at $55.00 a share, in such amounts and at such times as we may call it, within a period of 2 months from the date of the completion of our call of the entire amount of stock optioned us at $50.00 a share.

During the period in which these options exist, you agree to loan us at our call, all or any part of twenty thousand (20,000) shares of stock at the then prevailing market price.

Stock borrowed or called by us shall be deliverable upon 1 day's notice against payment of the amount due.

It is understood that until all of these options have either been exercised or have lapsed, you have the right to place stock privately but that you will exercise your best efforts to prevent such stock from coming into the market. If it should be necessary, however, for you to dispose of stock in the market, you agree to give us 5 days' notice before doing so.

If the above is in accordance with your understanding, please so confirm by signing and returning to us the duplicate of this letter.

Very truly yours,

DOMINICK & DOMINICK.

Confirmed and agreed to:
DILLON, READ & Co.

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STOCK EXCHANGE PRACTICES

THURSDAY, OCTOBER 5, 1933

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

The subcommittee met, pursuant to adjournment on yesterday, at 10 a.m. in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Norbeck, and Goldsborough (substitute for Townsend).

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; George S. Franklin, Wallace P. Zachry, Warren Leslie, Walter G. Dunnington, Clifton Murphy, John T. Cahill, and Bernhard Knollenberg, counsel for Dillon, Read & Co.; Root, Clark, Buckner & Ballantine, George H. Murphy of counsel, counsel for United States & Foreign Securities Corporation.

The CHAIRMAN. The subcommittee will come to order. You may proceed, Mr. Pecora.

Mr. PECORA. Mr. Christie, will you resume the stand?

TESTIMONY OF ROBERT E. CHRISTIE, JR., A MEMBER OF THE FIRM OF DILLON, READ & CO., NEW YORK CITY—Resumed

Mr. PECORA. In the course of your examination yesterday afternoon, Mr. Christie, you probably will recall that you testified, in substance, that between December of 1928 and August or September of 1929, you and certain of your associates in the firm of Dillon, Read & Co., through the medium of two market operations managed by Dominick & Dominick, sold an aggregate of 74,198 shares of the common stock of United States & Foreign Securities Corporation. Do you recall your testimony in that respect?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. You further testified, in substance, that in addition to the sale of those shares of that stock, you and those same associates also sold through other channels than Dominick & Dominick accounts, an aggregate of 46,354 shares of that same common stock. Do you recall your testimony to that effect?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. Now, I want to ask you, Mr. Christie, through what channels you and your associates effected the sales of the 46,354 shares of that common stock.

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Mr. CHRISTIE. That total of forty-six thousand and odd shares was, I believe, all sold through Dillon, Read & Co.

Mr. PECORA. To or through them?

Mr. CHRISTIE. Through them.

Mr. PECORA. Sold through Dillon, Read & Co. as a separate legal entity, or were they sold to Dillon, Read & Co. as a separate legal entity?

Mr. CHRISTIE. I suppose technically they were probably sold to Dillon, Read & Co. and by Dillon, Read & Co. to others.

Mr. PECORA. How were the transactions involving the sale of forty-six thousand and odd shares entered on the books of Dillon, Read & Co.? As a sale through Dillon, Read & Co. or as a sale to Dillon, Read & Co.?

Mr. CHRISTIE. I believe they were entered on this memorandum account that was kept for the group of individuals as going out of that account and into the securities account on the books of Dillon, Read & Co., and from that account to the purchasers.

Mr. PECORA. Do you mean by the term "to purchasers" that they were sold to customers of Dillon, Read & Co.?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. Now, will you please give the subcommittee in concise fashion the general course of that transaction, or of those transactions, that embodied the sale by you and your associates of those forty-six thousand and odd shares?

Mr. CHRISTIE. I believe that those sales took place toward the end or during the period of the second account of Dominick & Dominick that you discussed yesterday.

Mr. PECORA. That is, the account that was formed on June 22, 1929?

Mr. CHRISTIE. Yes; that is right. At that time, as you will recall, there was a great activity in the stock market generally; a demand for stocks, and our organization was receiving a good many requests for United States & Foreign Securities Corporation stock. Our sales——

Mr. PECORA (interposing). Just a moment. Do you attribute the unusual increase in the activity of that common stock in the market to the operations of Dominick & Dominick as managers of the first account?

Mr. CHRISTIE. Well, I shouldn't think that it could be distinguished at that time from the general activity that was present in all securities.

Mr. PECORA. But, Mr. Christie, we have seen from evidence that was presented here on yesterday, the most of which came from you, that during the course of the operation of the first account by Dominick & Dominick, which commenced on or about December 20, 1928, and continued until some time in June of 1929, the total trades in that stock on the public exchange amounted to around 145,000 shares, of which approximately 90 percent went through Dominick & Dominick.

Mr. CHRISTIE. Yes; I recall that, sir.

Mr. PECORA. Do you think that that trading conducted by Dominick & Dominick for that first account was a material factor in

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producing or inducing this increased demand from the public for the common stock of that investment trust?

Mr. CHRISTIE. Well, that no doubt had some effect in creating more interest in the stock.

Mr. PECORA. Yes. Now, will you go ahead and resume your narration of the general routine of the transactions by which you and your associates during the life of those two accounts sold forty-six thousand and odd shares of your stock?

Mr. CHRISTIE. When I stopped I had said that our sales people were receiving a good many requests for the stock, and at that time we had had no stock that we could sell to them, although we were having a good many requests from them for the privilege of confirming stock. I think perhaps they knew that people could buy the stock from other investment houses, that possibly were in this other account, but as to that I do not know. In any event we had those requests and orders coming in, that we had not been filling up to that time, and we just put them on the exchange. For that reason we allowed the balance of those 120,000 shares, which is the forty-six thousand and odd shares referred to, to be confirmed and sold on those orders that we were receiving. And my opinion is that substantially more than the amount that was confirmed could have been sold just on orders that came in at that time. That was all during that period of the great activity in stocks generally.

Mr. PECORA. The firm of Dillon, Read & Co. had no membership on any public exchange, had it?

Mr. CHRISTIE. No.

Mr. PECORA. Nor did any associate or member of the firm have a membership on any stock exchange?

Mr. CHRISTIE. No.

The CHAIRMAN. At what price did you sell these 46,000 shares—average price?

Mr. CHRISTIE. I am not sure I have that readily, but it can be easily figured out [conferring with associates].

Mr. PECORA. Mr. Christie, I do not want to interrupt you——

Mr. CHRISTIE. I think they are trying to figure out that average price.

Mr. PECORA. If you want to finish your conference, all right.

Mr. CHRISTIE. We have not that separately. If your investigators figured it separately, I should be glad to accept their figures.

Mr. PECORA. Mr. Christie, do I understand you correctly to this effect, that during the life of these two accounts operated by Dominick & Dominick the firm of Dillon, Read & Co. received requests from various customers to sell to them shares of the common stock of this investment trust?

Mr. CHRISTIE. That is correct; yes, sir.

Mr. PECORA. And that those requests in the aggregate required the sale and delivery to those customers of Dillon, Read & Co. of shares aggregating 46,354?

Mr. CHRISTIE. That is correct, sir; yes, sir.

Mr. PECORA. As a matter of fact, were not those requests for those shares from the customers of Dillon, Read & Co. for a much larger amount than forty-six thousand and odd shares?

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Mr. CHRISTIE. Yes. I meant to make that clear when I said that I thought we could have confirmed a very much larger amount had it been available, which, I think, answers your question. Orders were in excess of that amount.

Mr. PECORA. Do you know the aggregate amount of shares that were purchased from Dillon, Read & Co. during that time by its own customers? I mean shares of this common stock.

Mr. CHRISTIE. In addition to the 46,000 that might have been?

Mr. PECORA. Yes.

Mr. CHRISTIE. I am not sure about that.

Mr. PECORA. It was something in excess of 11,000 adidtional, was it not?

Mr. CHRISTIE. Yes, sir; that is right.

Mr. PECORA. And from what sources did Dillon, Read & Co. obtain the 11,000 addtional shares that were needed to fill the demands or requests or transactions of its customers?

Mr. CHRISTIE. Those 11,000 shares were purchased from Dominick & Dominick account—the second account of Dominick & Dominick.

Mr. PECORA. Can you tell the committee why that was done instead of having the associates who individually participated in the Dominick & Dominick accounts supply that stock to Dillon, Read & Co., out of their individual holdings?

Mr. CHRISTIE. Yes, I think I can. The 120,000 shares on our memorandum account that we kept for those individuals were really divided into 2 accounts: 1 that covered the 2 Dominick accounts and the other the balance of the stock. Participation by these associates in these two accounts varied. That is, for example, as to some of the individuals, all of the stock they sold went through the Dominick accounts, and the balance went through Dillon-Read, and there were some individuals who decided to sell some of their stock either towards the end of the second Dominick account or after the Dominick account. Which, I am not quite clear. But the reason for taking back 11,000 shares from Dominick & Dominick was that at the time the 11,000 shares were purchased there was not sufficient stock available from these individuals to confirm these sales. Is that clear?

Mr. PECORA. Those individuals owned, among themselves, large blocks of this common stock to an amount greatly exceeding 46,000 or 11,000 shares, did they not?

Mr. CHRISTIE. That is right; but it was not for sale.

Mr. PECORA. Was it held back from the market because of any agreement on the part of these individual owners, either among themselves or with Dominick & Dominick or any other entity?

Mr. CHRISTIE. No. It just was not for sale; that is all.

Mr. PECORA. Why was it not for sale?

Mr. CHRISTIE. They did not want to sell it.

Mr. PECORA. You were one of the participants in that account, were you not?

Mr. CHRISTIE. That is right.

Mr. PECORA. Why did you not want to sell more shares than your holdings?

Mr. CHRISTIE. The amount that I sold was all I wanted to sell, and I have not sold any since. I do not know any other explanation or reason to give you, sir.

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Mr. PECORA. The stock which was furnished to Dillon, Read & Co. as an entity by you and your associates to enable Dillon, Read & Co. to fill the orders they received from their customers was not purchased through open market transactions, was it?

Mr. CHRISTIE. Our stock?

Mr. PECORA. Yes.

Mr. CHRISTIE. It came out of that original stock.

Mr. PECORA. I mean the transaction whereby Dillon, Read & Co. acquired those forty-six thousand odd shares did not go over the exchange?

Mr. CHRISTIE. With the exception, I think, of some small amount, 2,700 shares, or some small block.

Mr. PECORA. But in general they were not negotiated through the exchange?

Mr. CHRISTIE. No.

Mr. PECORA. They were transactions had directly between those individual associates of Dillon, Read & Co. and their firm as an entity?

Mr. CHRISTIE. Yes.

Mr. PECORA. Was there any reason why those sales were not made through the exchange?

Mr. CHRISTIE. Except that the orders came direct to us. We were not members of the exchange, and they were confirmed directly to customers.

Mr. PECORA. Your firm often receives orders from customers for stock which your firm has to go out in the open market to buy, does it not?

Mr. CHRISTIE. That is right.

Mr. PECORA. Was there anything to prevent your firm from filling those orders through purchases which it could have made in the open market?

Mr. CHRISTIE. No.

Mr. PECORA. Do you know why that was not done in this instance?

Mr. CHRISTIE. Because this stock was available for sale directly to customers.

Mr. PECORA. So were the 11,000 shares available if you cared to part with them, were they not?

Mr. CHRISTIE. That is right. The 11,000 shares were a part of the stock that had been optioned to Dominick, and we simply took that back from Dominick.

Mr. PECORA. Was the acquisition of the 46,000 shares which Dillon, Read & Co. made from its individual associates, including yourself, for the purpose of filling orders of their customers, made in the fashion in which you have described, rather than in open market transactions, in order not to interfere with the market activities in the stock, at that time, of Dominick & Dominick?

Mr. CHRISTIE. No, not at all. They were made largely after that account was closed.

Mr. PECORA. Do you know for how many years you served as a member of the board of directors of the United States & Foreign Securities Corporation?

Mr. CHRISTIE. We had those dates yesterday, I believe.

Mr. PECORA. Are you a director of that corporation now?

Mr. CHRISTIE. No, sir.

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Mr. PECORA. How long is it since you ceased being a director?

Mr. CHRISTIE. We are looking that data up, I have forgotten the year.

Mr. PECORA. While your associates look up those dates, let me ask you this. During the time, whether it was a short time or a long time, that you were a director of this investment trust, did you attend with regularity the meetings of its board of directors?

Mr. CHRISTIE. I am sure the minutes would show.

Mr. PECORA. What is your personal recollection about it?

Mr. CHRISTIE. My recollection is that I was a director for only a very short time.

Mr. PECORA. Well, during that period of time did you attend with regularity the meetings of its board of directors?

Mr. CHRISTIE. I think so. I think there were very few meetings.

Mr. PECORA. Did the board hold meetings at regular intervals?

Mr. CHRISTIE. I was a director from March 8, 1925, to July 13, 1925—less than 2 months in the first case; and then I was on the board again from March 2, 1927, to May 10, 1927—another period of about 2 months, Mr. Pecora.

Mr. PECORA. Was it customary for the board to hold meetings at stated intervals or periods?

Mr. CHRISTIE. I don't remember that, sir.

Mr. PECORA. Do you recall attending any meetings of the board of directors?

Mr. CHRISTIE. I remember attending directors' meetings; yes, sir.

Mr. PECORA. I am referring, of course, to this investment trust.

Mr. CHRISTIE. It seems to me that I attended directors' meetings, but this was quite some time ago, and the records will show definitely whether or not they had meetings during that 2 months and whether I attended them.

Mr. PECORA. Upon whose judgment did this investment trust buy securities for its portfolio?

Mr. CHRISTIE. On the judgment of the board of directors.

Mr. PECORA. Do you recall at any meetings of the board of directors that you attended, participating in any discussions which led to a decision respecting the making of investments for the portfolio of the trust?

Mr. CHRISTIE. I am sorry, but I do not specifically remember any meeting during that short time. I would be glad to refer to the records and see if I did attend them or not. I am told I attended one in each period of 2 months.

Mr. PECORA. Do you recall that at either of those meetings you participated in any discussion with your fellow members of the board at which decisions were arrived at respecting investments for the portfolio of the investment trust?

Mr. CHRISTIE. I have no recollection of the meetings at all.

Senator ADAMS. It is barely possible that the record itself would not be conclusive that you were there. Minutes are frequently written up in lawyers' offices reciting attendance, and then they are signed.

Mr. CHRISTIE. No; I hardly think so. They would show, I think, who was present and who was absent.

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Mr. PECORA. Was there any subcommittee of the board of directors vested with special responsibility for determining the investments to be made for the portfolio?

Mr. CHRISTIE. I do not believe so; but that I do not remember.

The CHAIRMAN. Was there any resolution of the board of directors on that subject? It seems to me you could supply that information from your records.

Mr. CHRISTIE. Yes; we could, Senator. I should be glad to look it up.

Mr. PECORA. Were investments for the portfolio of the investment trust frequently made?

Mr. CHRISTIE. There, again, my position on that board for those two short periods——

Mr. PECORA. Perhaps you can tell us that from any knowledge you gained by virtue of your having served for several years as vice president of the investment trust.

Mr. CHRISTIE. Well, your question was: Did they make investments frequently? I should certainly say they did, at times more than others.

Mr. PECORA. Do you know whose judgment dictated the investments that were made, whether you would know it from sitting on the board of directors or from your service as vice president of the company?

Mr. CHRISTIE. Both from my service as an officer of the company and the short time I was on the board, and from the general knowledge and impression that I have of the conduct of the trusts, I should say that the board of directors were the controlling factor in the investments that that company has made.

Mr. PECORA. Where were the meetings of the board of directors of the company held?

Mr. CHRISTIE. They have been held quite frequently at the office of the president, at no. 1 Wall Street, and at times in our office.

Mr. PECORA. Where was the active office of the corporation?

Mr. CHRISTIE. At the present time?

Mr. PECORA. No; during the activities from 1924 to 1929 and 1930.

Mr. CHRISTIE. I think it has been changed several times. There was a time that it was in Chicago, and then later on I think it moved to Newark. Just when that took place I would have to look up, if you wanted the details, or if there were any other changes; but at the present time it is in Newark.

Mr. PECORA. The investments for the portfolio of the investment trust were made from time to time and not at stated periods, were they not?

Mr. CHRISTIE. That is right; yes, sir.

Mr. PECORA. Whenever an investment was made it was not necessary to call together the board of directors for the purpose of having their judgment recorded, was it?

Mr. CHRISTIE. Not always. The executive officers might make purchases, but the transactions were always reported to the next board meeting, and if there were things that needed to be put up to the board for consideration, I believe the custom was to have the board then consider them.

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Mr. PECORA. The general routine was for the executive officers to exercise their judgment with regard to the investments to be made for the account of the portfolio and to report how they exercised that judgment in that respect to the board of directors at following meetings; is that correct?

Mr. CHRISTIE. I would not say that that was generally the method. I thought you asked me if that sometimes was the method. But the records would show.

Mr. PECORA. Can you testify what the method generally followed was?

Mr. CHRISTIE. A combination of both; the executive officers buying between meetings of the board and the board coming to its decisions at its own meetings.

Mr. PECORA. As a vice president or the vice president of this investment trust, during the years you served as such did you recommend to the investment trust any investments, which recommendations were followed?

Mr. CHRISTIE. I might very well have. I do not recall any specific instances.

Mr. PECORA. You would not say that you were one of the executive officers who, in the general routine of his duties, made investments for the account of the portfolio?

Mr. CHRISTIE. No.

Mr. PECORA. Who were the executive officers who ordinarily did that?

Mr. CHRISTIE. Mr. Tracy has been the president, now, for quite a few years.

Mr. PECORA. By mentioning his name in answer to my question do you mean to imply that he was the executive officer who was most active in that respect?

Mr. CHRISTIE. I think so.

Mr. PECORA. Did you say Mr. Tracy's office was at no. 1 Wall Street?

Mr. CHRISTIE. His personal office is at no. 1 Wall Street.

Mr. PECORA. The corporation did not have its offices there, did it?

Mr. CHRISTIE. No.

Mr. PECORA. Am I correct, then, in assuming that Mr. Tracy was engaged in business enterprises of his own, separate and distinct from this investment trust of which he was president?

Mr. CHRISTIE. As far as I know, Mr. Tracy's entire activities have to do with investments not only of this company, but he is interested in one or two other investment funds. I do not know of any other business that he carries on.

Mr. PECORA. What are the other companies in which he is interested? Can you mention one or two of them?

Mr. CHRISTIE. That I would have to ask him. The only one I remember is called, I think, the American & European Securities Co.

Mr. PECORA. How about the Louisiana Land Corporation?

Mr. CHRISTIE. Oh, yes; I think he is at present perhaps president of that.

Mr. PECORA. Do you know anything about that company?

Mr. CHRISTIE. No; I know that there is such a company.

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Mr. PECORA. Do you happen to know that securities of that company were in the portfolio from time to time of this investment trust?

Mr. CHRISTIE. Yes.

Mr. PECORA. Did you as a director or vice president or other officer of this investment trust ever give your approval to the purchase of those securities for the portfolio of the investment trust?

Mr. CHRISTIE. I do not recall that. I would have to look up the record on that, sir.

Mr. PECORA. The witness who preceded you at these hearings before the committee, Mr. Clarence Dillon, was interrogated, as I recall, with respect to the formation of the second investment trust, some time in 1928; the investment trust I refer to being called the United States & International Securities Corporation. Did you hear the testimony given by Mr. Dillon before this committee day before yesterday on that subject?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. He was then asked, among other things, particularly, as I recall it now, by Senator Couzens, what reason there was at that time that Dillon, Read & Co. caused this second investment trust to be organized with a capital of $60,000,000 to engage in the same kind of business as the first investment trust which was still functioning. Do you recall those questions?

Mr. CHRISTIE. Yes.

Mr. PECORA. Can you give any reason, based upon your personal knowledge, for the organization of that second investment trust by United States & Foreign Securities Corporation?

Mr. CHRISTIE. Well, as I remember it, Mr. Tracy, the president of the United States & Foreign Securities Corporation, thought it was a desirable thing to do and that the United States & Foreign Securities Corporation could have further diversification through that second trust; and my principal recollection is that Mr. Tracy and the board thought it was a desirable thing to do.

Mr. PECORA. What reasons did they advance?

Mr. CHRISTIE. That I do not recall. I don't believe I was a director at that time.

Mr. PECORA. The formation of this second investment trust in 1928 was one of the major operations of your firm that year, was it not?

Mr. CHRISTIE. It was one of our issues in that year; that is right.

Mr. PECORA. And a rather important one, was it not?

Mr. CHRISTIE. Yes.

Mr. PECORA. The organization of an investment trust with a capitalization of $60,000,000 is not an everyday happening, even in your firm, is it?

Mr. CHRISTIE. Sixty millions?

Mr. PECORA. Yes.

Mr. CHRISTIE. Sixty millions is right, I am told.

Mr. PECORA. That was not an everyday occurrence, even for your firm, was it?

Mr. CHRISTIE. No; it was not.

Mr. PECORA. Can you recall what reasons were advanced at any conference among the members of the firm of Dillon, Read & Co. which commended to their judgment the organization of this second

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investment trust in 1928 when they knew that the first investment trust which they caused to be organized in 1924 was still actively functioning?

Mr. CHRISTIE. The first investment trust at the time of the organization of the United States & International was making a very splendid record. Its securities were advancing in value and its book value was increasing, but it had 6 percent preferred stock. The United States & International had 5 percent preferred stock available for the second preferred, and that seemed, at the time at least, a safe margin. That excess income would be available for dividends on the second preferred, together with the common that the United States & Foreign had. They thought it was a good investment. That the 5 percent preferred stock, like the 6 percent preferred of the first investment trust, was a good investment to sell and to offer to our clients.

Mr. PECORA. The first investment trust was conducted and operated for the benefit of its stockholders, was it not, primarily?

Mr. CHRISTIE. Yes, sir.

Mr. PECORA. The public subscribed 25 to 30 million dollars with which the first investment trust was launched, did it not?

Mr. CHRISTIE. Yes; and they were stockholders.

Mr. PECORA. Do you know of any reason why those stockholders were not given the benefit of increased activities and operations through the medium of additional capital?

Mr. CHRISTIE. Whatever benefit would come, would come to the first trust and to its common stock by this investment in the second. I do not quite follow you to see what other arrangement or earnings or rights might have been given to stockholders that would have been any more advantageous than this investment in the United States & International.

Mr. PECORA. Under its charter the first investment trust is empowered and authorized to conduct any or all kinds of business which the second investment trust is authorized to conduct?

Mr. CHRISTIE. I believe so.

Mr. PECORA. These two investment trusts were practically operated by the same individuals, were they not?

Mr. CHRISTIE. The directors were different in both companies. I think Mr. Dillon was on both companies, and I think perhaps one other—no; just Mr. Dillon. Otherwise the boards were different.

Mr. PECORA. Did not both companies have the same president?

Mr. CHRISTIE. Mr. Tracy was president and a member of the board.

Mr. PECORA. Were there any directors of the two trusts in common?

Mr. CHRISTIE. I think, just Mr. Tracy and Mr. Dillon, as I recall it.

Mr. PECORA. Were you ever an officer or director of the United States & International Securities Corporation?

Mr. CHRISTIE. May I look that up?

Mr. PECORA. Yes.

Mr. CHRISTIE (after conferring with associates). According to this record Mr. Pecora, I was never a director. I was vice president from October 29, 1928, to December 8, 1930.

Mr. PECORA. I understand that the present directors of the United States & International Securities Corporation are as follows:

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Matthew C. Brush, Clarence Dillon, Charles Hayden, J. H. Hillman, Jr., Dean Mathey, Ernest B. Tracy, and Edward G. Wilmer. Does that accord with your present knowledge, Mr. Christie?

Mr. CHRISTIE. I think that is right.

Mr. PECORA. Who is Matthew C. Brush, if you know?

Mr. CHRISTIE. I think he is president or chairman of the board of American International Co.

Mr. PECORA. He is well known as a big stock-market operator, is he not?

Mr. CHRISTIE. I do not know that. He is a well-known man, though.

Mr. PECORA. You do not know that among his major activities are stock-market operations?

Mr. CHRISTIE. This company of his is an investment company, the American International.

Mr. PECORA. Don't you know that the testimony he gave before this committee on that very subject during the year 1932——

Mr. CHRISTIE. I never read his testimony, sir.

Mr. PECORA. If you will take my assurance for it, the testimony shows his own admission to be that he is quite an operator on the stock market.

Mr. CHRISTIE. All right.

Mr. PECORA. Who is Mr. Charles Hayden, another one of the gentlemen on the board of directors of the United States & International Securities Corporation?

Mr. CHRISTIE. Mr. Charles Hayden is a member of the firm of Hayden, Stone & Co.

Mr. PECORA. Is that a stock-brokerage firm?

Mr. CHRISTIE. A member of the stock exchange and other exchanges; yes, sir.

Mr. PECORA. It is a very active stock-brokerage firm, is it not?

Mr. CHRISTIE. It is one of the large firms.

Mr. PECORA. And in addition to handling a stock-brokerage commission business they are also interested in the issuance of securities, are they not?

Mr. CHRISTIE. They have an investment department or division.

Mr. PECORA. And the investment department or division of their business is a very large department, is it not? It forms a large part of their business?

Mr. CHRISTIE. I have no knowledge of what percentage it is, or even relatively. Whether it is relatively large in their own organization or not, I would not have knowledge. I know from my knowledge of the investment banking business that Hayden, Stone & Co. are substantial dealers in investment securities.

Mr. PECORA. During ordinary business hours you live and breathe in the atmosphere of the financial district of New York City, do you not?

Mr. CHRISTIE. That is right.

Mr. PECORA. Don't you know, from your years of habitation down there, that Hayden, Stone & Co. have a very big and active securities department?

Mr. CHRISTIE. Yes; I know they have had a very fine one for a number of years.

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Mr. PECORA. Mr. Hayden, as a member of this firm of Hayden, Stone & Co., was one of the gentlemen who, by virtue of his being on the board of directors of this second investment trust, was in a position to pass judgment on the investments to be made by that trust for its portfolio, was he not?

Mr. CHRISTIE. That is right.

Mr. PECORA. So was Mr. Brush.

Mr. CHRISTIE. That is right.

Mr. PECORA. As an investment banker, Mr. Christie, do you think that is an ethical practice?

Mr. CHRISTIE. Absolutely. I think Mr. Hayden has very broad knowledge of conditions generally. He serves on a great many boards of directors, and is a very active, well-posted gentleman, and I think that his knowledge and help are really very worth while.

Mr. PECORA. I am not disputing his knowledge; but it is a fact, is it not, that as a member of the firm of Hayden, Stone & Co. he frequently is very much interested in promoting enterprises in which his firm has an active interest?

Mr. CHRISTIE. Yes, he is.

Mr. PECORA. Do you think that a member of the board of directors of an investment trust which invests moneys obtained by it from the investing public should be one who also, apart from his relationship to the investment trust, is interested in the flotation of securities generally?

Mr. CHRISTIE. I think it depends largely on the individual situation. I feel sure, in the first place, that Mr. Hayden's firm would be careful and use their best judgment in anything that they originated; and in the second place I feel sure that Mr. Hayden would not recommend the purchase of a security by an investment trust on whose board of directors he served, just because his own firm had originated the issue or was originating the issue.

Mr. PECORA. Do you recognize the existence of a temptation dangling before a person in that position——

Mr. CHRISTIE. In any event, his judgment would have to be——

Mr. PECORA (continuing). To have the investment trust acquire securities of an enterprise in which he might be interested as a promoter?

Mr. CHRISTIE. In any event, if one director made such a recommendation his judgment would be subject to check by the other directors, who would be capable of considering the suggestion on its own merits, and in their own judgment.

Mr. PECORA. Did you ever hear of any controversies amongst various members of the board of directors of either of these investment trusts with regard to the kind of investments they should make?

Senator ADAMS. Mr. Christie does not remember who sat on the board of directors.

Mr. DILLON. He attended only two meetings.

Mr. CHRISTIE. I was only on the board of directors of the first company for a few months, 5 or 6 years ago.

Senator ADAMS. I was commenting on the fact that the directors apparently do not have a very clear recollection of what took place.

Mr. CHRISTIE. After 4 or 5 years——

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Mr. PECORA. Let us see, Mr. Christie, just what the atmosphere was that surrounded Mr. Hayden. As a director in this investment trust he was charged with the duties and responsibilities of a trustee toward the stockholders of the investment trust, to see that wise and sound investments were made in securities with the moneys of the stockholders poured into the investments.

Mr. CHRISTIE. That is right.

Mr. PECORA. As a member of the firm of Hayden, Stone & Co., which had a large securities department, and which included the business of issuing and selling securities, he was interested in furthering and facilitating the profitable conduct of the business of that firm of Hayden, Stone & Co., was he not?

Mr. CHRISTIE. That is right, yes.

Mr. PECORA. Don't you think that that placed him, at times, under a temptation—I am not suggesting that he yielded to it, but don't you think at times that placed him under a temptation whereby his judgment, as a trustee or director of the investment trust, might unconsciously become warped, and he might be induced to favor the purchase of securities sponsored by his private firm?

Mr. CHRISTIE. I think that that is a question of Mr. Hayden's character.

Mr. PECORA. Apart from his character, apart from the personality involved, I am looking at the elements in the situation.

Mr. CHRISTIE. I really do not see any conflict there, when you consider the man's experience and his ability to consider the problem that he has before him in the light of his obligation and his duty. I appreciate and grant that he has two interests, that of the investment trust and that of his own company.

Senator ADAMS. You would not see any impropriety in Mr. Hayden sitting on the board and recommending the purchase of securities which his firm was issuing?

Mr. CHRISTIE. Not at all.

Senator ADAMS. The courts do not agree with you on that.

Mr. PECORA. I do not think the courts generally agree with a man filling such a dual role.

The CHAIRMAN. Your position is that the board of directors of the investment trust would have to pass upon it; but suppose that the board of directors of that trust were composed of men in a like situation to that of Mr. Hayden. Then they could trade among themselves as to what would be suitable, and what not, to the sacrifice of the interests of the investment trust.

Mr. CHRISTIE. You might very well, I suppose, have a set-up within a board that would work as you suggest, Senator Fletcher. The other point, that Senator Adams brought out, was that I think very often that a man in that position might really know all about some situation, some company, some industry, because of some other position that he might have.

Senator ADAMS. That is one of the objections to it.

Mr. CHRISTIE. It might work either way; but it also has possibilities for good. That is what I meant to say in answer to your question. I do not deny that it might work the other way.

Mr. PECORA. Do you happen to know whether or not, as a matter of fact, the United States & International Securities Corporation did,

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at various times while Mr. Hayden was one of its directors, purchase securities sponsored by his firm or issued by his firm?

Mr. CHRISTIE. I do not know that. I would have to go through their transactions, or have some one check them to find that out. There, again, if your investigators have some particular case, I will be glad to accept their finding.

Mr. PECORA. Who is Mr. J. H. Hillman, Jr., another one of the gentlemen now on the board of directors of the United States & International Securities Corporation?

Mr. CHRISTIE. Mr. J. H. Hillman is in Pittsburgh. I think he has a company of his own, J. H. Hillman & Co.; he is also president of one of the banks there, I think.

Mr. PECORA. Engaged in what kind of business?

Mr. CHRISTIE. The J. H. Hillman Co. is a coal and coke company. The proper name of the company, I am told, is the J. H. Hillman Coal & Coke Co.

Mr. PECORA. Mr. Dean Mathey——

Mr. CHRISTIE. Mr. Hillman is also chairman of the board of the Peoples Trust & Savings Bank in Pittsburgh.

Mr. PECORA. Who? Mr. Hillman?

Mr. CHRISTIE. Mr. J. H. Hillman.

Mr. PECORA. Mr. Dean Mathey, another director of this investment trust at the present time, is one of the partners of Dillon, Read & Co.

Mr CHRISTIE. That is correct.

Mr. PECORA. Mr. Tracy is the same gentleman to whom you referred a little earlier in this hearing. He is the president of this investment trust, as well as president of the first investment trust.

Mr. CHRISTIE. He is the president. Your mentioning Dean Mathey reminds me that we found out that it was Dean Mathey who signed the firm signature four or five years ago that could not be recognized yesterday morning.

Mr. PECORA. On the option agreements given to Dominick & Dominick under date of December 20, 1928?

Mr. CHRISTIE. That is right.

Mr. PECORA. Who is Edward G. Wilmer, who now is a director of the United States & International?

Mr. CHRISTIE. Edward G. Wilmer is retired, not active in business.

Mr. PECORA. Did he have any affiliations at any time with Dillon, Read & Co.?

Mr. CHRISTIE. Yes. He was associated with us for a while. I do not remember for how long a period, but for some time he was associated with us.

Mr. PECORA. Can you tell this committee how the securities purchased by the United States & International Securities Corporation were acquired for its portfolio account? I mean by that, upon whose judgment were those securities purchased.

Mr. CHRISTIE. Exactly similar to the United States & Foreign; the same kind of discussion and operation.

Mr. PECORA. May I ask that we suspend with the examination of this witness at this time, so that we may call Mr. Tracy?

The CHAIRMAN. Mr. Christie, before you leave, did Dillon, Read & Co. retain three fourths of the capital stock of this second trust, as they did in the case of the first trust?

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Mr. CHRISTIE. No. Dillon, Read & Co., Senator Fletcher, had no interest in the second trust at all. The first trust, the United States & Foreign Securities Corporation, had the interest in the second trust, not Dillon, Read & Co.

The CHAIRMAN. The first trust took three fourths of the common stock of the second?

Mr. CHRISTIE. The first trust, the United States & Foreign, put up the $10,000,000 for the second preferred of the United States & International, and got the second preferred and two thirds of the authorized common stock of the United States and International.

Mr. PECORA. Let us get that set up correctly. The first trust was the United States & Foreign Securities Corporation.

Mr. CHRISTIE. That is right.

Mr. PECORA. That was organized with a capital of $30,000,000, which was raised by the sale of $25,000,000 worth of first preferred stock to the public, and the sale to Dillon, Read & Co. of $5,000,000 of second preferred stock. Is that right, Mr. Christie?

Mr. CHRISTIE. The first trust had $25,000,000 first preferred, and the $5,000,000 second preferred, and 1,000,000 common shares.

Mr. PECORA. The first preferred was purchased by the public for $25,000,000, was it not?

Mr. CHRISTIE. In the form of allotment certificates that carried a share of common stock with each share of preferred.

Senator ADAMS. May I ask a question right there? In connection with this allotment, I wish you would check this simple bit of mathematics. With each $100 that was invested in the first preferred went one share of common stock.

Mr. CHRISTIE. That is right. A purchaser could not buy a share of preferred alone. The original stock was issued in the form of allotment certificates, as you say.

Senator ADAMS. But when a man put $100 in the first preferred, he got one share of the common stock.

Mr. CHRISTIE. That is right.

Senator ADAMS. Accepting your theory that the entire 750,000 shares of common stock went for the $5,100,000, for each $100 that was put into the second preferred, you got 15 shares. In other words, $100 in second preferred got 15 times as much common stock as $100 in the first preferred.

Mr. CHRISTIE. That is right, because the $5,000,000 second preferred was junior money to the first.

Senator ADAMS. If the second alternative were true, that the 500,000 shares of common were bought for $100,000, rather than as a part of the general purchase, in that case $100 would have bought 500 shares of the common stock.

Mr. CHRISTIE. Well, but naturally no one was going to buy a share of second preferred with one share of common and pay $100 for it, the same price as a share of first preferred.

Senator ADAMS. I am merely trying to get the mathematics of it. Fifteen times as big a share in the profits of the concern went to $100 in second preferred as compared with $100 in the first preferred.

Mr. CHRISTIE. After the first preferred got their dividends. In other words, the junior position must be kept in mind.

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Senator ADAMS. I am talking about the profits. There was 15 times as large a share of the profits of the concern that went to $100 invested in second preferred, as compared with $100 invested in first preferred.

Mr. CHRISTIE. I do not think that is the same way as——

Senator ADAMS. Is that the fact?

Mr. CHRISTIE. I do not think so. Perhaps I do not quite follow your mathematics, but after the dividends on the first and second preferred, then anything after that goes 75 percent to the holders of the second preferred, we will say, and 25 percent to the first preferred.

Senator ADAMS. I am getting back to the fellow who had $100, and who bought first preferred. He got his 6 percent dividend, if it was earned.

Mr. CHRISTIE. First.

Senator ADAMS. Then, if the second dividend was earned, he got the share which one share of common stock gave him. For $100 invested in second preferred, when the preferred dividends of both classes were paid, he had 15 shares of common stock, so that he got 15 times as much, in addition to his 6 percent.

Mr. CHRISTIE. I think that that is 15 times——

Senator ADAMS. The second preferred put up one fifth as much money, did it not, $5,000,000 as against $25,000,000?

Mr. CHRISTIE. That is right.

Mr. DILLON. May I clear this up for you?

Senator ADAMS. There were 750,000 shares, on your theory, that went to the second preferred, as against 250,000 to the first; in other words, 15 times as much per dollar. If you put it on the basis Mr. Pecora is disposed to contend, that the 500,000 of common stock was bought for $100,000, in accordance with the literal interpretation of your records, then the man who put $100 there got 500 times as much in common value as the man who put his $100 into first preferred.

Mr. DILLON. Senator, may I clear it up for you? I think I can.

Senator ADAMS. Certainly. It is quite clear.

Mr. DILLON. The set-up is this. The $25,000,000 of the first preferred was sold as first preferred stock, on which the holders got 6 percent interest, cumulative, each year it was earned.

Senator ADAMS. And all they had a chance to get back was the 6 percent and the profits on 250,000 shares of common. That was their share in the general investment.

Mr. DILLON. May I just finish?

Senator ADAMS. Yes.

Mr. DILLON. Then we represented to our clients that we were going to be in control of this company and manage it, which I think is the reason they bought the stock. I do not believe our clients would put in $25,000,000 and buy first preferred stock in an investment trust with just an investment trust set-up. The fact that Dillon, Read & Co. were going to take the responsibility was an important factor. It showed on the prospectus that we were sponsoring it, and that the control rested with us, and our clients for that reason said "Yes; we would like to invest money at 6 percent."

In addition to that, we said to our clients "We are going further. We will put in $5,000,000 of our own money, junior to you, so

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that if there is any loss in this company we will suffer it ourselves for the first $5,000,000." Then if we had sold first preferred, which was our original intention, and we had taken simply $5,000,000 of common stock, there would have been no confusion whatever. As to the $25,000,000 of the preferred which our customers took, we represented that we were going to have the control of this company and were going to manage it. We said "In addition, we are going to put in $5,000,000 of our own money, junior to yours and we take the junior position."

If that were all, then you would have had a simple thing, and we should not even be discussing it. But in addition to that we thought "if this thing is successful beyond our expectations, and we get better than 6 percent, let us give our clients something more than that." So we changed the set-up, and we had $5,000,000 of second preferred. We then created a common stock to represent the equity behind the preferred stocks, and said: "All right. The first preferred fellows are to get a quarter of that common, so that if we do better than we expect, we shall give our clients not only six percent, but an additional 25 percent in whatever we do make over and above the 6 percent dividends on the 2 classes of preferred stock."

On our part, there were reservations as to whether we could earn 6 percent year in and year out on the preferred stock. It has not been easy. It has required a great deal of attention and care, but we have been able to do it, and that preferred stock money is still intact. On our junior preferred stock money we have not had our full 6 percent dividends. With the market of 1929 running away, high prices were reported for this common stock, which had no value when we started. In fact, that stock was worth $1,000,000 less than nothing.

Senator ADAMS. $900,000.

Mr. DILLON. $900,000 less than nothing. It is true that over a period of a few years we had accumulated a surplus of some $48,000,000, which gave that common stock a value of $48,000,000 on account of the way the market was running.

Senator ADAMS. I am not questioning that situation, that you put your own money in, $5,000,000, as security behind the first preferred, but I was merely reducing it to mathematics for my own information. You would also have 15 times as much in prospective profits for that money, as compared with what the investor was getting.

Mr. DILLON. We could have taken 100 percent. We could have taken all that profit. We could have bought all the common stock for $5,000,000.

Senator ADAMS. Do you remember what Lord Clive said? "When I consider my opportunities I marvel at my moderation." [Laughter.]

TESTIMONY OF ERNEST B. TRACY, NEW YORK CITY

The CHAIRMAN. You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. TRACY. I do.

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Mr. PECORA. Mr. Tracy, if you have any difficulty hearing me, will you be good enough to indicate it, and I will raise my voice. What is your full name?

Mr. TRACY. Ernest B. Tracy.

Mr. PECORA. Where do you live?

Mr. TRACY. My residence is 720 Park Avenue, New York.

Mr. PECORA. Where is your office or place of business?

Mr. TRACY. Number 1 Wall Street, New York.

Mr. PECORA. Are you engaged in any business for your own individual account at that address?

Mr. TRACY. My business consists chiefly in the management of investment funds, and I also have been in the securities business.

Mr. PECORA. Are any of the investment funds to which you have just referred the funds of corporations, or are they private funds?

Mr. TRACY. They are funds of corporations.

Mr. PECORA. How many such corporations do you manage?

Mr. TRACY. I am president of another company, aside from the United States & Foreign, and the United States & International, known as the American & European Securities Co.

Mr. PECORA. Is that an investment trust?

Mr. TRACY. Yes, sir; and I am on the board of several others.

Mr. PECORA. Investment trusts?

Mr. TRACY. Yes, sir.

Mr. PECORA. Are these other investment trusts, upon the boards of which you sit, in any way related with either the United States & Foreign Securities Corporation or the United States & International Securities Corporation?

Mr. TRACY. In no way connected with them.

Mr. PECORA. And, as president or manager of those other investment trusts, I assume that you receive a salary commensurate with your office and duties?

Mr. TRACY. No. I have stock in the American and European Securities Co.

Mr. PECORA. Are you its principal stockholder?

Mr. TRACY. No; I am not the principal stockholder, I believe. I am a large, substantial stockholder.

Mr. PECORA. Are you at the present time the president of the United States & Foreign Securities Corporation?

Mr. TRACY. I am, sir.

Mr. PECORA. When did you become its president?

Mr. TRACY. The end of 1927, as I remember it.

Mr. PECORA. That corporation, as you probably know, was organized in October 1924.

Mr. TRACY. Correct.

Mr. PECORA. Did you have any connection with that corporation, either as an officer, director, or stockholder, prior to the time that you became its president in 1927?

Mr. TRACY. Not to my recollection.

Mr. PECORA. At whose request did you become president of that corporation in 1927?

Mr. TRACY. I was a director earlier in the year. I was elected to the board in the spring of 1927.

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Mr. PECORA. When you were chosen president in 1927, of this first investment trust, the United States & Foreign Securities Corporation, who first proposed to you that you become its president?

Mr. TRACY. As I remember, it was discussed at board meetings and I was asked whether I would accept the presidency.

Mr. PECORA. By whom?

Mr. TRACY. Mr. Dillon.

Mr. PECORA. Who preceded you as president?

Mr. TRACY. Mr. Joy was chairman of the board. I will have to look up and see who was president. [After conferring with associates.] E. J. Bermingham.

Mr. PECORA. Mr. Bermingham was a partner of the firm of Dillon, Read & Co. at that time, was he not?

Mr. TRACY. I believe he was.

Mr. PECORA. Have you served continuously since 1927 as president of the United States & Foreign Securities Corporation?

Mr. TRACY. I have.

Mr. PECORA. And have been a member of the board of directors during all that time?

Mr. TRACY. I have.

Mr. PECORA. Are you also connected, either as an officer or director, with the investment trust known as the United States & International Securities Corporation?

Mr. TRACY. Yes, sir. I am president and director.

Mr. PECORA. When did you become president of that corporation?

Mr. TRACY. Shortly after it was organized.

Mr. PECORA. It was organized in 1928.

Mr. TRACY. Yes.

Mr. PECORA. And you have been its president continuously since that time?

Mr. TRACY. Continuously since that time.

Mr. PECORA. Are you also a stockholder of that corporation?

Mr. TRACY. No, sir.

Mr. PECORA. What did you say?

Mr. TRACY. A stockholder of the United States & International?

Mr. PECORA. Yes, sir.

Mr. TRACY. I am not.

Mr. PECORA. Have you ever been?

Mr. TRACY. I have not, to my knowledge. I do not think so.

Senator ADAMS. Are you a stockholder in the United States & Foreign? Are you a stockholder in the earlier company?

Mr. TRACY. No, sir; I am not.

The CHAIRMAN. Do the laws permit a man who is not a stockholder in a corporation to be elected as its president? I presume they do, but usually the requirement is that the president be a stockholder.

Mr. TRACY. Yes, sir; the law permits it, but I have options on some stock, Mr. Chairman.

Mr. PECORA. Mr. Tracy, during the times that you have been president of the United States & Foreign Securities Corporation and the United States & International Securities Corporation, I under-

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stand you have also been, and still are, either an officer or a director, or a large stockholder, in other investment trusts.

Mr. TRACY. Correct.

Mr. PECORA. Have you given us the names of all these other investment trusts?

Mr. TRACY. How many have I given?

Mr. PECORA. You have given us only one.

Mr. TRACY. I am told I have mentioned only the name of the American & European. I am also a director of the Societe Financiere Franco Suisse.

Mr. PECORA. Any other financial corporation?

Mr. TRACY. The Illuminating & Power Securities Corporation.

Mr. PECORA. Any other?

Mr. TRACY. The Electrical Securities Corporation and the Public Utilities Corporation.

Mr. PECORA. Will you continue the enumeration of such other corporations as you have been connected with during the times you have been president of these two investment trusts the main subject of the present inquiry?

Mr. TRACY. Investment corporations or——

Mr. PECORA. Investment corporations, yes.

Mr. TRACY. Those are the only investment corporations that I recall.

Mr. PECORA. How about the Commercial Investment Corporation?

Mr. TRACY. The what, sir?

Mr. PECORA. The Commercial Investment Trust Corporation?

Mr. TRACY. I am not on that board.

Mr. PECORA. Are you a large stockholder in it?

Mr. TRACY. Commercial Investment Trust?

Mr. PECORA. Yes.

Mr. TRACY. No.

Mr. PECORA. Are you a stockholder of any size in it?

Mr. TRACY. In the Commercial Investment Trust?

Mr. PECORA. Yes.

Mr. TRACY. No.

Mr. PECORA. Are you in any other investment corporation?

Mr. TRACY. Do you mean have I stock in any other investment corporation?

Mr. PECORA. Yes, sir.

Mr. TRACY. Yes. I have some stock in the Societe Financiere Franco-Suisse. And I may have some stock in some others.

Mr. PECORA. Their names do not occur to you now?

Mr. TRACY. I have some stock in the Atlas Corporation.

Mr. PECORA. That is an investment trust, is it not?

Mr. TRACY. Yes, sir.

Mr. PECORA. I presume you receive a salary as president of the United States & Foreign Securities Corporation?

Mr. TRACY. No, sir; I do not.

Mr. PECORA. You never have?

Mr. TRACY. Never have.

Mr. PECORA. Do you receive a salary as president of the United States & International Securities Corporation?

Mr. TRACY. No, sir; I do not.

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Mr. PECORA. You never have?

Mr. TRACY. No. I have options.

Mr. PECORA. Sir.

Mr. TRACY. I have some options on stock.

Mr. PECORA. Well, what compensation do you receive in any form whatsoever for the services you render as the president of these two investment trusts, the United States & Foreign Securities Corporation and the United States & International Investment Corporation?

Mr. TRACY. I expect to receive my compensation when the company makes money. When I exercise my warrants and receive an income on them.

Senator ADAMS. These options are of somewhat indefinite duration?

Mr. TRACY. Why, the original option, Senator, was so much per year cumulative to buy stock at $25 a share. And they ran for 5 years. And then they were extended for another 3 years.

Senator ADAMS. You did not exercise your options?

Mr. TRACY. No, sir; I did not.

Mr. PECORA. The duties that you discharge as president of both of these investment trusts are of a highly responsible character, are they not?

Mr. TRACY. Certainly.

Mr. PECORA. And they require a great deal of your time and attention to attend to?

Mr. TRACY. I spend most of my time in these two companies' affairs.

Mr. PECORA. Do you discharge those duties from your own office at No. 1 Wall Street?

Mr. TRACY. Well, I would not say that; no.

Mr. PECORA. From what office or headquarters do you discharge your responsible duties as president of these two investment trusts?

Mr. TRACY. The only office that the company has is in Newark.

Mr. PECORA. Well, that is only an office that is maintained for nominal purposes, is it not?

Mr. TRACY. No; that is the office of the company, Mr. Pecora. To take care of all the details and operations of the company.

Mr. PECORA. How large a personnel does the United States & Foreign Securities Corporation maintain at that Newark office?

Mr. TRACY. I think 10 or 12 employees. Something like that. I do not know the number exactly.

Mr. PECORA. How frequently do you find it necessary to go to that office in the discharge of your duties as president?

Mr. TRACY. I have not kept a record of the number of times I have been there.

Mr. PECORA. Well, without being exact about that, give us an approximation.

Mr. TRACY. I go over there fairly frequently.

Mr. PECORA. What do you mean by that? Once a week?

Mr. TRACY. No; I go over when the occasion arises, when the need arises.

Mr. PECORA. Do those occasions arise on an average of once a week?

Mr. TRACY. No.

Mr. PECORA. Not as often as that?

Mr. TRACY. No.

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Mr. PECORA. Once a month?

Mr. TRACY. Well, I might go over there at times once a month. Sometimes I might go over more frequently.

Mr. PECORA. When were you last over there?

Mr. TRACY. I should say about 2 weeks ago.

Mr. PECORA. During the current year, will you tell us, approximately how many times you have found it necessary in the discharge of your duties as president of the United States & Foreign Securities Corporation to attend to its business affairs at its Newark office?

Mr. TRACY. Well, Mr. Pecora, I do not have to go over there to form an opinion as to what securities we want to buy. Now, that is my chief duty, to follow the investments of the company. I do not have to go to Newark and sit down there to decide whether the security is good or bad.

Mr. PECORA. Do you collaborate with other officers and directors of that company in determining the investments that are made for the account of that company?

Mr. TRACY. Always.

Mr. PECORA. With whom do you so collaborate?

Mr. TRACY. I collaborate with all of the directors. I get in touch with them very frequently between meetings.

Mr. PECORA. Do the board of directors of that company have meetings at regular or stated times?

Mr. TRACY. As a rule we have monthly meetings.

Mr. PECORA. Once a month?

Mr. TRACY. Yes, sir.

The CHAIRMAN. Where does the board meet?

Mr. TRACY. As a rule at 28 Nassau Street, Senator.

Mr. PECORA. Do you mean by that that the board of directors as a rule meets in the office of Dillon, Read & Co.?

Mr. TRACY. As a rule they meet there, yes. It is the most convenient place for them to meet.

Mr. PECORA. Have you, during the current year, attended with regularity the meetings of the board of directors of the United States & Foreign Securities Corporation?

Mr. TRACY. I think I have with great regularity.

Mr. PECORA. Have those meetings always been attended with regularity by all the other directors?

Mr. TRACY. I think the directors attend with great regularity. And I see them frequently between meetings; telephone them; get their opinion on various investments.

Mr. PECORA. Whose opinion, as a rule, prevails with regard to the selection of investments that are made for the account of this investment trust?

Mr. TRACY. The majority of the board.

Mr. PECORA. Which member of the board has made the most recommendations for such investments since you have been president of it?

Mr. TRACY. Well, that would be pretty hard to say. I have made a great many and the other directors have made a great many.

Mr. PECORA. Do you know any director that has made more than you have?

Mr. TRACY. Well, I have not kept any record of that, Mr. Pecora.

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Mr. PECORA. I know that, but I mean from your general knowledge and recollection.

Mr. TRACY. At every meeting the directors are given the financial statement of the company, the statement of cash, the securities owned. They are asked to go over them and make any criticism or recommendations or suggestions for change in securities, and there is a general discussion that everybody takes part in.

Mr. PECORA. Well, I know that that is the ordinary routine. I am asking you particularly, however, with respect to the making of recommendations for the investment of the funds of the investment trust in securities. Now I asked you: Do you know of any director or officer who has made more such recommendations than you have?

Mr. TRACY. Well, I haven't any record. I do not keep a pencil record of that.

Mr. PECORA. Will you please draw upon your general recollection about that?

Mr. TRACY. I do not want to guess upon that thing, Mr. Pecora. I think all of the directors have contributed to the success of this company by their recommendations and judgment. They have all been active.

Mr. PECORA. You know—because if I correctly understood your testimony you have already so indicated to us—that you as president have made many recommendations——

Mr. TRACY. A great many, yes.

Mr. PECORA. (continuing). For the investment of the funds of this investment trust, which were followed?

Mr. TRACY. Correct.

Mr. PECORA. Do you know any other officer or director of that company since you have been its president who has made more such recommendations than you have?

Mr. TRACY. Well, I do not want to guess as to whether any director has made more. I have made a great many.

Mr. PECORA. Well, give us your best recollection on that.

Mr. TRACY. And other directors have made a great many recommendations, Mr. Pecora.

Mr. PECORA. Are you unwilling to give us your best recollection as to whether or not any other officer or director has made more recommendations than you have?

Mr. TRACY. Mr. Pecora, I want to render you every service at my command, and I want to do the same to the committee, but I cannot be expected to guess at something of that kind.

Mr. PECORA. I am not asking you to guess. I am asking you to give us your best recollection.

Mr. TRACY. I do not remember whether one of the directors made more recommendations than the other ones. I know that they all made recommendations.

Mr. PECORA. As a matter of fact, the most of the investments that are made and have been made in behalf of this investment trust since you have been its president have been made not at meetings of the board of directors but in an informal way, have they not?

Mr. TRACY. A great many of them.

Mr. PECORA. And those recommendations have been carried out and afterward reported formally to the board of directors?

Mr. TRACY. A great many of them.

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Mr. PECORA. That has been the usual procedure, has it not?

Mr. TRACY. Well, the usual procedure—we would discuss various industries and financial conditions. We discuss, for instance, the oil industry and decide whether that offers a good field for investments at that time. And then we decide to buy certain oil stocks. And recommendations are made by the board, and then those orders are executed, and they are reported at the next meeting.

Mr. PECORA. What is the largest single investment that has been made for the portfolio of this investment trust upon your personal recommendation?

Mr. TRACY. I should say of our present holdings it would be the American Gas & Electric Co.

Mr. PECORA. Well, do not confine yourself to your present holdings. I am referring to the operations of this investment trust during the time that you have been its president.

Mr. TRACY. Well, I should say American Gas & Electric Co., or in the old days Consolidated Gas.

Mr. PECORA. Did I understand you to say in the earlier part of your testimony that you were connected with the American Gas & Electric Co. in some capacity or other?

Mr. TRACY. I did not say that, but I am a director of the American Gas & Electric Co.

Mr. PECORA. Also a stockholder of it?

Mr. TRACY. Yes; I am a stockholder.

Mr. PECORA. Is that an industrial corporation or an investment trust?

Mr. TRACY. No, sir.

Mr. PECORA. Or is it a holding company?

Mr. TRACY. That is one of the largest public-utility holding companies.

Mr. PECORA. Are there any of the securities of the American Gas & Electric Co. now in the portfolio of United States & Foreign Securities Corporation?

Mr. TRACY. I will have to look that up. Excuse me a moment.

Mr. PECORA. Will you please do so.

Mr. TRACY. Yes.

Senator ADAMS. While that is being looked up may I ask you a question, Mr. Tracy? May I just recur to this option matter for a moment, if you do not mind?

Mr. TRACY. Yes, sir.

Senator ADAMS. Do you mind telling us the number of shares covered by these yearly options?

Mr. TRACY. I have an option on 15,000 shares, Senator, at 25.

Senator ADAMS. That is for each of these years?

Mr. TRACY. No, that is the total amount. From the United States & Foreign Securities Corporation 3,000 shares a year, at 25, over a 5-year period. Making a total of 15,000. I have the right to take them up year by year if I wanted to, or they could accrue or accumulate over that 5-year period.

Senator ADAMS. From whom does that option run?

Mr. TRACY. From the United States & Foreign Securities Corporation to me.

Senator ADAMS. The United States & Foreign Securities Co. does not own any of the common stock, does it?

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Mr. TRACY. Yes, sir. As I remember it, it bought it in the open market and gave me an option on it.

Senator ADAMS. And the same general situation as to the International Securities Corporation?

Mr. TRACY. In the International I have an option on 5,000 shares of United States & Foreign common stock. Making a total of 20,000 between the two companies, at $25.

Senator ADAMS. And that would increase from year to year as you go on?

Mr. TRACY. No, sir; it increased up through the 5-year period, and then the directors extended it for another 3 years.

Senator ADAMS. So that your opportunity to profit out of increased price is the allurement that is held out to you for carrying this burden?

Mr. TRACY. That is right.

Senator ADAMS. But at the present time it is not an especially profitable option?

Mr. TRACY. No. And I never sold any of my options.

I find, Mr. Pecora, that we have 24,181 shares of American Gas & Electric common stock in the United States & Foreign Securities.

Mr. PECORA. In the United States & Foreign Securities Corporation?

Mr. TRACY. Yes, sir.

Mr. PECORA. How many have you, if any, in the portfolio of the United States & International Securities Corporation?

Mr. TRACY. Twenty-one thousand one hundred and twenty nine.

Mr. PECORA. Mr. Tracy, I have before me what purports to be a copy of the report and accounts of the United States & Foreign Securities Corporation as of December 31, 1932, made by Price, Waterhouse & Co.; and among other things it indicates that as of that date there were in the portfolio of the United States & Foreign Securities Corporation 23,241 shares of the common stock of American Gas & Electric Co., at a book value of $1,099,037.56. Does that conform to your recollection of the fact?

Mr. TRACY. I will have to check that. (After doing so.) That is correct.

Mr. PECORA. Yes. What is meant by the term "book value" as applied here?

Mr. TRACY. Cost.

Mr. PECORA. That is synonymous with cost?

Mr. TRACY. Yes.

Mr. PECORA. Cost price?

Mr. TRACY. Cost price.

Mr. PECORA. The term "cost price" is very often used to indicate something other than book value, is it not?

Mr. TRACY. Well, that is what we paid for the stock.

Mr. PECORA. That does not answer my question, Mr. Tracy.

Senator ADAMS. Do you continue to carry the book value of the security at its original cost notwithstanding it may have very greatly depreciated?

Mr. TRACY. Yes; but in figuring up our balance we take market or cost, whichever is lower. We give both figures in our report. We give total market value and total cost.

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Mr. PECORA. Is it not a fact, Mr. Tracy, that in the terminology of the financial world the term "book value" frequently refers to something other than cost as applied to a security?

Mr. TRACY. I am not a bookkeeper, Mr. Pecora, or an accountant.

Mr. PECORA. I have not asked you bookkeeping phraseology, but in the terminology of the financial world is not the term "book value" very frequently used to denote something other than cost?

Mr. TRACY. Yes.

The CHAIRMAN. Have not the earnings something to do with the book value?

Mr. TRACY. Earnings?

The CHAIRMAN. Yes.

Mr. TRACY. I do not think so, Senator.

Senator ADAMS. Book value is determined by those who set up the books—that is the company. The company might pay a thousand dollars for a security and they might put it down at a book value of $900 or at a book value of $1,100. That is an arbitrary value that the company or the owner puts on his own books.

Mr. TRACY. Yes.

Senator ADAMS. The market value is determined by somebody else, and may be quite different, and the cost price may be different.

Mr. TRACY. Yes.

Senator ADAMS. If you are buying securities from a fire insurance company, for example, you would not merely take the statement of that company and look at the book value. That does not answer your question, does it, as to what it is worth?

Mr. TRACY. It does not.

Mr. PECORA. Book value is a variable term or amount, is it not? In other words the book value of a security changes from time to time depending upon the earnings of the corporation issuing the security, does it not? What is your answer?

Mr. TRACY. As a general rule our book value is cost value, Mr. Pecora.

Mr. PECORA. I know that. You have already told us that. But I want to get from you a statement based upon your own knowledge as to whether or not book value as commonly used denotes something entirely different from cost when applied to securities.

Mr. TRACY. Not necessarily. I would not say that; no.

Mr. PECORA. The cost price of a security never changes, does it? I mean if you have purchased for a certain amount a certain security the price you pay is its cost price at all times regardless of its book or market value, is it not?

Mr. TRACY. The cost is cost; yes.

Mr. PECORA. Yes; you use the term in this report of the portfolio of your investment trust of book value to indicate cost, do you not?

Mr. TRACY. Yes.

Mr. PECORA. Is that not apt to convey a wrong impression to the average analyst of these reports?

Senator ADAMS. Permit me to interrupt just a moment, Mr. Chairman. I think we would be very glad to have these gentlemen who are sitting behind the witness furnish information when it is requested, but their views or answers to questions asked of the witness as to his own judgment or opinion are not quite what we are seeking

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for. Any time we want information that these gentlemen have we will put them on the stand and I know they will be very glad to testify, but I think it is an annoyance to the witness to keep telling him all the time what he knows about it when no one else can know what he thinks. That is merely a suggestion.

Mr. PECORA. I will ask the reporter to read the pending question.

(Thereupon the following was read by the reporter as above recorded:)

Mr. PECORA. * * * You use the term in this report of the portfolio of your investment trust of book value to indicate cost, do you not?

Mr. TRACY. Yes.

Mr. PECORA. Is that not apt to convey a wrong impression to the average analyst of these reports?

Mr. TRACY. I think our report is very complete. I do not think that it would mislead an analyst. I think they are very complete, Mr. Pecora. It has always been a practice to publish everything we own since I have been connected with the company.

Mr. PECORA. What do you ordinarily understand to be implied by the term "book value" as applied to securities.

Mr. TRACY. Cost as a rule.

Mr. PECORA. Cost?

Mr. TRACY. Yes.

Mr. PECORA. Do you think that cost and book value are synonymous terms generally and so understood by the public?

Mr. TRACY. I think in investment companies as a rule, yes. All an analyst has to do is to take the list of securities and the market.

Mr. PECORA. The book value given in this report made by Price, Waterhouse & Co. as of December 31, 1932, for the twenty-three thousand odd shares of American Gas & Electric Co. common stock which it had in its portfolio on that date, is $1,099,037.56, and I notice that the market value of that stock as of that date is given as $708,850.50. Do you know what the market value of that stock is?

Mr. TRACY. Yes. The quotation in the market.

Mr. PECORA. Well, do you know what the market value of that stock is today?

Mr. TRACY. I can find out for you approximately.

Mr. PECORA. All right.

Mr. TRACY. I am told it is around $23 or $24 a share, Mr. Pecora.

Mr. PECORA. That would bring this total of market value to considerably less than seven hundred and eight thousand odd dollars, would it not?

Mr. TRACY. I will accept your statement for that; yes.

The CHAIRMAN. Do you sell those securities, Mr. Tracy, yourself?

Mr. TRACY. No, sir; I would not.

The CHAIRMAN. No; but does the company go on now from time to time and sell those securities?

Mr. TRACY. Out of our portfolio?

The CHAIRMAN. Yes.

Mr. TRACY. I hope we will keep the American Gas & Electric, Mr. Chairman.

The CHAIRMAN. Yes; but you may from time to time, just as the board of directors determine, sell securities?

Mr. TRACY. Oh, certainly.

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The CHAIRMAN. Or sell at any time?

Mr. TRACY. Yes.

The CHAIRMAN. You are not obliged to carry them for any definite time?

Mr. TRACY. We are not obliged to carry anything.

Senator ADAMS. Mr. Tracy, the corporation holds 15,000 shares, I see, of the United States & Foreign Securities Co. That was to cover your option?

Mr. TRACY. Yes.

Senator ADAMS. That is carried at a market value of a dollar, and carried at a book value of $375,000.

Mr. TRACY. That is what it cost.

Senator GOLDSBOROUGH. Mr. Pecora, as I understand your line of questioning you think it is better that these statements should show three columns: Cost, book, and market?

Mr. PECORA. I do not see the occasion for showing book value. But it certainly ought to show cost and designate it as cost. Not as book value, which in my opinion, despite the superior knowledge and experience of the witness is somewhat misleading. The other is a less misleading term.

Mr. TRACY. Mr. Pecora, I would like to submit our annual report to the Senators here, and I think that would give you an idea of how that is stated very clearly. It is not misleading as to what the difference between cost and market is.

Mr. PECORA. I was going to introduce that in evidence anyway at the proper time.

Senator ADAMS. You do not need to have any certified public accountant tell us that these days.

Mr. TRACY. No; I know that, but we state it very clearly.

The CHAIRMAN. This seems to be a good place to take a recess until tomorrow morning at 10 o'clock. I hope we will be prompt in attendance so we can go ahead promptly at that time.

(Thereupon at 12 o'clock noon, Thursday, Oct. 5, 1933, an adjournment was taken until 10 a.m. the next day, Friday, Oct. 6, 1933.)

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STOCK EXCHANGE PRACTICES

FRIDAY, OCTOBER 6, 1933

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

The subcommitee met, pursuant to adjournment on yesterday, at 10 o'clock a.m., in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Norbeck, and Couzens.

Present also: Ferdinand Pecora, counsel to the commitee; Julius Silver and David Saperstein, associate counsel to the commitee; and Frank J. Meehan, chief statistician to the committee; George S. Franklin, Wallace P. Zachry, Warren Leslie, Walter G. Dunnington, Clifton Murphy, John T. Cahill, and Bernhard Knollenberg, counsel for Dillon, Read & Co.; Root, Clark, Buckner & Ballantine, George H. Murphy of counsel, counsel for United States & Foreign Securities Corporation and United States & International Securities Corporation; Patrick J. Hurley and Charles M. Travis, counsel for Associated Gas & Electric Co.

The CHAIRMAN. The subcommittee will come to order. Mr. Pecora, you may proceed.

Mr. PECORA. Mr. Tracy will resume the stand.

TESTIMONY OF ERNEST B. TRACY—Resumed

Mr. PECORA. Mr. Tracy, will you tell us——

Mr. TRACY (interposing). Mr. Pecora, for the record I have a list of present and former directors of both of the investment companies, with a list of all directors' meetings and the names of the directors who attended those meetings. I should like to submit these to you.

Mr. PECORA. Very well. Let me see them.

Mr. DILLON. Mr. Pecora, before you start out on your examination might I say a word?

Mr. PECORA. Certainly.

Mr. DILLON. The other day when we were discussing the advisability of banks publishing their portfolios of investment securities, you were asking if I knew of any institution that did so, and I mentioned one. This morning I received from Mr. Frew, chairman of the Corn Exchange Bank Trust Co., New York City, his statement. His is a commercial bank, and is the only one I know of than does it. I thought you and the gentlement of this subcommittee might be interested in looking at his statement, because it does cover the point you were discussing.

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Mr. PECORA. I think it might be well to offer that in evidence for the enlightenment of the subcommittee.

The CHAIRMAN. Let it be received and made a part of the record.

(The statement dated February 1, 1933, of the Corn Exchange Bank Trust Co., was marked "Committee Exhibit No. 12, October 6, 1933," see p. 1764.)

Mr. PECORA. I also offer in evidence, Mr. Chairman, the list of present and former directors of the United States and International Securities Corporation, which has just been produced by Mr. Tracy; and also as a part of the same exhibit a compilation of the meetings of the board of directors of the United States and International Securities Corporation, showing the dates thereof and the names of the directors present at such meetings.

The CHAIRMAN. Let it be received and made a part of the record.

(A statement of present and former directors of United States & International Securities Corporation was marked "Committee Exhibit No. 13, October 6, 1933," see p. 1769.)

Mr. PECORA. I also offer in evidence a list produced by Mr. Tracy, purporting to show present and former directors of the United States & Foreign Securities Corporation, together with a statement showing the dates of the various meetings of the Board of directors of that corporation, and with the names of the directors who attended such meetings.

The CHAIRMAN. Let it be received and made a part of the record.

(A statement of present and former directors of United States & Foreign Securities Corporation was marked "Committee Exhibit No. 14, October 6, 1933," see p. 1771.)

Mr. PECORA. Mr. Tracy, have you by any chance with you a copy of the report and accounts of the United States & International Securities Corporation as of December 31, 1932, purporting to have been prepared by Price, Waterhouse & Co.?

Mr. TRACY. I will have to see whether we have that. [After consulting an associate] Yes; I have a copy of that.

Mr. PECORA. Will you kindly turn to the tabulation at the end of the report, which is entitled "United States & International Securities Corporation, Securities Owned December 31, 1932."

Mr. TRACY. I have it before me.

Mr. PECORA. Now, under the caption "Railroad stocks" of that tabulation do you find an entry indicating that on December 31, 1932, there was an item in the portfolio of the United States & International Securities Corporation of 45,000 shares of the common stock of the Chicago, Rock Island & Pacific Railway Company?

Mr. TRACY. I do.

Mr. PECORA. To which there was ascribed a book value in this report of $5,566,366.99, and a market value of $151,875?

Mr. TRACY. I do.

Mr. PECORA. Are you familiar with the transaction or transactions whereby this investment trust, of which you were the president, acquired those 45,000 shares of that railroad stock at what is denominated in this report as a book value of over 5½ million dollars, but which, according to your testimony on yesterday, means the cost price to the investment trust?

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Mr. TRACY. Correct. We bought it in the open market.

Mr. PECORA. You bought it in the open market?

Mr. TRACY. To the best of my recollection, yes. [After consulting an associate.] Well, some of it we bought from the United States & Foreign Securities Corporation.

Mr. PECORA. And that is the other investment trust?

Mr. TRACY. Correct.

Mr. PECORA. That had you as its president while you were president also of this United States & International Securities Corporation?

Mr. TRACY. That is right.

Mr. PECORA. Over what period of time were the transactions had by which the United States & International Securities Corporation acquired in the aggregate those 45,000 shares of the Chicago, Rock Island & Pacific Railway Co. stock at a cost to it of over 5½ million dollars?

Mr. TRACY. Well, I will have to look that up, Mr. Pecora. I do not carry that in my mind.

Mr. PECORA. All right.

Mr. TRACY. I am sorry for the delay, but we have had so many transactions that I cannot keep them in my mind.

Mr. PECORA. All right. You may look it up.

Senator COUZENS. While you are looking up that data let me ask: What were the circumstances by which one of these investment trusts bought Chicago, Rock Island & Pacific Railway Co. stock from the other trusts?

Mr. TRACY. Well, I will have to look up that data for you, Senator Couzens. I am getting that now.

Senator COUZENS. I was not asking the date but was wondering what the circumstances were that induced one trust to buy that stock from the other trust.

Mr. TRACY. Well, if you will permit me to get the data I may be able to answer your question more intelligently.

Senator COUZENS. All right.

The CHAIRMAN. In other words, Senator Couzens, the two trusts were practically doing the same kind and character of business; and Dillon, Reed & Co., too, were doing the same kind of business.

Senator COUZENS. And Dillon, Read & Co. controlled both of them.

Mr. PECORA. And one was buying securities from the other.

Mr. TRACY. I am told that we purchased about half of that in December of 1929.

Mr. PECORA. About half of the 45,000 shares of the Chicago, Rock Island & Pacific Railway Co. in December of 1929?

Mr. TRACY. I am so informed.

Mr. PECORA. That was at a time when the stock market had generally undergone an upheaval and was still in the throes of it, wasn't it?

Mr. TRACY. It had certainly undergone an upheaval, but I might say that——

Senator COUZENS (interposing). When was the other half purchased?

Mr. PECORA. Yes. I was just going to ask that question.

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Mr. TRACY. Seventeen thousand shares, Senator Couzens, were bought from the United States & Foreign Securities Corporation. The balance of the stock was bought over a period of time. We will have to go to our books in order to get all of that for you.

Senator COUZENS. When were the 17,000 shares bought from the other trusts?

Mr. TRACY. In December of 1929.

Senator COUZENS. And at what price?

Mr. TRACY. I am told that they were purchased at a price of $111.84, which was the market price of the date when they were purchased.

Senator COUZENS. In other words, in December of 1929 that was the market price?

Mr. TRACY. That was the market price then.

Senator COUZENS. And do you recall the circumstances of the transfer or sale from one trust to the other of those shares?

Mr. TRACY. Well, it is pretty hard, Senator Couzens, to recall the reasons for either the sales or the purchases made. We have made a great many hundreds of them. But as a rule——

Senator COUZENS (interposing). Well, this was rather an intercompany sale, wasn't it?

Mr. TRACY (continuing). As a rule and practice, all purchases and sales were passed on by the board of directors of the companies.

Mr. PECORA. But, Mr. Tracy, you attended the meetings of the boards at which those sales and purchases were approved?

Mr. TRACY. I attended meetings very regularly, but I would have to look it up to see whether I attended those particular meetings or not, but believe I did.

Mr. PECORA. Didn't you testify here on yesterday to the effect, in substance, that the customary procedure followed by these two investment trusts for the making of those investments was for the executive officer to make the purchase in the exercise of his best judgment, and thereafter report it to the board of directors at its ensuing meeting?

Mr. TRACY. Well, Mr. Pecora——

Mr. PECORA (continuing). And then get a ratification and approval of it by the board?

Mr. TRACY. I think you misunderstood me, Mr. Pecora.

Mr. PECORA. Possibly I did, and if I have misunderstood you, I want to get the fact correctly on the record in a way that there can be no misunderstanding.

Mr. TRACY. That has been done frequently, but as a rule we discussed at board meetings the type of securities that we would buy, and the type of industry in which we would invest. We would have those looked into and would say: Let us invest so much money in the oil industry and the rails, and would compare this railroad with another one and would buy the one that looked cheapest.

Mr. PECORA. You say you would have them looked into. Who would look into them?

Mr. TRACY. A service corporation that we had——

Mr. PECORA (interposing). What is the name of it?

Mr. TRACY. The Keswick Corporation.

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Mr. PECORA. Do you know anything about the Keswick Corporation?

Mr. TRACY. I certainly do.

Mr. PECORA. Isn't that a corporation wholly controlled by Dillon, Read & Co.?

Mr. TRACY. It is not.

Mr. PECORA. Isn't it a corporation with offices adjoining the offices of Dillon, Read & Co., and access to which may be had through an inside door leading from the office of Dillon, Read & Co.?

Mr. TRACY. Yes; the offices are in the same building as the offices of Dillon, Read & Co., and one can get through by going through an outside passage to the offices of the Keswick Corporation. That is true of a great many buildings.

Mr. PECORA. How familiar are you with the organization and conduct of this Keswick Corporation?

Mr. TRACY. The Keswick Corporation is a service corporation to do our research work, look over statistical reports, make examinations for us, interview officials of companies and get figures that may not have been published, if we want to get any very recent information about an industry, and they make their reports to us. They are used generally as a convenience to the company in any way that I can use them.

Senator COUZENS. What company?

Mr. TRACY. The Keswick Corporation.

Senator COUZENS. But what company uses the Keswick Co.?

Mr. TRACY. United States & Foreign Securities Corporation and United States & International Securities Corporation, for which I may be acting.

Senator COUZENS. And also Dillon, Read & Co.?

Mr. TRACY. Not to my knowledge.

Senator COUZENS. You do not know that Dillon, Read & Co. uses this Keswick Corporation?

Mr. TRACY. Not to my knowledge.

Mr. PECORA. When was this Keswick Corporation organized, if you can tell us?

Mr. TRACY. I will have to look up that date.

Mr. PECORA. Perhaps I can help you when I suggest the date March 27, 1930.

Mr. TRACY. That is correct.

Mr. PECORA. Did the Keswick Corporation, for the United States & International Securities Corporation in December of 1929 make research and investigation of the railroad security that we have been discussing and which was purchased by the United States & International to the extent of over 5½ million dollars?

Mr. TRACY. Yes, sir; it did.

Mr. PECORA. How could it have done so if it was not incorporated until March of 1930?

Mr. TRACY. Wait. What date did you say? December of 1929?

Mr. PECORA. Well, you told us that 41,000 of those 45,000 shares had been acquired in December of 1929, if I correctly understood your testimony.

Mr. TRACY. That is correct. The Keswick Corporation was not formed then.

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Mr. PECORA. Who made the research at that time that guided the directors of the investment trust in making those investments?

Mr. TRACY. There was a very elaborate report made by Coverdale & Colpitts, consulting engineers, who specialized in railroad work, on the Chicago, Rock Island & Pacific Railroad. It was most favorable, I might say.

Senator COUZENS. Have you any record of how many times their surveys have been wrong?

Mr. TRACY. Of how many times they have been wrong?

Senator COUZENS. Yes.

Mr. TRACY. I think anybody has been wrong who made predictions in 1929. If there are any that were not I should like to meet them.

Senator COUZENS. I know something about Coverdale & Colpitts, or whatever the name is, and how long have they been in business, may I ask.

Mr. TRACY. That I would have to find out.

Senator COUZENS. For a great many years, haven't they?

Mr. TRACY. I think for a great many years.

Senator COUZENS. Is there a record as to their predictions of earning power of corporations and how often or whether generally they have been accurate?

Mr. TRACY. That I would not like to give you an opinion on offihand, but their estimates conform pretty well with the opinions of the usual statistical services at that time. If you will go back you will find that people like Moody were recommending Rock Island. Standard Statistics were recommending Rock Island. Not that we were taking their recommendations, but I just give you that as a parallel. Everybody thought railroad securities were a good purchase in those days.

Senator COUZENS. Previous to that time, how long experience had you had with this firm of Colpitts & Co.?

Mr. TRACY. I think they had done work for—I don't know. I personally am not an expert on railroad securities.

Senator COUZENS. You do not know what the general record of this company is, then?

Mr. TRACY. No; I do not, Senator, but I know that they have a good reputation.

Senator COUZENS. Among whom?

Mr. TRACY. Among people that I know. I have never heard anybody say anything unfavorable about Colpitts & Co.

Senator COUZENS. Well, of course, you can have a good reputation for making reports——

Mr. TRACY (interposing). I am not talking about that; I am talking about being honest. I thought that was what you had in mind.

Senator COUZENS. About what?

Mr. TRACY. About being honest in their dealings.

Senator COUZENS. I have not made any charges that they were dishonest; no.

The CHAIRMAN. Were the Van Sweringens interested in this Chicago, Rock Island & Pacific road?

Mr. TRACY. I beg your pardon?

The CHAIRMAN. Were the Van Sweringens interested in that road?

Mr. TRACY. Not to my knowledge; no.

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Mr. PECORA. Before we leave the Keswick Corporation, Mr. Tracy, do you know what its capital structure is?

Mr. TRACY. I will have to look that up. It is merely a service corporation. There is not any mystery about it.

Mr. PECORA. Who caused it to be organized?

Mr. TRACY. We did.

Mr. PECORA. And who were its officers? Are its officers former employees and attachés of the two investment trusts of Dillon, Read & Co.?

Mr. TRACY. Yes; they are.

Senator NORBECK. Pardon me, Mr. Chairman. I am confused. I thought the witness testified they did not control them, and he is now testifying that they did. Am I right or did I misunderstand you?

Mr. TRACY. The Keswick Corporation?

Senator NORBECK. Yes.

Mr. TRACY. No; we were responsible for the forming of the Keswick Corporation. We wanted them to be a statistical corporation that could be used to look up things of that kind.

Senator NORBECK. I am referring now to an answer you made previously. Did you deny that they were controlled by you or did you not when you were asked the question? I am trying to get the facts here. If the witness testifies both ways it is pretty hard for me to get them.

Mr. TRACY. I just want to have what the question is.

Senator NORBECK. I will waive it. Go ahead.

Mr. TRACY (after conferring with an associate). Oh, no; not controlled by Dillon, Read & Co. I misunderstood you. It was formed by the investment company.

Mr. PECORA. You mean United States & Foreign Securities Corporation and the United States & International Securities Corporation?

Mr TRACY. Yes; they were responsible for forming it.

Mr. PECORA. They were responsible for forming it?

Mr. TRACY. Yes.

Mr. PECORA. Are its officers and directors, or do its officers and directors, include former employees of the two investment trusts that you have mentioned, as well as Dillon, Read & Co.?

Mr. TRACY. They include, yes, former employees of the investment trust, and I think former employees of Dillon-Read.

Mr. PECORA. And the office of this Keswick Corporation is at what address?

Mr. TRACY. It is on Cedar Street.

Mr. PECORA. What is the number?

Mr. TRACY. I cannot give you the number, but I know how to get there. It is the first door on the—I don't go by numbers on Wall Street. I go by familiar signs.

Mr. PECORA. How does the public get there?

Mr. TRACY. I should think they go through there——

Mr. PECORA (interposing). Through the Cedar Street entrance to the building?

Mr. TRACY. I should think they would go through——

Mr. PECORA (interposing). And when you get there how do you reach the Keswick offices? Do you go through this interior passageway running between the offices of Dillon, Read & Co. and the Keswick Corporation?

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Mr. TRACY. Why, I go whichever is the most convenient way for me to go. If I am coming from Wall Street I would go into Cedar Street. If I was coming over from Broadway or uptown I would probably go through the office of Dillon-Read. Whichever is most convenient, that is the way I go.

Mr. PECORA. Does this Keswick Corporation do any research to any extent for others than these two investment trusts of which you were president?

Mr. TRACY. Yes; I believe they do.

Mr. PECORA. To any extent?

Mr. TRACY. Well, I don't know how much they do. I know they do a great deal of work for us—the investment companies. I don't know how much they do for other people.

Mr. PECORA. Do you know the capital structure of the Keswick Corporation?

Mr. TRACY. I can give it to you.

Mr. PECORA. If you will.

(Mr. Tracy conferred with associates and examined documents.)

Senator COUZENS. While you are looking that up, may I ask what is the basis of compensating this research corporation by these two securities trusts?

Mr. TRACY. We own some stock in that, Senator, and we pay them, I think—pay the monthly fee for it.

Senator COUZENS. Pay them a monthly fee?

Mr. TRACY. It is simply a convenience—research organization to do the research work—take all the burden off me that I can put on them.

Senator COUZENS. Yes; but I am wondering why the investment trusts do not employ these men themselves. I just don't get the connection.

Mr. TRACY. With the thought that it is perhaps better to have a separate organization.

Senator COUZENS. As a matter of convenience?

Mr. TRACY. For instance, we have two different boards, two different companies. Now, employing men in one company and employing the same men in the other company is not as satisfactory as putting them into a different organization as a matter of convenience, for following records, accounting, the statistical services, the newspapers, and doing all that kind of work. For instance, we put some men to work on the X company. Who are we going to charge that to, this company or the other? It is just a matter of convenience. It is purely a service company. It is not anything of any significance. It is to help us do our work intelligently, that is all. There is no mystery about it at all.

Mr. PECORA. Do you know anything about the personnel of the Keswick Corporation, this organization that you and your fellow directors use to help you reach a judgment or conclusion about the investments you should make for the investment trusts?

Mr. TRACY. Yes; I do.

Mr. PECORA. What do you know about it?

Mr. TRACY. Well, I know them very well. Mr. Frank I have known, the president, known him for a number of years; and Mr. Nitze. Those are the two gentlemen that I come in contact with that I use.

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Mr. PECORA. What position does Mr. Frank hold with the company?

Mr. TRACY. He is the president.

Mr. PECORA. And prior to his becoming president of the Keswick, what was his relation, either to United States & Foreign Securities Corporation or the United States & International Securities Corporation or Dillon, Read & Co.?

Mr. TRACY. Why, he was in those companies.

Mr. PECORA. In what capacity?

Mr. TRACY. In the statistical end, doing the same kind of work he is doing now.

Mr. PECORA. When you say in the statistical end, do you mean that he was in the accounting department or bookkeeping department?

Mr. TRACY. Research. For instance, here is Mr. Frank—I say, "Mr. Frank, will you please try to get me all the information you can get me about that oil corporation?"

Mr. PECORA. That simply represents statistical information that he would collect from sources where such data was to be found?

Mr. TRACY. He would have charge of getting that information. He was also at that time a vice president of the United States & Foreign.

Mr. PECORA. Now, have you informed yourself concerning the capital structure of the Keswick Corporation?

Mr. TRACY. There are 500 shares of $100 par value, $50,000.

Mr. PECORA. How were those shares distributed?

Mr. TRACY. I will just look that up for you.

Mr. PECORA. See if this statement which I will now embody in my question refreshes your recollection concerning that: 125 of these shares owned by the United States & International Securities Corporation; 125 owned by United States & Foreign Securities Corporation; 50 shares held in the name of the Oakmont Corporation; 50 shares in the name of the New Eastern Corporation; 50 shares in the name of the Surrey Corporation; 50 shares in the name of the Brighton Corporation; and 50 shares in the name of the Bristol Corporation?

Mr. TRACY. That is correct.

Mr. PECORA. We see from those that the two investment trusts that we are inquiring about owned half and do own half of the only outstanding capital stock?

Mr. TRACY. That is right.

Mr. PECORA. And the other half is owned by five other corporations in equal proportions of 50 shares apiece?

Mr. TRACY. I am told that is right, yes.

Mr. PECORA. Now, do you know anything about those five other corporations, each of which owns 50 shares of this research institution?

Mr. TRACY. I have heard about them frequently.

Mr. PECORA. Aren't they corporations that are virtually the personal property of certain individuals who are members of the firm of Dillon, Read & Co.?

Mr. TRACY. I know they are connected with Dillon, Read & Co. I don't know what the ownership is.

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Mr. PECORA. Well, it is a fair statement, isn't it, to say that half of the capital stock of this Keswick Corporation is owned by the two investment trusts and the other half is owned by the five corporations who represent interests of Dillon, Read & Co. or their respective or individual associates or partners?

Mr. TRACY. Yes; those companies are all identified with Dillon, Read & Co. This company was not organized for that purpose. It is simply a service corporation, a matter of convenience.

Mr. PECORA. Now, let us get back to the report made by Price, Waterhouse & Co. of the condition of the United States & International Securities Corporation as of December 31, 1932.

The CHAIRMAN. Before you get to that may I ask Mr. Tracey what was the book value of this stock which one investment company sold to the other investment company in December 1929? You sold it at 111, I believe. What was the book value?

Mr. TRACY. I will get that for you, Mr. Chairman.

Senator NORBECK. Mr. Chairman, may I ask a question about something I do not understand. I just want to ask the witness. The findings of this research corporation which has been discussed here at length become part of the information given to the public as to the value of these securities that you people offer for sale, do they not?

Mr. TRACEY. We do not offer any securities. It supplies us with certain information on which we base our judgment, whether we sell or buy, whether we will buy or will not buy it or sell it.

Senator NORBECK. When you say sell it, you sell it to whom?

Mr. TRACY. Sell it on the market.

Senator NORBECK. And then you say you don't offer anything to the public. You know, you confuse me with your statements.

Mr. TRACY. It is in the open market.

Senator NORBECK. But when you sell it you sell to the public, don't you?

Mr. TRACY. We sell on the stock exchange.

Senator NORBECK. Yes. Now, I am asking the question. You evaded it entirely. I asked you whether the certification of this research corporation which seems to be an instrument of your own—they have certain findings, and are they used as a certification of the value or condition of this stock when it is offered?

Mr. TRACY. We do not offer it.

Senator NORBECK. You say "offer"—well, when it is sold.

Mr. TRACY. May I give you an illustration?

Senator NORBECK. Yes; most certainly.

Mr. TRACY. For instance, they will come into us and say, "We don't like the trend of the earnings of a certain railroad", and we will look those over and decide that they should be sold. For instance, Canadian Pacific Railroad; we will give an order to the broker to sell that Canadian Pacific Railroad. We simply sell it on the exchange. We do not offer it to the public. You understand that, don't you, Mr. Pecora, the way that is done? That is all we were doing.

Mr. PECORA. I don't think the Senator is addressing himself to what you think he is.

Mr. TRACY. I beg your pardon.

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Mr. PECORA. I think Senator Norbeck and I——

Senator NORBECK (interposing). Are talking about two different matters.

Mr. PECORA. Are talking at cross-purposes. You don't understand what the Senator has in mind.

Mr. TRACY. I don't think I do. I was trying to give an illustration of what I understood the Senator to mean.

Mr. PECORA. Let us get back to the portfolio of the United States & International Securities Corporation as of December 31, 1932. It appears from this report that on that date there were 45,000 shares of the common stock of the Chicago, Rock Island & Pacific Railway Co. in the portfolio, doesn't it?

Mr. TRACY. The report of the United States & International Corporation of December 31, 1932?

Mr. PECORA. Yes.

Mr. TRACY. Forty-five thousand shares.

Mr. PECORA. And those shares cost the investment trust five million five hundred and sixty-six thousand and odd dollars?

Mr. TRACY. That is right.

Mr. PECORA. And that on December 31, 1932, those shares had a market value of only $151,875?

Mr. TRACY. I am sorry to say that is correct.

Mr. PECORA. So there was a depreciation there of very nearly $5,400,000?

Mr. TRACY. Yes.

The CHAIRMAN. Now you can answer the question I put to you, I take it?

Mr. TRACY. I have here the book value of the Rock Island on the United States & Foreign Securities Corporation's books when it was sold, which was $119.64, according to the information that I have. I think that is correct.

Senator COUZENS. May I ask you at that point, where it is you get that book value? Who did you get it from?

Mr. TRACY. That is cost.

Mr. PECORA. That is the term, Senator, that they use for "cost."

Senator COUZENS. Yes; but I thought the chairman asked for the book value of the stock on the books of the railroad.

The CHAIRMAN. No; I was talking about the cost.

Senator COUZENS. Oh, I misunderstood.

Mr. PECORA. The testimony yesterday shows that what has been denominated as the book value was the cost price.

Senator COUZENS. Yes; I understand now. I thought the chairman was trying to find out what the book value of the stock was on the books of the railroad company.

You don't have that, do you? Did your investigators or research men attempt to find out what the book value was on the books of the railroad at the time this investigation was made?

Mr. TRACY. Yes. As I remember, the report of Coverdale & Colpitts, it was considerably over $125 per share. I know that, taking the Interstate Commerce Commission's valuations, it was more than that. I don't know how much more, but that is my recollection, Senator.

Mr. PECORA. What I want to find out is if these 45,000 shares of the Chicago, Rock Island & Pacific Railroad were acquired during

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the year 1932 by this investment trust or whether the acquisition of those 45,000 shares covered a much longer period of time.

Mr. TRACY. I will have to check that up. I hope you will excuse me, but there have been so many of these transactions that I cannot possibly keep them all in mind.

Mr. PECORA. I understood you to say a little while ago that more than half of the 45,000 shares were purchased for the portfolio of the United States & International Securities Corporation in December 1929.

Mr. TRACY. I think you misunderstood me, Mr. Pecora. There were 17,000 shares purchased in December 1929.

Mr. PECORA. Was that the first time that that stock, any of that stock, had been purchased for the portfolio of the United States & International Securities Corporation?

Mr. TRACY. I would like to check that. [After conferring with associates.] I think the balance of the stock, Mr. Pecora, was purchased from July 1929 on. I will have to look up the details of the purchases for you. As I remember it, we began buying it in July 1929.

Mr. PECORA. Have you before you a report that shows the portfolio of the United States & International Securities Corporation as of December 31, 1929?

Mr. TRACY. I will see whether I can get one. [After a pause.] I have before me the report of the United States & International Securities Corporation securities owned December 31, 1929.

Mr. PECORA. Do you find any entry therein relating to the holding of any common stock of the Chicago, Rock Island & Pacific by your investment trust as of December 31, 1929?

Mr. TRACY. Yes, sir.

Mr. PECORA. How many shares?

Mr. TRACY. They owned 41,400 shares, at a cost of $5,186,946.99.

Mr. PECORA. Now, were all of those 41,000-odd shares purchased between July 1929 and the end of that year?

Mr. TRACY. Now that I will have to look up for you again, Mr. Pecora. I cannot remember the dates of purchases of all of these transactions. We have thousands of them, and I hope you will excuse delay in looking them up. [After conferring with associates.] I am told that they haven't got them here. They will have to go back and look it up on the ledgers for you—unless you have it.

Mr. PECORA. All right. Let me ask you: You gave some date in July 1929 a few moments ago in one of your answers. Was that date intended to indicate the date of the transaction whereby the United States & International Securities Corporation acquired some 11,000 shares of the common stock of the Chicago Rock Island & Pacific?

Mr. TRACY. I don't remember the circumstances under which I gave that date.

Mr. PECORA. You recall that you did refer to a date in July 1929 a few minutes ago?

Mr. TRACY. I believe I did, but I don't know in what connection, Mr. Pecora. If you will refresh my memory——

Mr. PECORA. Were you the president of the United States & International Corporation in July 1929?

Mr. TRACY. Was I president of it? Yes.

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Mr. PECORA. You were president practically at the inception of that corporation in 1928?

Mr. TRACY. Yes.

Mr. PECORA. Do you recall what discussion you had with any of your fellow directors on the board of the United States & International Securities Corporation leading to the decision to invest moneys of that investment trust in common stock of this railroad company?

Mr. TRACY. There was a discussion practically at every directors' meeting and at a lot of the officers' meetings with regard to the purchase of railroad securities, because at that time, Mr. Pecora, it seemed to the board that they afforded the best opportunities for investment. Industrials were selling on a return basis of about 1 percent, utilities 2 percent, and railroads afforded the highest yield. We had to get something that would give us a yield.

Mr. PECORA. Now, Mr. Tracy, the fact is that according to your testimony on December 31, 1929, there was in the portfolio of the United States & International over $5,000,000 worth of the common stock of the Chicago, Rock Island & Pacific Railroad Co.?

Mr. TRACY. That is right.

Mr. PECORA. That is, when I say over $5,000,000 worth I mean cost.

Mr. TRACY. Cost; yes.

Mr. PECORA. Costing that much?

Mr. TRACY. That is right.

Mr. PECORA. That is a very large investment to make in a single security, isn't it?

Mr. TRACY. It is a fairly large investment; yes.

Mr. PECORA. Do you recall any larger investment in any one security that was made by this investment trust at any time?

Mr. TRACY. Well, now, I would have to go back and look that up. Yes; I see one here that is larger.

Mr. PECORA. Well, we have looked into that. Perhaps I can refresh your recollection, and I call——

Mr. TRACY (interposing). I see one that is larger right here, the St. Louis & San Francisco.

Mr. PECORA. Yes; the St. Louis & San Francisco Railway Co.?

Mr. TRACY. That is correct.

Mr. PECORA. In the common stock of which your investment trust invested $5,820,983.39 up to December 31, 1932; is that right?

Mr. TRACY. $5,820,983.39.

Mr. PECORA. These two securities, namely, the Chicago, Rock Island & Pacific Railway Co. common stock and the St. Louis & San Francisco Railway Co. common stock, are the two classes of securities in which your investment trust made its largest investments, are they not?

Mr. TRACY. Well, they were among the largest. If you have looked it up, I will take your word for it.

Mr. PECORA. Won't you please run your eye now down the list of the portfolio of the United States & International Securities Corporation as of December 31, 1932?

Mr. TRACY. Yes; that was.

Mr. PECORA. They are the largest?

Mr. TRACY. Correct.

Mr. PECORA. And by far the largest, are they not?

Mr. TRACY. Yes, they are by far the largest.

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Mr. PECORA. The next largest security in which you invested represented an investment of less than $2,000,000, didn't it?

Mr. TRACY. That is correct.

Mr. PECORA. Now, in view of the fact that your investment trust invested over $5,566,000 in the common stock of the Chicago, Rock Island & Pacific Railway Co. and over $5,820,000 in the common stock of the St. Louis & San Francisco Railway Co., would you say that you and your fellow members of the board on this investment trust gave any special attention to either of those securities before you made these large investments therein?

Mr. TRACY. Yes; I should say we did.

Mr. PECORA. Yes. Now, do you recall, in view of that fact, what discussion you had with your fellow directors on the matter of making those investments?

Mr. TRACY. Yes, sir; we had reports made on both those railroads by Coverdale & Colpitts.

Mr. PECORA. Yes.

Mr. TRACY. Both of which were favorable.

Mr. PECORA. Yes.

Mr. TRACY. If you will look back even to the service manual of those days you will find that Moody recommended Frisco in October 1929.

Mr. PECORA. Yes.

Mr. TRACY. You will find that the Standard Statistics and Moody's both recommended the purchase of Rock Island throughout that period.

Senator ADAMS. Mr. Tracy, may I ask you the question, you were here the other day when Mr. Dillon was explaining the fundamentals of the investment trust, were you not?

Mr. TRACY. I have been here; yes.

Senator ADAMS. As I recollect it, he said it was to afford the opportunity to the small investor to secure the diversification which he could not secure in his own individual purchases. How do you reconcile that theory of the operation of an investment trust where you put 40 percent of the money contributed by the first preferred stockholders into two stocks?

Mr. TRACY. They were large investments, Senator, yes, but we exercised——

Senator ADAMS (interposing). They did not follow the principle of diversification, did they?

Mr. TRACY. We exercised great care, we thought, and investigated those two companies thoroughly.

Senator ADAMS. But didn't you use as the basis for the formation of the investment trust the very argument that any man might make mistakes in one or another, so that the thing to do was to distribute them? I think that was Mr. Dillon's argument; so that a man might make a mistake, but if you distributed it as widely as you could you avoided that great hazard. Now you ran right into the hazard that you organized the institution to avoid.

Mr. TRACY. We did run into that hazard, but it was not 40 percent, Senator.

Senator ADAMS. Well, there was nearly $11,000,000, wasn't there, in these two companies?

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Mr. TRACY. Out of a 60,000,000 corporation.

Mr. PECORA. Over 11,000,000.

Senator ADAMS. This was not the Foreign Securities?

Mr. TRACY. International.

Senator ADAMS. International—then, I will have to reduce my figures to 20 percent.

The CHAIRMAN. This was the second one.

Mr. PECORA. Thirty-three and one third would be more accurate, Senator.

Senator ADAMS. It is still very liberal.

Mr. TRACY. Eleven million out of sixty.

Senator ADAMS. Are those two corporations allied in their operations, the Frisco and Rock Island?

Mr. TRACY. They have an interchange of freight and freight service and everything of that kind.

Senator ADAMS. They are not part of the same sort of allied railroad structure?

Mr. TRACY. No; not by any means. I think the Southern Pacific's report of 1930 or '31 disclosed the fact that they had purchased a lot of Frisco that cost them 130, which we did not know anything about when we bought it. Apparently they thought well of it also at that time.

Senator ADAMS. That is the real point.

Mr. TRACY. We believed it was a good investment. That is why we went into it.

Senator ADAMS. But you were saying to the general public "You are apt to make mistakes, and the thing to do is to secure diversification. Don't put too many of your eggs in one basket. We will take care of that, and see that they are properly distributed."

Mr. TRACY. We had a lot of cash on hand, Senator. We had a lot more money coming that was due on the allotment certificates. I do not know whether you remember the yield that you could get on investments in that period.

Senator ADAMS. Yes. I know.

Mr. TRACY. All the directors felt that railroads offered the best yield, the best return commensurate with safety, which one could put his money into at that time. We made a very intensive study of the railroads. We had a number of reports on other railroads that we did not go into.

Senator ADAMS. You yielded to the same temptation that Mr. Dillon was speaking of the other day. I think he almost pictured himself as a "mossback" in investment circles. He said that they would not yield to the temptation to get high yields, and yet instead of avoiding that, you did yield to the temptation of high yields.

Mr. TRACY. We had to invest our money to yield better than 5 percent, because that is what we had to pay our stockholders.

Senator ADAMS. But you were advising purchasers to avoid that very thing.

Mr. TRACY. Our object was to look for safety first, Senator.

Senator NORBECK. They did not prove safe.

Mr. TRACY. No.

Senator COUZENS. May I ask——

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Senator NORBECK. This advice you were giving turned out to be rather unreliable, did it not?

Mr. TRACY. I do not think anybody foresaw the conditions.

Senator NORBECK. You have the faculty of answering some question that nobody asks you.

Mr. PECORA. Mr. Tracy, to follow up Senator Norbeck's inquiry as to whether or not these two railroad stock investments proved safe, let me ask if it is not a fact, according to your own portfolio statement, that the 49,100 shares of the common stock of the St. Louis & San Francisco Railway Co. which were in the portfolio of the United States & International Securities Corporation on December 31, 1932, and which had been acquired at a cost to that investment trust of $5,820,983.39, had, on December 31, 1932, a market value of only $42,962.50.

Mr. TRACY. I will accept your statement on that, without even looking it up. Those railroads are both in receivership.

Mr. PECORA. Do not accept my statement. So long as you have your own documents before you——

Mr. TRACY. Of course, we have had a big loss in it.

Mr. PECORA. Are the figures I have quoted correct figures?

Mr. TRACY. We have a tremendous loss in those—a complete loss, you might say. They are both in receivership.

Senator COUZENS. May I ask the date of those Coverdale & Colpitts reports, when you used their reports as a guide in purchasing those securities? What are the dates of those reports?

Mr. TRACY. I will have to rely on my memory, but they were some time in the summer of 1929.

Mr. PECORA. Were they in July 1929 or thereabouts?

Mr. TRACY. I know they were in the summer of 1929.

Mr. PECORA. Do you know, further, that in July 1929 Dillon, Read & Co. and the United States & International Securities Corporation formed a pool or joint or syndicate account to trade in the common stock of the Chicago, Rock Island & Jacific Railway Co., on a 50–50 basis, as between these two participants?

Mr. TRACY. I am informed that we formed an account at that time with Dillon, Read & Co. to acquire stock in the market. That was our object in going into it.

Mr. PECORA. Did you, at about the same time—and when I say "you", I mean the United States & International Securities Corporation—form a similar joint account with Dillon, Read & Co., on a 50-50 basis, to trade in the stock of the St. Louis & San Francisco Railway Co.?

Mr. TRACY. As I recall, we formed an account to purchase stock in the market; yes.

Mr. PECORA. Who were the managers of both those accounts?

Mr. TRACY. I will have to look that up for you.

Senator COUZENS. Some "wise guys" must have been unloading on them all that time. There is no question about that.

Mr. TRACY. The joint railroad account, to purchase railroad securities, was formed in July 1929.

Mr. PECORA. Can you give the specific date?

Mr. TRACY. July 13.

Mr. PECORA. When were the operations of those two joint accounts terminated?

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Mr. TRACY. I am told on November 9, 1929.

Mr. PECORA. Was it not November 12, 1929?

Mr. TRACY (after conferring with an associate). According to our records, November 9, I am told.

Mr. PECORA. Three days difference does not matter very much.

The CHAIRMAN. Who was the manager of these accounts?

Mr. TRACY. It was a joint management.

Mr. PECORA. Are you sure it was a joint management?

Mr. TRACY. I am so informed. I will check it again (after conferring with an associate). Yes; I am told it was a joint management.

The CHAIRMAN. Who composed it?

Mr. PECORA. Dillon, Read & Co. and the investment trust, in equal shares. Each had a 50 percent interest.

Mr. TRACY. We wanted to buy railroad securities. We formed this account with Dillon, Read & Co. to buy railroad securities. They wanted to buy railroad securities also.

The CHAIRMAN. Had these roads, at that time, obtained loans from the Reconstruction Finance Corporation, do you know?

Mr. TRACY. I do not think the Reconstruction Finance Corporation was in existence.

Senator COUZENS. It was not organized until 1932, Senator.

Mr. PECORA. Let me, for your possible information, Mr. Tracy, state that we submitted a questionnaire to Dillon, Read & Co. which, among other things, called for information as to any pools, joint accounts, syndicates, or trading accounts in stocks in which Dillon, Read & Co., or its agencies or representatives participated, and of which Dillon, Read & Co. were managers; and that in their answer to that part of our questionnaire Dillon, Read & Co. informed us in writing—and I have the specific writing before me—that this joint account which was formed on July 13, 1929, and terminated on November 12, 1929, to deal in the stock of the Chicago, Rock Island & Pacific Railway Co., was one of the joint accounts which they managed.

Mr. TRACY. According to my recollection, Mr. Pecora, no securities could be bought in that joint account without the consent of both Dillon, Read & Co. and the investment trust. They could not buy anything in that account without our consent, and we could not buy anything in the account without their consent.

Mr. PECORA. Who gave the consent on behalf of the investment trust to any transactions for either one of those joint accounts?

Mr. TRACY. The board decided what we would buy.

Mr. PECORA. Did you, as president, have active participation in the discussions that led to these transactions?

Mr. TRACY. Indeed, I did. At a lot of the officers' meetings we discussed that at great length.

Mr. PECORA. Was this an open-market trading account?

Mr. TRACY. It was to acquire stock in the open market.

Mr. PECORA. To buy and sell?

Mr. TRACY. To acquire stock. That was our object. It was to acquire stock in railroads, to make investments in railroad securities.

Mr. PECORA. Let us confine ourselves, for the time being, to the joint account that was formed between Dillon, Read & Co. and the

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United States & International Securities Corporation on July 13, 1929, to acquire common stock of the Chicago, Rock Island & Pacific Railway Co. Who put up the funds with which that joint account was operated?

Mr. TRACY. The United States & International Securities Corporation, to the best of my information.

Mr. PECORA. Put up all the funds?

Mr. TRACY. Put up all the funds.

Mr. PECORA. And Dillon, Read & Co. had a half interest in any profits?

Mr. TRACY. Correct; or losses.

Mr. PECORA. Or losses. Do you think that was a proper function for an investment trust to undertake?

Mr. TRACY. That is a very usual thing to do.

Mr. PECORA. Do you think it is a proper function, apart from its being usual?

Mr. TRACY. I do not think there is any harm in it at all.

Mr. PECORA. Do investment trusts commonly advertise to the investing public that among the transactions in which they engage with the moneys subscribed by the investing public, are joint accounts with others in market operations in securities?

Mr. TRACY. I do not know that they advertise that, no; but that is nothing unusual, to go into an account of that kind. I can explain it to you if you would like to have me do so.

Mr. PECORA. I wish you would give me a complete explanation of it.

Mr. TRACY. If my memory serves me correctly, we had at that time something like $15,000,000 in cash, and about $22,000,000 that was due on the allotment certificates. We were very long on cash, and my recollection of the deal was that we said we would put up the money, and we charged interest at the rate of 5½ percent, which was more than enough to cover our earnings on the preferred stock, which were 5 percent. There is nothing unusual about that kind of an operation, provided you know the credit of the people you are doing business with. I would not think of going out and investing our money on a joint account with somebody that did not have the proper credit.

Senator COUZENS. Why was a joint account necessary? Why could you not do it yourself?

Mr. TRACY. Dillon, Read & Co. also wanted to buy railroad securities at that time. We discussed it at great length in the officers' meetings and directors' meetings. We have officers' meetings once a week, and sometimes more frequently, which all the directors are invited to attend if they want to, at which we discuss things informally. Most of the directors turn up for those meetings if they can. Dillon, Read & Co. wanted to buy railroad securities, also.

Senator COUZENS. Did they want to buy them for their own account?

Mr. TRACY. For their own account; and we decided to do this thing jointly, so that we would not compete with each other in the market.

Senator COUZENS. Did you yourself ever own any of the common stock of either of those railroads?

Mr. TRACY. No, I did not.

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Senator COUZENS. Do you know of any of your individual officers or directors that owned any stock in the Rock Island or the Frisco?

Mr. TRACY. I cannot give you a definite answer on that.

Senator COUZENS. I just asked you if you knew.

Mr. TRACY. I think that Charles Hayden was chairman of the board of the Rock Island, if I remember correctly.

Mr. PECORA. Mr. Charles Hayden is one of the gentlemen whom you mentioned yesterday as a director of this investment trust.

Mr. TRACY. Yes.

Senator COUZENS. Let him complete his answer. I would like to have him answer what he knows about that, first.

Mr. TRACY. I do not think any of the others were on the Rock Island.

Senator COUZENS. Were any of them on the Frisco?

Mr. TRACY. I think Mr. Ecker was on the Frisco.

Senator COUZENS. When you purchase these stocks and when they are transferred to your name is there any means of finding the source of the stocks, that is, from whom they were transferred

Mr. TRACY. I do not think so.

Senator COUZENS. I know nothing about these operations, so I may be asking some very foolish questions. I was wondering if there was any way of finding out who owned this stock that was apparently unloaded on you.

Mr. TRACY. I am told the market went up after we bought these securities.

Senator COUZENS. Obviously the seller of those stocks did not think so much of them, or they would not be unloaded in such large quantities, would they?

Mr. TRACY. I do not know who you mean might have been unloading.

Senator COUZENS. Selling, if you like that word better.

Mr. TRACY. Somebody must have sold them if we bought them.

Senator COUZENS. Certainly. I wonder why they were selling, if the outlook was so good. I was just trying to get the mental reaction of the man who would sell these stocks, and who would sell at that time, when the reports were so good.

Mr. TRACY. If you go back and review Moody's and Standard Statistics, you would be very much surprised to see the records they made in those days.

Mr. PECORA. Mr. Tracy, what individuals among the personnel of the United States & International Securities Corporation participated, in behalf of that corporation, in the management of this joint account in the shares of the Chicago, Rock Island & Pacific Railway Co.?

Mr. TRACY. The purchases were reported at the meetings as they were made at our weekly meetings and directors' meetings.

Mr. PECORA. Is that the extent to which your investment trust participated with Dillon, Read & Co. in the management of this account?

Mr. TRACY. We followed the transactions and the purchases which were made on the stock exchange, Mr. Pecora.

Mr. PECORA. You have told me that this joint account was managed by Dillon, Read & Co. and the investment trust.

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Mr. TRACY. Correct.

Mr. PECORA. The investment trust is a corporation and its acts are committed through the medium of individuals who are officers, directors, or employees. Who were those individuals who, in behalf of this corporation, participated in the management of this joint account with Dillon, Read & Co. in 1929?

Mr. TRACY. I am told that the United States & International made both those purchases, and Mr. Frank, who was then in the employ of the company, attended and took care of most of those purchases.

Mr. PECORA. Is Mr. Frank here now?

Mr. TRACY. I believe he is.

Mr. PECORA. Where is he?

Mr. TRACY. There he is right there [indicating].

Mr. PECORA. If he will remain in attendance, we may call him as a witness later.

When that joint account was terminated, on either November 9 or November 12, 1929, in the stock of the Chicago, Rock Island & Pacific Railway Company, were there any profits or losses to the syndicate managers?

Mr. TRACY. There must have been losses, because the market went down. I will get the exact figures.

Senator COUZENS. Losses to whom?

Mr. TRACY. There must have been book losses, because the market had quite a tumble between October 1 and November 9.

Senator COUZENS. Who suffered the losses, those in the joint account?

Mr. TRACY. Yes; there must have been losses. I am just looking that up, Senator.

Senator COUZENS. In the joint account?

Mr. TRACY. Yes.

Senator COUZENS. We know it was a loss to the investment trust, but was there a loss in the joint account?

Mr. TRACY. Certainly. The account was formed to share the profits equally, and the loss equally.

Senator COUZENS. If you went out and bought the stock, and turned it in to the investment trust at the price you paid for it, how would there be any profit or loss? You must have been selling and buying, and all that sort of thing.

Mr. PECORA. It was a trading account, was it not?

Mr. TRACY. Mr. Pecora, when the account was terminated, I am told that there was a loss of approximately $2,300,000, which was shared equally between the two groups, the United States & International Securities Co. and Dillon, Read & Co.

Mr. PECORA. Those losses occurred as the result of market operations in the stock of the railroad companies.

Mr. TRACY. Yes, sir.

Mr. PECORA. How many shares ——

Mr. TRACY. They only bought stock.

Mr. PECORA. They only bought?

Mr. TRACY. Bought.

Senator COUZENS. When they bought, to whom did they turn it over? When this joint operation bought stock, to whom did they deliver the stock?

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Mr. TRACY. It was delivered to the United States & International Securities Corporation for carrying purposes. We carried it all, put up the money and carried it all, and all the securities were delivered to us, at the market price.

Senator COUZENS. Will you explain to me how a loss occurred?

Mr. TRACY. When the account was terminated, Senator, on November, we took the market prices as of that date, and the difference between the cost and market as of that date, showed a loss to the joint account of $2,300,000. The account was terminated, and each one took their proportionate share of the securities. Each took half.

Senator COUZENS. They did not deliver them to each as they were accumulated by the joint account?

Mr. TRACY. No. The United States & International kept all the securities. We were putting up all the money, and we kept all the securities that were bought in the joint account.

Senator COUZENS. You delivered half of them in November to Dillon, Read & Co.?

Mr. TRACY. That is right; against cash.

Senator COUZENS. That loss was, then, the difference in the market between the date of purchase and the date of settling up the account, is that correct?

Mr. TRACY. You see, we put up all the money to buy these securities. Then we charged the account 5½ percent interest. We kept all the securities. When the account was terminated we delivered half the securities to Dillon, Read & Co., against which they paid us cost.

Senator COUZENS. Cost at what time?

Mr. TRACY. Cost during the period in which the securities were bought. We bought some in July, some in August, and some in September, and when the account was terminated it showed a loss of $2,300,000.

Senator COUZENS. What did the market price as of November 9, when the account was terminated, have to do with it? What did that have to do with it if you took them over at cost?

Mr. TRACY. We took ours over, but we charged Dillon, Read & Co. their share of the cost, you see, of what they stood us in the account.

Senator COUZENS. You did not turn them over to Dillon, Read & Co. at cost, then, did you? You turned them over to Dillon, Read & Co. as of the market, November 9?

Mr. TRACY. No. We turned them over at cost to the account.

Senator COUZENS. I may be dumb. I do not see where there is any profit or loss in it, if you turned them over at cost.

Mr. TRACY. That loss represents the difference between cost and market at that time. We delivered the securities to Dillon, Read & Co.

Senator COUZENS. At what price?

Mr. TRACY. And they paid for them at the price they cost the syndicate, you see?

Senator COUZENS. Yes.

Mr. TRACY. The securities at that time were worth $2,300,000 less than they had cost the syndicate.

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Senator COUZENS. Yes; but you have had no loss if you turned them over at cost. You did not turn them over at the market. If you turn a thing over at cost, how can there be a loss?

Mr. TRACY. They paid us cost. It was an unrealized loss. We gave them the securities.

Senator COUZENS. They did not pay you what they cost you?

Mr. TRACY. Yes. They paid us exactly what we paid for them.

Senator COUZENS. I may be dumb, but I do not see how there can be a loss.

Mr. TRACY. There was an unrealized loss.

Senator COUZENS. What do you mean by an unrealized loss?

Mr. TRACY. When the account was terminated we delivered half the securities to Dillon, Read & Co. at the cost of those securities to the syndicate. At that time the market price of those securities showed a loss of $2,300,000. The loss was there whether it was realized or not. You could have bought, at the market price, at $2,300.000 less, as of the date of closing of the account, but that had been bought during the period ahead of that.

Senator COUZENS. Yes; but you speculated on what the market would be when the joint account was closed, did you not?

Mr. TRACY. We thought it was going up, naturally, or we would not have gone into it.

Senator COUZENS. What became of this loss when it was not a realizable loss? What did you do with the loss when it was not realized?

Mr. TRACY. We kept our securities.

Senator COUZENS. What difference did it make to Dillon, Read & Co., if they were to share in the cost price? If they were to pay cost, where was the loss? There was a potential loss if you had attempted to sell them, but, as you did not sell them——

Mr. TRACY. We did not sell ours.

Senator COUZENS. So, how was there a loss, if you did not sell them?

Mr. TRACY. It is a potential loss for us, and would so show on our annual report, that they cost us so much, and the market value would be so much.

Senator COUZENS. What happened with that transaction of the $2,300,000 potential loss? What did you do with that? How was that potential loss handled?

Mr. TRACY. Our share of the securities would go on our books at cost to us.

Senator COUZENS. Yes.

Mr. TRACY. And in our annual report we would show those securities at cost. In the next column we would show the market value, so that anybody taking that report would see that they cost us so much, and they are worth so much, which is so much less.

Senator COUZENS. And so, in so far as your half is concerned, you had a loss of $1,150,000.

Mr. TRACY. Half of $2,300,000.

Senator COUZENS. Between what you had paid for them and what the then market was.

Mr. TRACY. Yes.

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Senator COUZENS. That $1,150,000 would be, I assume, a potential loss to Dillon, Read & Co. Did you pay them for that loss?

Mr. TRACY. Certainly not.

Senator COUZENS. Where was the loss, then?

Mr. TRACY. That was just a potential loss to Dillon, Read & Co. That was a book loss.

Senator COUZENS. So, there were no cash transactions with respect to that loss?

Mr. TRACY. Not at the closing of the syndicate; no, sir.

Senator COUZENS. At any other time?

Mr. TRACY. Dillon, Read & Co. subsequently sold those securities, I think, and then they must have registered an actual loss on them.

Senator COUZENS. So that there was only a potential loss, and not a real loss.

Mr. TRACY. As of the date of closing, if the market had gone up again, there would not have been a loss.

The CHAIRMAN. The account was not terminated by the sale of these securities, but by distribution.

Mr. TRACY. Distribution. Each took half of the securities.

The CHAIRMAN. There was not any actual sale of them.

Mr. TRACY. No; each took half the securities, and each paid half the amount of the cost.

Senator COUZENS. When you entered into the trading arrangement, you had an understanding that you were to share the profits and losses?

Mr. TRACY. Yes.

Senator COUZENS. I still cannot get through my mind how there was any profit or loss, if it was done at cost. You admit in your testimony that it is only a potential loss, so there was no real profit and loss in the transactions if it was all done on a cost basis.

Mr. TRACY. Not in that syndicate, Senator. If we had sold the securities belonging to the syndicate, we would have shared the actual loss.

Senator COUZENS. But the syndicate did not sell any.

Mr. TRACY. No.

Senator COUZENS. The syndicate only bought.

Mr. TRACY. Yes.

Senator COUZENS. So there was no real profit and loss at all.

Mr. TRACY. No; a book loss.

Senator COUZENS. But you did contemplate, when you entered into the trading agreement, that you might sell as well as buy.

Mr. TRACY. There might be a loss.

Senator COUZENS. Through selling and buying.

Mr. TRACY. Yes.

Senator COUZENS. Did the trading arrangement sell short at all?

Mr. TRACY. No.

Senator COUZENS. They did not sell at all, at any time?

Mr. TRACY. Not to my knowledge.

Senator COUZENS. They only bought.

Mr. TRACY. The simple purpose of forming it was to acquire the railroad securities, that was all.

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Mr. PECORA. Have you the minute book of the United States & International Securities Corporation covering the period between July 1929 and the 1st of January 1930?

Mr. TRACY. December 1, 1930?

Mr. PECORA. January 1, 1930.

Mr. TRACY (after conferring with associates). I have it here.

Mr. PECORA. Will you kindly look through the minute book for that period of time and see if you find any entries therein relating to the investment trust's going into this joint account with Dillon, Read & Co.?

Mr. TRACY. No; I do not find any reference to it, but I know it was gone into at great length during the months of May and June and up to the middle of July. I went away about the middle of July.

Mr. PECORA. Do you find any entries in the minutes of any meeting of the board of directors of your investment trust for the months of May or June that relate to this joint-account venture? Incidentally, while you are looking at it you need not confine yourself to any period of time. Look through the minute book and see if you can point out any entries therein relating to this joint account.

Mr. TRACY. No; I do not see any until you get over to September 9.

Mr. PECORA. But this joint account, you say, was formed on July 13?

Mr. TRACY. That is correct.

Mr. PECORA. And the decision then had been made on behalf of your investment trust to go into this joint account some time before July 13?

Mr. TRACY. Yes. It was discussed at all of the officers' meetings held during that period.

Mr. PECORA. Did you not record in your minutes of the meetings any references at all to decisions by which the investment trust entered into a joint-account operation involving millions of dollars?

Mr. TRACY. Apparently it is not recorded.

Mr. PECORA. Is that the way these minutes were kept generally?

Mr. TRACY. We never recorded sales until after they were made.

Mr. PECORA. What was the purpose of keeping minutes of meetings of the board of directors and failing to include any mention in those minutes of discussions which led to the making of important decisions by the board of directors?

Mr. TRACY. It is not customary in any companies that I am connected with to put into the minutes all the things you discuss, Mr. Pecora.

Mr. PECORA. Even such important items of discussion as one involving an investment of several millions of dollars?

Mr. TRACY. No.

Mr. PECORA. What are the minutes good for, then?

Mr. TRACY. They record what you have done.

Mr. PECORA. After it has been done, some report is made to the board of directors and such a report is entered in the minutes? Is that the way these minutes were kept?

Mr. TRACY. It is the usual thing to discuss what you are going to do. When it is done, it is recorded in the minutes.

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Mr. PECORA. The decision to enter this joint account must have been reached prior to July 13, 1929?

Mr. TRACY. Certainly.

Mr. PECORA. Was the making of that decision, whenever it was made, recorded in the minutes?

Mr. TRACY. We did not have any meeting in the summer of 1929. It was recorded at the first meeting held after that.

Mr. PECORA. At what meeting or meetings of the board of directors of your investment trust did they reach the decision to enter into this joint-account operation with Dillon, Read & Co. that involved an investment of several millions of dollars on behalf of the investment trust?

Mr. TRACY. It was probably decided at one of the officers' meetings.

Mr. PECORA. But not at a directors' meeting?

Mr. TRACY. It had been discussed, as I have told you, Mr. Pecora.

Mr. PECORA. I am not asking you now about an entry of a discussion in the minutes, but about the making of the decision.

Mr. TRACY. It is not recorded until the meeting that was held on Septebmer 9.

Mr. PECORA. Will you produce the minutes of the meeting in September 1929, in which you say that for the first time there is any mention at all of this transaction?

Mr. TRACY. I have them here. They are in the treasurer's report.

Mr. PECORA. Will you let me look at those minutes, please?

Mr. TRACY. Certainly [handing book to Mr. Pecora]. The treasurer's reports are part of the minutes and attached to them.

Senator COUZENS. Read them out loud so that we can all hear.

Mr. PECORA. Will you kindly show me where, in the minutes of the board of directors of your investment trust, of the meeting held on September 9, 1929, there is any reference to this joint account or to any transactions had in its name?

Mr. TRACY (reading): The chairman presented to the meeting financial reports of the treasurer of the corporation covering the transactions of the corporation during the months of June, July, and August 1929.

Here [indicating] is the report of the transactions entered into by the officers of the corporation, June 8 to June 30, 1929; the purchase of the Chesapeake & Ohio Railway Co. stock——

Mr. PECORA. Just get down to the transactions relating to this.

Mr. TRACY. All right. The last half of the month of July, Florida Power & Light; International Telephone & Telegraph Co., Chicago, Rock Island & Pacific, 5,000 shares; 10,000, Pennsylvania; 30,000, Frisco; 10,000 Southern Pacific; 10,000, Southern Railway; odd amounts of Seaboard bonds and notes.

Mr. PECORA. According to the minutes of the meeting of the board of directors of your investment trust held on September 9, 1929, and to which you have directed my attention in answer to my previous question, the directors present at that meeting were as follows: Clarence Dillon, Charles Hayden, Dean Mathey, J. W. McConnell, and Ernest B. Tracy. You acted as chairman of the meeting, and Mr. Frank acted as secretary of the meeting and kept the minutes. Is that the Mr. Frank to whom you made reference earlier

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this morning? Is that the man connected with the Keswick Corporation?

Mr. TRACY. Yes.

Mr. PECORA. Mr. Mathey, whose name I have mentioned, is one of the partners of Dillon, Read & Co., is he not?

Mr. TRACY. That is correct.

Mr. PECORA. Now, you have called my attention to the following entry appearing at page 161 of your minute book, relating to the meeting of that date, September 9, 1929, which reads as follows:

The chairman presented to the meeting financial reports of the treasurer of the corporation covering the transactions of the corporation during the months of June, July, and August 1929. A discussion of these reports and of the securities held by the corporation then ensued. Thereupon, on motion duly made and seconded, it was unanimously resolved that the reports of the treasurer of the corporation covering the transactions of the corporation during the months of June, July, and August 1929, copies of which have been submitted to this meeting, and all of the transactions set forth therein, hereby are in all respects approved, ratified, and confirmed.

Embodied in the minutes of the meeting of September 9, 1929, you called my attention to certain reports purporting to have been made to the board by the treasurer of the investment trust and in which mention is made that at certain times certain shares of the Chicago, Rock Island & Pacific Railway Co. had been acquired?

Mr. TRACY. That is right. If that is what it says there, that is right.

Mr. PECORA. The references in those reports of the treasurer to the acquisition of any securities of the Chicago, Rock Island & Pacific Railway Co., as far as I can find them, are contained at page 173 of this minute book, and show the acquisition of 5,000 shares of Chicago, Rock Island & Pacific Railway common stock at $135.23, or a total of $676,137.50; and that those purchases were made through G. N. P. Murphy & Co. Also at page 175 of the minute book is a statement embodied in the report of the treasurer that 19,900 shares of the common stock of the Chicago, Rock Island & Pacific had been acquired at $138.39, for a total of $2,753,962.50——

Senator COUZENS. From whom did they purchase those?

Mr. PECORA. It does not say, Senator.

Mr. TRACY. It was purchased through the account.

Mr. PECORA. In the first instance the information embodied in the treasurer's report shows the firm of brokers through whom the 5,000 shares were acquired, but the entry relating to the acquisition of the 19,900 shares does not appear to give the name of the broker through whom the purchase was made.

Mr. TRACY. I think where it shows the broker's name is where it is applied to the account. I think you will find it shows it.

Mr. PECORA. What did you say?

Mr. TRACY. I believe you will find the purchase against the broker's name there——

Mr. PECORA. I have just found this reference now, Senator, and I am going to read it. It appears at page 174 of the minute book and is contained in one of the reports submitted by the treasurer, and it reads as follows [reading]:

6. The United States & International Securities Corporation and Dillon, Read & Co. entered into an agreement to establish a joint railroad securities trading account, the funds for which to be provided for by the United States &

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International Securities Corporation, taking as reimbursement 5½ percent interest on the daily balances, the profits or losses of this account to be shared equally by each participant. As agreed upon, the following securities were purchased, totaling $10,891,578.

Then in the list that follows that statement appear, among other things, these entries, which I shall specifically read, because I propose to make it the subject of further examination.

Nineteen thousand nine hundred shares Chicago, Rock Island & Pacific Railway Co. common at $138.39—$2,753,962.50.

Thirty thousand shares St. Louis & San Francisco Railway Co. common at $130.58, a total of $3,917,525.

One hundred sixty-nine thousand shares of Seaboard Air Line Railway Co. at 45.77—no; these are bonds, $169,000 par value.

Mr. TRACY. I think it is only fair to read the whole list, giving all the securities, because that was the joint account and we were buying railroad securities at that time.

Senator COUZENS. Have we any copy of the joint agreement that was entered into?

Mr. PECORA. I am going to ask the witness for that as soon as I get through examining him about this minute book, Senator.

Mr. TRACY. There are a lot of others contained in that; and I think, in fairness, they all ought to be read.

Mr. PECORA. All right. I will read them all. I have already referred to the Chicago, Rock Island & Pacific and the St. Louis & San Francisco common. The entry further shows that there had been purchased for this joint account—

Ten thousand shares of Pennsylvania Railroad Co. capital stock at 98.41, a total of $984,000.

Ten thousand shares Southern Pacific Co. capital stock at 144.91, a total of $1,449,000.

Ten thousand shares Southern Railway Co. at 159.77, a total of $1,597,000.

$169,000 par value of bonds of the Seaboard Air Lines Railway, 5 percents, due in 1949, at $45.77, a total of $77,350.50.

$106,000 par value of Seaboard Air Line Railway 5 percent bonds maturing in 1949 at $46.86, a total of $49,667.

$89,000 par value of Seaboard Air Line Railway Co. first and consolidated 6 percent bonds maturing in 1945, at $69.93, a total of $62,235.50.

The CHAIRMAN. How were those purchases made?

Mr. TRACY. In the open market, Mr. Chairman.

Mr. PECORA. You have heretofore, told us with respect to the acquisition, through the medium of this joint account, of common stock of the Chicago, Rock Island & Pacific Railway Co., that the joint account in question was an account formed to acquire the stock—am I correct in that?

Mr. TRACY. To purchase railroad securities.

Mr. PECORA. And you have also told us in the course of your testimony this morning similarly with respect to the acquisition of the shares of the common stock to the acquisition of the shares of the Common stock of the St. Louis & San Francisco Railway Co. Am I correct in that, too?

Mr. TRACY. I believe you are, sir.

Mr. PECORA. At page 174 of this minute book the reference, which I have read into the record therefrom, is made to this joint account as a joint railroad securities trading account. Was this joint railroad securities trading account that your investment trust entered into with Dillon, Read & Co. a trading account in all that that

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term implies, or was it merely an account that was formed to enable the participants simply to acquire railroad issues?

Mr. TRACY. The object of the account, Mr. Pecora, was to purchase railroad securities.

Mr. PECORA. Why was it styled a trading account if that was the object?

Mr. TRACY. At that time, I cannot tell you that; but the object of the account was to buy railroad securities.

Mr. PECORA. Then the name given to that joint account, namely, joint railroad securities trading account, was perhaps a misnomer?

Mr. TRACY. I do not think the words "trading account" had the stigma attached to them at that time that has been developed since.

Mr. PECORA. Whether it had a stigma at that time, a trading account in 1929 meant the same thing as a trading account in 1933, did it not?

Mr. TRACY. It was formed for the purpose of buying railroad securities.

Mr. PECORA. We know that; you have told us that. But why was it called a trading account if it was formed only for the purpose of acquiring securities and not selling them.

Mr. TRACY. We might have decided to sell some securities.

Mr. PECORA. What was the decision that was reached some time prior to July 13, 1929, by the board of directors of your investment trust with respect to going into any kind of a joint account with Dillon, Read & Co.?

Mr. TRACY. We wanted to buy railroad securities.

Mr. PECORA. Not to sell them?

Mr. TRACY. No.

Mr. PECORA. Just to buy?

Mr. TRACY. Yes; we wanted to acquire them.

Mr. PECORA. When, in pursuance of that judgment or decision, your company went into a joint trading account with Dillon, Read & Co., was there a departure, by so doing, from the decision that the board had arrived at regarding the purposes of this account?

Mr. TRACY. None. The purpose of the officers was to acquire railroad securities, and we acquired them.

The CHAIRMAN. When the account was terminated, Mr. Tracy, how was the adjustment made? Did Dillon, Read & Co. take an equal number of shares of this stock and the investment company an equal number of the shares? How did you agree among yourselves as to the division of the stock that you had acquired?

Mr. TRACY. It was a 50–50 basis.

The CHAIRMAN. Each stock?

Mr. TRACY. Yes, sir.

Senator COUZENS. I think the copy of the agreement entered into is the best evidence.

Mr. PECORA. Will you produce the original or a true copy of the agreement entered into between your investment trust and Dillon, Read & Co. by which this joint account was created?

Mr. TRACY. I have before me one of the originals.

Mr. PECORA. Will you produce it, please?

(Witness produced a paper which he handed to Mr. Pecora.)

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Mr. PECORA. You say it is one of the originals. Do you mean it is a duplicate original?

Mr. TRACY. Yes.

Mr. PECORA. I offer it in evidence and ask that it be spread upon the record.

Mr. TRACY. I would rather not have it marked up, because it is our file copy.

Mr. PECORA. The marking is not going to damage it, is it? Putting an exhibit number on it will not damage it.

(The document referred to, dated July 13, 1929, headed "Thirty Million Dollar Railroad Securities Joint Account", was received in evidence as Committee's exhibit no. 15.)

Mr. PECORA. The exhibit produced by the witness, which has been marked "Committee Exhibit 15", of this date, is a carbon copy, is it not?

Mr. TRACY. Yes.

Mr. PECORA. A typewritten carbon?

Mr. TRACY. Yes.

Mr. PECORA. And it reads as follows. [Reading:]

THIRTY MILLION DOLLAR RAILROAD SECURITIES JOINT ACCOUNT,
July 13, 1929.

DILLON, READ & Co.,
New York, N.Y.

DEAR SIRS: Referring to the above account which is being formed today to buy and/or sell and/or trade in the common and/or preferred stocks and/or bonds of various railroads, subject to the condition that the account shall never be committed at any one time in a net amount exceeding $30,000,000, long or short, we beg to confirm the participation of $15,000,000 allotted to you in this account.

The account is to terminate October 15, 1929, unless sooner dissolved by mutual agreement, and may be extended by mutual consent. The account shall be under the joint management of Dillon, Read & Co. and the United States & International Securities Corporation.

Purchases and/or sales for the account are to be approved by both parties. Participants will share pro rata, that is, in the proportions which their respective participations bear to the total participations in the account in the profits, losses and expenses of the account, and at the termination of the account will be entitled to receive their respective pro rata shares of any assets then remaining in the account in the form in which the same then exists, less their respective pro rata shares of the charges to the account.

We will carry for the account all of such stock and/or bonds which the account is long at an interest rate of 5½ percent. If at some future time all or part of any of the securities long in the account be turned over to a new company, it is our understanding that you will be given an opportunity to make an offering of the securities of such company and for doing so will be entitled to reasonable compensation.

Kindly confirm your acceptance of the participation allotted you by signing the attached copy of this letter and returning it to us.

Yours very truly,

UNITED STATES & INTERNATIONAL SECURITIES CORPORATION.

Then there is a blank, a space, and vice president. In the lower left-hand corner is the word "Accepted", and a signature reading "Dillon, Read & Co., July 13, 1929."

Mr. PECORA. This agreement, or the agreement evidenced by this letter, Mr. Tracy, relates to a pretty large account, does it not?

Mr. TRACY. I would call it a pretty large account.

Mr. PECORA. One to which your investment trust was committing itself to the extent of as much as $15,000,000?

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Senator COUZENS. Committed itself to $30,000,000 as a matter of fact.

Mr. PECORA. Yes. Committed itself to $30,000,000; that is, committed itself to furnish the funds up to the amount of $30,000,000, but its participation therein for its own account was not to exceed $15,000,000.

As I have been examining you this morning, Mr. Tracy, along this line, I noticed that almost in every instance before you answered the question you had a whispered conference with a young man who is now seated at your right. Who is that young man? I do not recognize him.

Mr. TRACY. He is Paul Nitzé.

Mr. PECORA. Who is he? What is his relationship to your investment trust?

Mr. TRACY. He is vice president of the Keswick Corporation.

Mr. PECORA. I have no objection to your getting any information or advices that you want to get from any of your associates to enable you to answer any question that I put to you, but I do now want to ask you Mr. Tracy—you are president of this investment comporation—if you need to confer with Mr. Nitzé or anybody else in order to enable you to answer my question?

Mr. TRACY. Well, when I do, Mr. Pecora, I will ask that you be kind enough to let me confer with him. There are questions of details.

Mr. PECORA. There will be no objection to your conferring with him.

Mr. TRACY. All right. If I need any information with regard to specific purchases and sales and details that I cannot carry in my head I will make the request of you, if you will be kind enough to let me do it.

Mr. PECORA. Now do you need any information from Mr. Nitzé or anybody else in order to enable you to answer questions relating to the making of this joint account agreement of July 13, 1929?

Mr. TRACY. I will have to find out first what you are going to ask me about it.

Mr. PECORA. I propose to ask you a number of questions with respect to the making of this agreement. Do you feel that you have sufficient personal knowledge of all the circumstances surrounding the making of this agreement that you do not have to have advices and information from any of your associates?

Mr. TRACY. I think I know a great deal about it; yes.

Mr. PECORA. Well, let us see how much you know about it first.

Mr. TRACY. You might ask me the question, Mr. Pecora, but I may have to refresh my knowledge of it.

Mr. PECORA. Yes. Do you acknowledge that the making of this agreement of July 13, 1929, by your investment trust with Dillon, Read & Co. involved a business transaction of considerable moment and consequence to the investment trust?

Mr. TRACY. It did. The operation was of large magnitude.

Mr. PECORA. Do you know any other single agreement touching upon any of the business operations of your investment trust that exceeded this agreement in magnitude?

Mr. TRACY. I do not.

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Mr. PECORA. In view of that fact, Mr. Tracy, will you be good enough to tell this committee if you can why there is absolutely no mention in the minute book of your investment trust of the making of this agreement at the time it was made or at the time the decision to enter into it was made?

Mr. TRACY. I think I told you before, Mr. Pecora, that this matter was discussed at the directors' meetings, at officers' meetings; I discussed it outside of the meetings with different directors, and we came to the conclusion—the board—that railroad securities offered the best field for investment on earnings, market basis, on yield basis, and we decided to look into the railroads. We spent money on reports not only on the Rock Island, the Frisco, the Denver & Rio Grande Western, the Chicago Great Western, but one or two other roads, and as the result of all those deliberations we decided to buy railroad securities. And that is the method that we employed. That is our usual form of reporting operations to the board. But everyone on the board knew about that account. There was not anybody that did not know it.

Mr. PECORA. What reason was there for not mentioning somewhere in the minute book of your board the fact that the board had committed itself to a joint account involving a potential liability of $30,000,000?

Mr. TRACY. I do not know. As I told you, everybody on the board was familiar with that, and the details of it, and our reasons for going into it. It was unanimous. We were not trying to hide anything from anybody. Every director knew everything that we were doing.

Mr. PECORA. I have not used any such term as "hide" anything. I am simply trying to get from you some explanation of why it was not mentioned. It might have been an oversight for all I know. I do not say that you were trying to hide something, but I am trying to get your own reason or explanation for the absolute absence from the record of the minutes of your board meetings held at any time prior to and up to July 13, 1929, of any reference to this transaction involving potentially a 30-million-dollar commitment by your company. That is what I am trying to find out.

Mr. TRACY. There was no reason that I know of. It was not usual for us to put those things in our minutes, Mr. Pecora. But I come back and tell you again that all of them had hashed over this thing, had discussed it, had talked about it, had discussed railroads, had reports made of it, and it was the unanimous opinion of the board that railroad securities offered the best field for investment at that time.

Mr. PECORA. What do you regard as the primary function served by the keeping of minutes of meetings of boards of directors?

Mr. TRACY. To record what you have done.

Mr. PECORA. Exactly.

Mr. TRACY. And I think everything is recorded in there. All the purchases that we have made.

Mr. PECORA. Well, you made purchases after you made decisions to purchase?

Mr. TRACY. Yes.

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Mr. PECORA. The important thing is the making of the decision, is it not, because without the decision the purchase does not subsequently follow?

Mr. TRACY. No; it does not.

Mr. PECORA. Why do you not put in your minutes, or cause to be put there, the important decisions that the board makes with regard to the contemplated purchase of securities?

Mr. TRACY. Well, it is not customary—I am on a number of boards—to record any transactions until they are reported.

Mr. PECORA. If you were asked at any time and place to say, under oath, at what meeting of the board of directors the final decision was arrived at to enter into this joint-account agreement of July 13, 1929, would you be able to answer on the basis of your personal recollection?

Mr. TRACY. No.

Mr. PECORA. Do you know any of your fellow directors who would be able to answer such a question on personal recollection?

Mr. TRACY. No. But what I can tell you and what they could tell you is that we had discussed this thing for months. We had gone into the railroad securities, we had looked into railroads, we had looked into everything else, and we decided to acquire railroad securities because——

Mr. PECORA. You cannot tell us when you reached that decision and when you actually embodied such a decision in a written agreement which bears a definite date? The fact of the making of that written agreement at the time it was made is not mentioned in the minutes anywhere? Is that not the situation?

Mr. TRACY. That is right. It is not. But the purchases are recorded, and the amounts.

The CHAIRMAN. But the agreement contemplates not only acquiring securities but selling them.

Mr. TRACY. Well, that is the usual form, Mr. Chairman, when that account was formed to purchase railroad securities.

Mr. PECORA. Then if it was formed solely to purchase railroad securities for the benefit of the account, and it had only two participants, namely, Dillion, Read & Co. and your investment trust, why was the agreement so drawn as to confer upon the managers of this account the right not only to purchase but to sell; the right not only to buy long but to sell short?

Mr. TRACY. That is the usual form, Mr. Pecora.

Mr. PECORA. Who prepared this usual form? Do you find it in any textbook on forms?

Mr. TRACY. No; I do not think you do.

Mr. PECORA. Well, who prepared this usual form?

Mr. TRACY. I will find out for you if you wish.

Mr. PECORA. Please.

Mr. TRACY (after conferring with his associates). I do not know who wrote that, and they do not seem to be able to tell me. But that is the usual form whenever an account is formed to buy and sell.

Mr. PECORA. Do you know who signed that contract or that agreement of July 13, 1929, in behalf of your company?

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Mr. TRACY. No. I will try to find out for you. Do you know who signed it (addressing his associates)? I will have to look that up.

Mr. PECORA. All right. Now, Mr. Chairman, I notice the time is 12:15 p.m., and as I recall it, it was the purpose of the committee to adjourn early today. In view of that, and in view of the fact that I notice in this room the presence of Hon. Patrick J. Hurley who I know desires to make some statement to the committee respecting a matter that is before the committee or is to come before the committe, may I suggest that we suspend the examination of this witness at this time and ask Mr. Hurley to address the committee if he desires to do so.

The CHAIRMAN. Will that be agreeable to you, Mr. Tracy?

Mr. TRACY. Yes, sir.

The CHAIRMAN. We will suspend the examination of Mr. Tracy, then, for the present. Our purpose is to adjourn, when we do adjourn, until Tuesday. Then, Mr. Tracy, we will not resume with you until 10 o'clock on Tuesday. We are going to adjourn now until 10 o'clock next Tuesday.

Mr. PECORA. Mr. Chairman, will you request that all witnesses now under subpena, whether they have already been called to testify or not, return under that subpena on Tuesday morning?

The CHAIRMAN. All witnesses who have been subpenaed will be present Tuesday at 10 o'clock.

(Thereupon, the examination of Mr. Tracy was temporarily discontinued until 10 a.m. the following Tuesday, October 10, 1933.)

The CHAIRMAN. Before Mr. Hurley takes the stand I wish to make this statement for the record. The committee wishes to express its regret because of the illness of Senator Glass and his enforced absence. I have just received this memorandum with reference to Senator Glass' illness and I will ask that it be placed in the record at this point.

(The memordandum referred to is as follows:)

OCTOBER 6, 1933.

Senator Glass wishes Senator Fletcher to know that he is confined to his bed under the care of a physician and trained nurse, and that this illness has prevented him from attending the sessions yesterday and today.

RIXEY SMITH, *Secretary.*

The CHAIRMAN. We will now ask Mr. Hurley to take the stand. You wanted to ask Mr. Hurley some questions, Mr. Pecora?

Mr. PECORA. No. I think Mr. Hurley has indicated to me that he has some statement to make to this committee, or some application to address to it.

The CHAIRMAN. Are you appearing as counsel, Mr. Hurley?

Mr. HURLEY. Yes, sir.

The CHAIRMAN. Not as a witness?

Mr. HURLEY. Not as a witness.

The CHAIRMAN. There is no need for you to be sworn, then. You may proceed with any statement you desire to make, Mr. Hurley.

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STATEMENT BY HON. PATRICK J. HURLEY IN BEHALF OF THE ASSOCIATED GAS & ELECTRIC CO.

Mr. HURLEY. Mr. Chairman and members of the committee, my appearance before this committee in behalf of the Associated Gas & Electric Co. is primarily for the protection of the rights of approximately 350,000 citizens throughout the country who have invested in its securities. As we understand it, the committee desires to present to the public a true statement of the methods employed in issuing the securities of the company. We feel that the best interests of the security holders will be promoted by the conducting of the entire proceedings in public. With that in view, the company has for itself and all its subsidiaries presented willingly all of its records to Mr. Pecora and his agents. The books and records of the company and its subsidiaries are and will continue to be available to Mr. Pecora and this committee.

The affairs of the company have been fully investigated by the Federal Trade Commission. That commission recently published a report of its investigation (S. Doc. 92, pt. 45, 70th Cong., 1st sess.). The frank cooperation of the corporation was commended by the chief counsel for the Federal Trade Commission in the public record referred to at page 837, as follows:

Mr. HEALY. I think it appropriate for me to say at this time, at least, I desire to say on behalf of myself and Dr. Walker, the chief economist, and also on behalf of the Commission, that we appreciate the cooperation which we have had from the Associated Gas & Electric Co. in our work and in Mr. Nodder's work of preparing and presenting this report for the record.

I am moved to say that the company has not refused us any information which the representatives of the Commission deemed material and pertinent under the resolution and statute that we work under.

Commissioner MCCULLOCH. It is very appropriate that that acknowledgment should be made on the record. Now, are you ready for adjournment?

The Associated Gas & Electric Co. is the largest independent utility holding company in the United States. By that I mean that it is controlled by its management and not by banks or banking connections generally referred to as Wall Street. There are undoubtedly large interests who would like to see this company dismembered, even though it were necessary to force it into receivership to do so. Unquestionably a receivership would be destructive to the best interests of hundreds of thousands of security holders throughout the United States.

In addition to this, so-called "chiselers" have formed and attempted to form committees ostensibly to serve the security holders but actually to profit by the distress that this can bring to the security holders of this corporation. As evidence of this I would like to call the attention of the committee to the fact that one of these so-called "security protective committees" has attached to its circulars which have been sent out to dealers the following statement:

Until further notice the sum of $6, which is approximately 4 percent of the current market value, will be allowed and paid to investment dealers who are active, for each debenture deposited through them, to cover their cost of assisting debenture holders in depositing with this committee, the same to be payable immediately upon satisfactory proof of deposit.

Necessarily this very high cost of procurement of depositors must be charged together with all other expenses against the security holders.

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Senator COUZENS. Do you mind an interruption, Mr. Hurley?

Mr. HURLEY. No, sir.

Senator COUZENS. What is the purpose of collecting these securities?

Mr. HURLEY. They state that they are collected by a protective committee for the protection of the security holders. I have here a complete record of the advertising campaign conducted in the papers and the advertisement itself.

Senator COUZENS. I would like to have that placed in the record.

The CHAIRMAN. It may be marked as an exhibit and spread upon the record.

(Advertising matter of the Debenture Holders' Protective Committee was marked "Committee Exhibit No. 16, October 6, 1933," see p. 1775.)

Senator COUZENS. Why did they need protection? That is what I wanted to know.

Mr. HURLEY. I think possibly that in the case of a company with far-flung interest that is under investigation, in these times when taxes have been increased, cost of operations increased, and the income on the commodity reduced, there is a chance to break the company down.

Senator COUZENS. What do you mean by that? That they are in default on their securities?

Mr. HURLEY. I mean to say that throughout the depression this company has paid interest to date and is still paying interest.

Senator COUZENS. So you have no securities in default?

Mr. HURLEY. As I understand, there are none in default. I am advised this morning that the interest is all paid to date.

Senator COUZENS. I want to get this straight, because it is not usual to form bondholders committees or security holders committees until there is a default.

Mr. HURLEY. I am pointing to this, Senator, because it is very unusual, and it is an attack upon what I conceive to be the fundamental rights of persons who have invested in these securities to prepare for themselves a competence for illness or old age, and I am calling it to the attention of the committee because it is an attack upon the rights of these investors throughout the United States.

May I proceed?

Senator COUZENS. Yes.

Mr. HURLEY. An investigation of this nature must necessarily bring forth those who will attempt to profit by any distress caused to the investors. I do not see that the committee can in any way prevent this, but I do want to call attention to the fact that it is taking place.

The press recently has carried quite generally a story to the effect that Mr. Pecora has said that the Associated Gas & Electric Co. is "a corporate labyrinth resembling the Insull group in structure and formation." No statement that has been made could be more damaging to the welfare of the investors of this company. The Insull situation has come to have a specific derogatory meaning in the public mind. Without referring to questions of fraud or mismanagement, it means a bankrupt situation. I feel certain

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that such a comparison would not have been made by Mr. Pecora after he had completed this investigation.

Let us look for a moment to the differences between this situation and the Insull situation, to which Mr. Pecora likens it. The Insull holding company situation was built up largely on thin equities with large amount of underlying securities held by the public. These equities were freely pledged as collateral for the bank loans which the companies were unable to pay, resulting in the foreclosure of the loans. The earnings of the holding companies were in large part based on intercompany profits on the sales of properties and securities, which could not continue to be shown when the depression came. These are the things which caused the collapse of the Insull structure. The policies of the Associated management have been exactly the opposite. The Insull organization on the advent of the depression was immediately unable to pay the interest upon its securities; in contrast, the Associated Gas & Electric Co. has continued to pay the interest on its securities throughout the depression.

The condition of the company under the present investigations and attacks from without together with increased taxes and the increased cost of compliance with the provisions of the N.R.A. is raising the cost of operation of the company at a time when rates are actually being reduced. I agree with Mr. Pecora that there are complexities in the corporate organization. That must necessarily be so when it is understood that the company operates in 26 States of the Union, in Canada, and in the Philippine Islands; but his attention should also be called to the great strides the company has made in simplifying the corporate structure. Since 1922, 216 corporations have been eliminated by the Associated System in simplifying its corporate structure. For the information of the committee, I will hand Mr. Pecora, if he desires to have it, a statement of the corporations actually eliminated from the system during this period. The process of simplification is still going on.

As I said in the beginning, I am appearing here primarily in the interest of the people throughout the country who have invested in these securities, in a hope that we may be able to work constructively together to save those investors.

I said also in the beginning that the books of the Associated and its subsidiary companies are now and will continue to be at the disposal of Mr. Pecora and this committee. Mr. Pecora has asked for the private books of private concerns owned or controlled by Mr. H. C. Hopson. I am not attorney for Mr. H. C. Hopson.

Senator COUZENS. Who is Mr. Hopson?

Mr. HURLEY. Mr. Hopson is executive vice president of the company.

Senator COUZEN. That is, the holding company?

Mr. HURLEY. Yes, sir.

The CHAIRMAN. He really has the management of the company?

Mr. HURLEY. Yes.

The CHAIRMAN. And its affairs?

Mr. HURLEY. Yes, sir.

Senator COUZENS. Has he been here right along during this investigation?

Mr. HURLEY. No, sir.

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Mr. PECORA. I have never laid eyes on him, Senator Couzens.

Senator COUZENS. Do you know where he has been?

Mr. HURLEY. I know where he is now.

Senator COUZENS. Is he here in the room?

Mr. HURLEY. No. There is a vice president here in the room now.

Senator COUZENS. Where is Mr. Hopson?

Mr. HURLEY. Mr. Hopson is in Chicago.

Senator COUZENS. Has he been active in the affairs of the company during this year?

Mr. HURLEY. No, sir. He has been ill part of the time. I might say this: There is some one here who will say to the committee that Mr. Hopson is available, and when I finish this you will find that he is available at any time the committee wants him, and has been for any public hearing that was desired.

Mr. Pecora has asked for the private books of the private concerns owned or controlled by Mr. H. C. Hopson. I am advised, however, that the confidential records of clients and others, not concerned with the Associated Gas & Electric Co., are in the H. C. Hopson & Co. records. While Mr. Hopson has every desire to cooperate, yet he feels that he should not be compelled to disclose the confidential records of disinterested parties. He has stated that he will submit himself and his books to this committee, but as a matter of protection for himself it should be under proper subpena and with the understanding that he is not voluntarily divulging confidential records of others which do not have a direct or indirect bearing on any matters pertaining to this investigation; and that he will be allowed to appear before this committee in person, with his books.

As this committee probably knows, the Associated Gas & Electric Co. is at present time undergoing recapitalization. Half truths and rumors may become public before the true facts as stated by the managers in public hearing to the committee, and in such event it will be exceedingly damaging to the welfare of the security holders.

My purpose in appearing before you gentlemen is to get a statement before you of those salient facts, and to present ourselves so far as the Associated Gas & Electric Co. is concerned without any qualifications whatever, to this committee.

The CHAIRMAN. Has the Federal Trade Commission investigation been completed, Mr. Hurley?

Mr. HURLEY. I understand so, although I think the question of the findings is not fully agreed to by Mr. Pecora. However, he may speak for himself on that. It was my understanding that it had been completed, and here was the conclusion of the document thanking the company for its cooperation.

Mr. PECORA. Mr. Hurley, may I ask if you know what is the date of the report of the Federal Trade Commission's examination?

Mr. HURLEY. I haven't the date here, but it is Senate Document 92, part 45, Seventieth Congress, first session.

Mr. PECORA. Perhaps if you would confer with Mr. Travis, who is a New York attorney and who I see is sitting alongside you, he might confirm what I understand to be the fact, that this report was made and dated as of some time in 1929.

Mr. TRAVIS. I believe it was December 31, 1929, and accountants are now bringing it down to date.

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Mr. PECORA. And the examination has been going on for some time past on behalf of the Federal Trade Commission to bring that down to date.

Mr. TRAVIS. Yes, sir.

Mr. PECORA. But the report referred to by Mr. Hurley, in what I believe was his prepared statement, as I noticed he read it, is one that was made as of December of 1929. Is that correct, Mr. Travis?

Mr. TRAVIS. That is the way I understand it.

Mr. PECORA. That is my understanding, too.

Mr. HURLEY. I say this to Mr. Pecora, that this morning, when this was handed to me, I labored under the impression that that was more recent and that it was the conclusion of the present hearing. But we are in agreement on that now.

Mr. PECORA. I think, Mr. Hurley, I have what I understand to be the facts, that your professional services were retained by your client in this matter only last Sunday.

Mr. HURLEY. Yes, sir.

Mr. PECORA. But, necessarily——

Mr. HURLEY (interposing). In fact, later than that.

Mr. PECORA (continuing). But you could not have had what might be regarded by any stretch of imagination a reasonable time in which to inform yourself by your own processes, of the facts.

Mr. TRAVIS. Of course, I should like to say——

Mr. PECORA (continuing). And you, Mr. Hurley, have had to rely, quite necessarily in the circumstances, upon a statement of facts given to you by others. I believe that is a correct statement, isn't it, Mr. Hurley?

Mr. HURLEY. Of course, I have had very little time to examine the records of the company. However, I believe that I have made to the committee a correct statement of the situation as it now confronts you.

Mr. TRAVIS. Might I just say, in order to attempt to make this matter perfectly clear——

Mr. PECORA (interposing). You might just put your full name on the record, and your relationship to the Associated Gas & Electric Co.

STATEMENT OF CHARLES M. TRAVIS, OF THE LAW FIRM OF TRAVIS, BROWNBACK & PAXSON, COUNSEL FOR THE ASSOCIATED GAS & ELECTRIC CO.

Mr. TRAVIS. My name is Charles M. Travis, of the firm of Travis, Brownback & Paxson, counsel for Associated Gas & Electric Co.

Senator COUZENS. Might this matter about chiselers be placed in the record?

Mr. HURLEY. Yes. I don't know whether I gave it to you. And do you want this in the record or not? This was connected with a press release.

Senator COUZENS. I think he has already read that, Mr. Pecora.

Mr. PECORA. No doubt that might go in, if Senator Couzens desires it.

Senator COUZEN. Well, if that is a press release I don't know that Mr. Pecora has seen that.

Mr. PECORA. Then that has already been made public, through the press, as you say it has been furnished to the press.

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Senator COUZENS. I should like an opportunity to look over those papers that have to do with the so-called "chiselers."

Mr. PECORA. I believe the committee reporter has it and will hand it over to Senator Couzens for his inspection.

Senator COUZENS. You may go right ahead, Mr. Pecora, so far as I am concerned.

The CHAIRMAN. Mr. Travis, you may now proceed with your statement.

Mr. TRAVIS. I thought there might be a little misunderstanding in regard to the Federal Trade Commission investigation. While the accounting period for which the report was made ended December 31, 1929, the public hearings before the Commission are of a very much more recent date, and the statement which Mr. Hurley quoted was at a public hearing, I believe, within the past year.

The CHAIRMAN. Do you represent the Associated, Mr. Travis?

Mr. TRAVIS. I represent the Associated Gas & Electric Co.

The CHAIRMAN. How long have you been representing them?

Mr. TRAVIS. I have been doing legal work for that company, I suppose, for 10 years.

The CHAIRMAN. Proceed, Mr. Pecora.

Mr. PECORA. May I ask Mr. Travis if he will be good enough to tell the committee from his personal knowledge when Mr. Hopson left the New York offices of the Associated Gas & Electric Co.; when he was last there?

Mr. TRAVIS. Well, I went away from New York, I think it was, on the 17th of August, for a short vacation. Mr. Hopson was there at that time. I heard after I returned, which was a few days after Labor Day, that he had left a few days after I went away, and I have since been informed that he went away on the doctor's orders, that he had high blood pressure, and while he was away in Kentucky——

Mr. PECORA (interposing). Where did he go, Mr. Travis?

Mr. TRAVIS. I could not tell you from my own knowledge where he went.

Mr. PECORA. Well, from any information that you have where did he go?

Mr. TRAVIS. I understand that he started in to make a tour of some of the properties.

Mr. PECORA. Do you mean an automobile tour?

Mr. TRAVIS. Yes; an automobile tour.

Mr. PECORA. At a time when he was ill and suffering from high blood pressure?

Mr. TRAVIS. Yes.

Mr. PECORA. Has he returned to the office of the company in New York at any time since he left some time in August?

Mr. TRAVIS. No; he has not.

Mr. PECORA. Have you been in touch with him daily?

Mr. TRAVIS. No.

Mr. PECORA. Since he left the New York office of the company on this automobile tour?

Mr. TRAVIS. No; I have not, Mr. Pecora.

Mr. PECORA. Have you tried to get in touch with him daily or frequently during that time?

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Mr. TRAVIS. I have not tried to get in touch with him frequently, but I have tried to get in touch with him on several occasions.

Mr. PECORA. And were you able to do so?

Mr. TRAVIS. On several occasions I was able to do so.

Mr. PECORA. You know that representatives of the investigating staff of this committee, since the middle of August, or, that is, from a date somewhat prior to that time, have made very, very frequent efforts by inquiring at the New York office of the Associated Gas & Electric Co. for information concerning the whereabouts of Mr. Hopson, to get in touch with him, and that they never were able to get any such information?

Mr. TRAVIS. Well, I was not aware that they had made inquiries as to his whereabouts until within the past 2 weeks or so.

Senator COUZENS. Where did Mr. Hopson go after he made an inspection of the plants?

Mr. PECORA. Do you know whether Mr. Hopson actually made an inspection of the plants on this automobile tour?

Mr. TRAVIS. I understand that he was down in Bowling Green, Ky., which is the center of the Kentucky-Tennessee properties; that he was taken ill there with intestinal influenza and was ill for some days. That as soon as he was able to get out he went to Chicago to be there with his sister who was at that time in Chicago.

Senator COUZENS. Has he been there continuously since?

Mr. TRAVIS. He has been there continuously.

Mr. PECORA. How long has Mr. Hopson been in Chicago?

Mr. TRAVIS. I do not think I am able to answer that question, Mr. Pecora.

Mr. PECORA. I had a conversation with you in the office of the committee in New York a week ago today, didn't I, Mr. Travis?

Mr. TRAVIS. Yes, sir.

Mr. PECORA. At that time you came up to the office in response to a telephone conversation or request from me, did you not?

Mr. TRAVIS. Yes, sir.

Mr. PECORA. Would you mind giving the committee the substance of the conversation you and I then had about Mr. Hopson's whereabouts and our inability to get in touch with him either directly or through his office?

Mr. TRAVIS. The first or the second conversation?

Mr. PECORA. Well, we only had one on Friday, didn't we, and we had another one the next day, last Saturday. But I am referring now to the first one, on Friday, and we only had one conversation on Friday.

Mr. TRAVIS. Well, Mr. Pecora stated to me that he thought he had been very patient with Mr. Hopson, that he had tried, or that Mr. McEldowney had tried some time before that to get the books, or had asked for the books of H. C. Hopson & Co., and that they had not then been able to get the books; that Mr. Pecora thought there had been unnecessary delay, that he thought Mr. Hopson was not cooperating in the matter, and that he was forced to insist that Mr. Hopson either let Mr. McEldowney examine the books or be advised where he was so that he might be served.

Mr. PECORA. Did I indicate how long I had been trying to establish contact with Mr. Hopson, either directly or through his office, but had been unable to do so?

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Mr. TRAVIS. I think you said about 4 weeks.

Mr. PECORA. I said it was at least 4 weeks, didn't I?

Mr. TRAVIS. I think so.

Mr. PECORA. And did I also say to you, among other things, that the day before our conversation Mr. McEldowney, who is one of the examiners on the staff of the investigators for the committee, had reported to me that Mr. Shields, who I understand is a member of the bar and an associate of yours, is he not?

Mr. TRAVIS. No; he is not an associate of mine.

Mr. PECORA. Well, he is a member of the bar and in your office, as I understand.

Mr. TRAVIS. No; he was in Mr. Hopson's office at that time.

Mr. PECORA. Well, that Mr. Shields had said to Mr. McEldowney the day before I had this conversation with you, last Friday, that he (Mr. Shields) deplored very much the fact that we had been unable to get in contact with Mr. Hopson, either directly or through his office, because he (Mr. Shields) felt certain that if Mr. Hopson knew that I wanted to get in communication with him that Mr. Hopson would immediately make himself available. Do you remember my saying something like that to you in that conversation?

Mr. TRAVIS. I remember your saying something about what Mr. Shields had said but do not remember the details.

Mr. PECORA. Do you remember my further saying to you in our conversation of last Friday, in substance, that Mr. Shields' statement seemed incredible to me, but that I was willing to give him the benefit of any doubt that might exist in my mind concerning its credibility, and hence in view of the fact that he said that Mr. Hopson in his (Mr. Shields') opinion would make himself available to me if he only knew that I wanted to get in touch with him; and in view of the further fact that it had been reported to me by the persons in the office of the Associated Gas & Electric Co. that they had tried, and tried in vain, to establish contact with Mr. Hopson, that within 24 hours after our conversation of last Friday I would feel constrained to adopt some other method for informing Mr. Hopson of the fact that I wanted to get in tuch with him for the purposes of this investigation?

Mr. TRAVIS. Yes.

Mr. PECORA. And I told you that that other method would consist of a request to the press to publish the fact that I wanted to meet Mr. Hopson in connection with this investigation because it had been found impossible, or I had been unable through our own resources or through the facilities of your office, to establish such contact with him. Do you remember that I said that to you in substance last Friday?

Mr. TRAVIS. I do not recall, Mr. Pecora, that you said you had been trying to establish contact with him. But it may be your language was somewhat similar to that.

Mr. PECORA. I see. Well, now——

Mr. TRAVIS (continuing). I think you did say that you had been trying to make service on him.

Mr. PECORA. Well, your office knew that before I stated that fact to you last Friday, didn't it? Did not associates of yours in the office know from the fact that a United States Marshal, or a Deputy

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United States Marshal had made inquiries concerning the whereabouts of Mr. Hopson at the office of the Associated Gas & Electric Co., that I was trying to effect service in behalf of this committee on Mr. Hopson, so that you knew that fact before I told you last Friday, didn't you?

Mr. TRAVIS. I think I knew that on Thursday afternoon, that I was informed of it. I was away the day before, out of town.

Mr. PECORA. Is it a fact so far as you can tell us that for about 4 weeks persons connected with the office of the Associated Gas & Electric Co. had sought to get into communication, by telephone or otherwise, with Mr. Hopson to inform him of my request, but had been unable to do so?

Mr. TRAVIS. I did not know that, but at one time, and I believe it was in the early part or middle of September, I learned that they were unable to get in touch with Mr. Hopson, and were advised that he was ill and unable to talk over the telephone.

Mr. PECORA. Who made that attempt to talk with Mr. Hopson over the telephone?

Mr. TRAVIS. I, myself, made the attempt.

Mr. PECORA. Well, you told me that on last Friday, didn't you?

Mr. TRAVIS. Yes, sir.

Mr. PECORA. And that was the first time you told me that. You told me that about a week or 10 days prior to our conversation of last Friday you had succeeded in locating Mr. Hopson by telephone somewhere, but that when you asked to speak to him you were told by the person at the other end of the telephone, wherever it was, that Mr. Hopson was too sick to come to the telephone to talk to you?

Mr. TRAVIS. Yes.

Mr. PECORA. And do you remember that when you told me that on last Friday I replied that I could not quite understand the ailment from which Mr. Hopson was suffering, that he was so ill that he could not come to the telephone to talk to you after you had located him by telephone and yet reports or statements had been made to my representative by persons in the office of the Associated Gas & Electric Company that they had been absolutely unable to locate Mr. Hopson anywhere because he was on an automobile tour and that they did not know his itinerary. Didn't I say that to you, in substance?

Mr. TRAVIS. I think you did make that statement.

Mr. PECORA. And then didn't you indicate to me that you felt you would be able within the following 24 hours to establish contact, by telephone or otherwise, with Mr. Hopson, and that you would probably be able to get from him a definite statement as to whether or not he was going to make available to the examiners for this committee the books and records that had been withheld from them for the previous several weeks?

Mr. TRAVIS. Yes.

Senator COUZENS. Well, Mr. Pecora, I now understand that you can get Mr. Hopson by means of a subpena properly served, and also his books.

Mr. PECORA. I shall be very glad to avail myself of the information which is forthcoming to me now for the first time in several weeks.

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Senator COUZENS. Can you locate Mr. Hopson now for the service of a proper subpena upon him to have him bring his books and papers?

Mr. TRAVIS. I have his address in Chicago.

Senator COUZENS. Will you please furnish that address to Mr. Pecora.

Mr. TRAVIS. It is 120 South La Salle Street, room 845. That is the office of Robinson & Co.

Senator COUZENS. Are they lawyers?

Mr. TRAVIS. No; they are investment dealers.

Senator COUZENS. And he has an office with them?

Mr. TRAVIS. He makes his headquarters with them and gets his mail there.

Senator COUZENS. So we can get a subpena on him at that place?

Mr. TRAVIS. I am informed he will not make any attempt to evade service.

Senator COUZENS. Well, that is all on that, isn't it?

Mr. PECORA. Yes; that is all on that. Of course, we have been trying for the last 4 weeks to locate him.

The CHAIRMAN. Do you know whether Mr. Hopson is able to attend the hearing now?

Mr. TRAVIS. I understand that he is in poor health, in a very nervous condition.

The CHAIRMAN. But he is up and attending to business?

Mr. TRAVIS. Well, as much as he can attend to. I do not know how much that is.

The CHAIRMAN. Where are these books and records?

Mr. TRAVIS. I believe they are in New York City.

Mr. PECORA. In whose custody?

Mr. TRAVIS. Well, as to that I cannot tell you, Mr. Pecora.

Mr. PECORA. Whereabouts in New York City?

Mr. TRAVIS. At the office of H. C. Hopson & Co.

Mr. PECORA. Where is that office?

Mr. TRAVIS. 61 Broadway, New York City.

Mr. PECORA. Is that the place where the American Gas & Electric Co. also has its offices?

Mr. TRAVIS. The Associated Gas & Electric Co. has offices in that building. But the office is provided by H. C. Hopson & Co.

Mr. PECORA. I want to say to the committee in answer to some of the statements embodied in the statement made by Mr. Hurley, that we have been given access to corporate books and records of companies connected or affiliated with the Associated Gas & Electric Co., but we have, despite repeated requests therefor, been denied access to the books of accounts and other records of what has been referred to here as personal or private companies of Mr. Hopson. That is in accordance with your understanding, isn't it, Mr. Hurley?

Mr. HURLEY. I would correct that only in one way according to my understanding. You understand that I have none of it by way of personal information, but I have been advised that they have not denied access to the books but that they wanted Mr. Hopson or someone whom he might designate or designated by you, to appear when the books are examined, so that they might be examined in public and no half truths gotten to the public by way of erroneous conclusions by reason of lack of understanding of what they contain.

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Mr. PECORA. Mr. Hurley, I haven't the slightest doubt, of course, that that information has been given to you, but I want to say it is utterly at variance with the statements that they have made to my representatives when they have sought access to those books.

The CHAIRMAN. Well, the committee's accountants and investigators do not give to the public, information which they are obtaining in any case. That information is collected for this committee and given through the committee here if it is given at all.

Mr. PECORA. Now, the delay, as I have understood it, that we have experienced in getting access to those books, which have been very properly referred to here as books of companies owned by Mr. Hopson, has been due, so far as the reasons for the delay have been vouchsafed to us, by individuals in the office of the Associated Gas & Electric Co., to the fact that they wanted the specific authorization given to themselves from Mr. Hopson before making those records available to us. And it was for that reason that we have been seeking to get in touch with Mr. Hopson, with a view to getting that consent. And we have been utterly unable to do it, and the information given to this committee in the last few minutes as to Mr. Hopson's whereabouts is the first information I have acquired in any way, manner, or form concerning Mr. Hopson's specific whereabouts, except that on last Sunday, just prior to my leaving my home for the train to come to Washington for the purposes of this hearing, Mr. Hurley was kind enough to call me up on the long-distance phone and inform me he had just been consulted in connection with this matter, and asked me if I would not, in view of that fact, not press for the time being, any steps that I contemplated taking to enable us to get in touch with Mr. Hopson or have access to those books.

Mr. HURLEY. I think, Mr. Pecora, I might add to that that I have worked very expeditiously to try to throw this whole situation out into the deadliest limelight of publicity. I did it just as quickly as I could do it, because I am convinced that nothing short of accurate public information can save the 360,000 innocent people who have invested in the securities of this corporation. My first opportunity after having gotten just a cursory knowledge of what is involved in this case brought me, of my own solicitation, to this committee at this time. Is that correct, Mr. Pecora?

Mr. PECORA. Yes, sir.

Senator COUZENS. Is that all, Mr. Chairman?

Mr. PECORA. The books in question belonging to those companies that are alluded to as the companies of Mr. Hopson, in our opinion, or in my opinion, at least, are necessary to an intelligent and complete investigation of the methods by which the securities of the Associate Gas & Electric Co. and its subsidiaries and affiliates have been issued and sold to the public in an aggregate value of hundreds of millions of dollars. And, among other things, the books of a company called Utility Accounting & Tax Consultants, which, according to report made to me by my investigators, performed certain service for the Associate Gas & Electric Co. and its subsidiaries, charging them fees for such service which run into substantial amounts, estimated to be between 1½ and 2 million dollars a year.

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Mr. HURLEY. Pardon me, Mr. Pecora. Would you mind if I interrupted you just a minute?

Mr. PECORA. I was through anyway.

Mr. HURLEY. I have no intention—and I hope you realize it—of criticism. I have had, as I told you, just a cursory glance at this, but I think that the statement that you have read is not correct and does mislead the public. That is exactly the thing that we would like to avoid. I would like to see Mr. Hopson on this stand with his books. Now, the figure is given to me of much less than that, and if I have the truth, the services rendered by that company were the services that would have been rendered by some independent institution, and that company was able to give that service to the stockholders of the Associated at less cost than it would have cost otherwise, and the figures that have been given to me reach no such proportions as you have stated.

Mr. PECORA. Without the books themselves, Mr. Hurley, before us, neither you nor I could satisfactorily state what the figures are.

Mr. HURLEY. No; and that is the reason——

Mr. PECORA (interposing). But I want to say this, that the sources from which the information given to me has been obtained are sources which, in my opinion, could be relied upon. Now, the best evidence is the books themselves.

Mr. HURLEY. Yes.

Mr. PECORA. I have been trying to, and my examiners have been trying to, see them for several weeks.

Mr. HURLEY. That is exactly why I say to you, Mr. Pecora—this, of course, is said in the best spirit—it would be better not to make statements on what those books contain until the books themselves have been presented, and then the public can get a correct statement, not an estimate. Really, I believe that the very thing that you have stated there represents one of the reasons for my wanting to get into the public mind immediately the true facts, the books themselves.

Mr. PECORA. I will say this as far as Mr. Hurley is concerned: In conferences I have had with him in the last 24 hours here in Washington, to which he returned only a short time ago from Chicago, they have been, so far as Mr. Hurley and I are concerned, of an extremely satisfactory and agreeable character, and Mr. Hurley has evinced to me every willingness on his part, so far as he can control the situation of the action of any one that he represents, to cooperate with this committee to the fullest possible extent. But it seems to me that the decision does not rest with any counsel; it rests with Mr. Hopson. That has been the situation as I have understood it for many weeks, and that is why I have sought to get in touch with Mr. Hopson and have been unable to do so.

The CHAIRMAN. Mr. Hopson insists that he do not voluntarily appear to produce these books, but that he be subpenaed to do so.

Mr. HURLEY. He wants to protect his rights in the matter.

The CHAIRMAN. He is exceedingly careful in that regard.

The committee will stand adjourned until Tuesday at 10 o'clock.

(Whereupon, at 1:03 o'clock p.m., the subcommittee adjourned until the following Tuesday at 10 o'clock a.m.)

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COMMITTEE EXHIBIT No. 12, OCTOBER 6, 1933

THE CORN EXCHANGE BANK, TRUST CO., NEW YORK CITY, N.Y., 1853–1933

Statement, February 1, 1933

Officers: Walter E. Frew, chairman; Dunham B. Sherer, president; Henry A. Patten, first vice president.

Vice presidents, Ralph Peters, Jr., Edward B. MacKenzie, Frederick T. Martin, Calvert Brewer, Richard D. Brown, John S. Wheelan, Edward S. Malmar, E. Herrick Low, John R. McWilliam, Theodore H. Spratt, John W. Ross, Perry M. Rushmore.

Vice president and secretary, Frederick K. Lister.

Assistant vice president, William L. Cronin, Clarence W. Bird.

Assistant secretary, Robert F. Crowell.

Trust officers, Henry C. White, Charles D. Wheelock.

Directors, Walter E. Frew, Richard Whitney, Philip Lehman, Ethelbert Ide Low, Robert A. Drisdale, Henry A. Patten, Warren B. Nash, Ralph Peters, Jr., D. Schnakenberg, John H. Phillips, Dunham B. Sherer, Clinton D. Burdick, C. W. Nichols, George E. Turnure, Arthur A. Fowler, Percy S. Straus, Robert Lehman, D. Stewart Iglehart, George Doubleday, Davide Wakeman.

To the Stockholders of Corn Exchange Bank Trust Co.:

There is submitted herewith statement of your company as of February 1, 1933, and for your information, there is included a list of the company's securities.

All stocks have been reduced to market value as of December 31, 1932, and all bonds which have failed to pay maturing coupons have been reduced to $1 on our books.

The net earnings from operation during 1932 were $3,334,531.75. Branches now number 72, and are well located in various parts of New York City.

Your company commenced business February 1, 1853, and you will note that we have completed our eightieth year. The organization is composed of men and women working conscientiously for the growth of your company.

We trust we will receive your support in our efforts to make 1933 one of the most successful in our history.

Your very truly,

WALTER E. FREW,
Chairman.
DUNHAM B. SHERER,
President.

STATEMENT

	FEBRUARY 1, 1933.
Due individuals, firms, corporations, and banks	$220,875,730.97
To meet these deposits we have:	
Cash in vaults and banks	53,768,248.96
Checks on other banks	12,522,396.54
U.S. Government securities	68,946,076.81
State, municipal, and tax-exempt bonds	20,291,493.02
Railroad bonds	7,341,854.76
Public-utility bonds	3,859,476.06
Industrial and other bonds	8,414,134.88
Foreign bonds	2,302,370.87
Preferred stocks	471,372.50
Common and other stocks	1,497,707.75
Secured demand loans	31,369,584.26
Secured time loans	7,662,693.10
Bills discounted	18,282,219.34
First mortgages on real estate	21,659,711.47
Stock of Federal Reserve bank, Corn Exchange Safe Deposit Co., and Discount Corporation of New York	2,898,780.00
Customers' liability on acceptances	923,085.69
Banking houses and lots	15,291,262.66
Other real estate	1,409,361.42
Total to meet indebtedness	260,011,830.09
This leaves	40,036,099.12

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Capital	$15,000,000.00
Surplus and undivided profits	22,145,673.18
Reserves	2,890,425.94

The Corn Exchange Bank Trust Co. can act as one of your executors or trustees, issue letters of credit, travelers' checks and drafts on foreign countries, rent you a safe deposit box, and provide every banking and trust service.

LIST OF SECURITIES

UNITED STATES GOVERNMENT SECURITIES

$9,500,000 United States of America, fourth Liberty 4½ percent, 1938–33.
$35,000,000 United States of America, treasury bonds 3⅜ percent, 1943–41.
$2,000,000 United States of America, certificates of indebtedness 3¾ percent March 15, 1933.
$500,000 United States of America, certificates of indebtedness 2 percent, May 2, 1933.
$974,700 United States of America, Treasury certificates 2 percent, March 15, 1933.
$400,000 United States of America, Treasury notes 3 percent May 2, 1934.
$500,000 United States of America, certificates of indebtedness, 1½ percent, June 15, 1933.
$1,900,000 United States of America Treasury notes, 3 percent, June 15, 1935.
$2,600,000 United States of America, Treasury notes, 3¼ percent, August 1, 1936.
$1,500,000 United States of America, Treasury notes 2⅛ percent, August 1, 1934.
$9,300,000 United States of America, Treasury notes 3¼ percent, September 15, 1937.
$3,900,000 United States of America, Treasury notes 3 percent, April 15, 1937.

STATE, MUNICIPAL, AND TAX-EXEMPT SECURITIES

$150,000, State of Arkansas, highway, 5 percent, 1954.
$100,000, State of Arkansas, highway, 5 percent, 1960.
$250,000, State of Arkansas, highway, 4¾ percent, 1963.
$90,000, Bergen County, N.J., public works, 6 percent, 1935–37.
$160,000, Bergen County, N.J., improvement, 5¾ percent, 1934–37.
$100,000, Bloomfield, N.J., improvement, 5¼ percent, 1938–53.
$150,000, Camden, N.J., park and building, 6 percent, 1937.
$22,000, Columbia County, N.Y., funding, 6 percent, 1937.
$475,000, East Orange, N.J., tax revenue notes, 6 per cent, 1933.
$900,000, Federal farm-loan bonds, 4½ percent, 1942–33.
$100,000, Federal farm-loan bonds, 4½ percent, 1943–33.
$35,000, Town of Hempstead, N.Y., school district no. 9, 6 percent, 1933.
$50,000, State of Louisiana, highway, 5 percent, 1942.
$50,000, State of Louisiana, highway, 5 percent, 1948.
$50,000, Monroe County, N.Y., tax anticipation notes, 4¼ percent, 1933.
$750,000, Montclair, N.J., tax revenue notes, 4¾ percent, 1933.
$472,000, Morristown, N.J., improvement, 6 percent, 1934–7.
$18,000, Mount Vernon, N.Y., public works, 5 percent, 1937.
$470,000, Nassau County, N.Y., relief, 4¾ persent, 1935–7.
$500,000, Nassau County, N.Y., tax anticipation notes, 3½ percent, 1933.
$525,000, Newark, N.Y., temporary loan, 6 percent, June 17, 1933.
$10,000, Borough of New Canaan, Conn., tax anticipation notes, 4¾ percent, 1933.
$100,000, New Haven, Conn., tax anticipation notes, 5 percent, 1933.
$78,000, New Rochelle, N.Y., sewer, 5¾ percent, 1936.
$50,000, New York City corporation stock, 3 percent, 1935.
$176,176,000 New York City serial, 4½ percent, 1960.
$10,000 New York City corporation stock, 4½ percent, 1967.
$433,000, New York City certificate of indebtedness, 5¾ percent, 1933–35.
$400,000, New York City corporation stock, 6 percent, 1933.
$2,408,000, New York City revenue bills, 5 percent, 1933.
$2,169,000, New York City revenue bills, 5¾ percent, 1933.

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$4,223,500, New York City corporation stock, 6 percent, 1935–37.
$900,000, State of New York gold notes, 2¾ percent, 1933.
$10,000, State of New York World War, 4¼ percent, 1945.
$328,000, Port of New York Authority bridge, 4 percent, 1936–50.
$275,000, Port Chester, N.Y., street sewer, 5¼ percent, 1935.
$450,000, Rochester, N.Y., tax anticipation notes, 4¾ percent, 1933.
$25,000, Rochester, N.Y., general municipal, 6 percent, 1935.
$170,000, Salt Lake City, Utah, 4¼ percent refunding, 1934–36.
$150,000, Salt Lake County, Utah, tax anticipation notes, 2½ percent, 1933.
$120,000, San Diego, Calif., improvement, 5 percent, 1934–37.
$210,000, Savings and Loan Bank, New York, 5 percent, 1933.
$100,000, State of South Carolina, highway, 4½ percent, 1950.
$250,000, Syracuse, N.Y., tax anticipation notes, 1.89 percent, 1933.
$25,000, Syracuse, N.Y., improvement, 4 percent, 1937.
$25,000, Suffolk County, N.Y., certificate of indebtedness, 4.4 percent, 1934.
$140,000, State of Tennessee, building, 5¼ percent, 1934.
$100,000, State of Tennessee, building, 4½ percent, 1945.
$400,000, Union County, N.J., tax anticipation notes, 4¾ percent, 1933.
$150,000, Westchester County, N.Y., indebtedness, 3.7 percent, 1934–36.
$325,000, Yonkers, N.Y., notes, 4.85 percent, 1933.
$100,000, Yonkers, N.Y., certificate of indebtedness, 5¾ percent, 1933.
$50,000, Yonkers, N.Y., local improvement, 6 percent, 1936.
$250,000, Yonkers, N.Y., certificate of indebtedness, 5 percent, 1933.
$145,000, Yonkers, N.Y., local improvement, 5 percent, 1933.
$5,000, Yonkers, N.Y., local improvement, 4¾ percent, 1933.

RAILROAD BONDS

$250,000 Alleghany Corporation collateral trust convertible 5 percent, 1944.
$35,000 Alleghany Corporation collateral trust convertible 5 percent, 1949.
$50,000 Alleghany Corporation collateral trust convertible 5 percent, 1950.
$420,000 Baltimore & Ohio Railroad Co. convertible 4½ percent, 1960.
$285,000 Boston & Maine Railroad first mortgage 5 percent, 1967.
$128,000 Carolina, Clinchfield & Ohio Railway Co. first consolidated 6 percent, 1952.
$489,000 Chesapeake Corporation convertible collateral trust 5 percent, 1947.
$250,000 Chesapeake & Ohio Railway Co. (B) refunding and improvement 4½ percent, 1995.
$200,000 Chesapeake & Ohio Railway Co. notes 6 percent, 1934.
$553,000 Chicago, Milwaukee, St. Paul & Pacific Railroad Co. mortgage 5 percent, 1975.
$250,000 Chicago & Northwestern Railway Co. (A) convertible 4¾ percent, 1949.
$500,000 Chicago, Rock Island & Pacific Railway Co. (A) secured gold 4½ percent, 1952.
$25,000 Cincinnati Union Terminal Railway (A) first mortgage 4½ percent, 2020.
$250,000 Cleveland Union Terminal Co. first mortgage sinking fund 4½ percent, 1977.
$50,000 Cleveland, Cincinnati, Chicago & St. Louis Railway refunding and improvement 4½ percent, 1977.
$50,000 Cleveland, Cincinnati, Chicago & St. Louis Railway refunding and improvement 4½ percent, 1977.
$40,000 Colorado & Southern Railway (A) general mortgage 4½ percent, 1980.
$103,000 Delaware & Hudson Co., the, gold 5½ percent, 1937.
$31,000 Denver & Rio Grande Railroad Co. first consolidated 4 percent, 1936.
$200,000 Denver & Rio Grande Western Railroad Co. refunding and improvement (B) 5 percent, 1978.
$145,000 Erie Railroad Co. refunding and improvement 5 percent, 1975.
$40,000 Great Northern Railroad Co. general mortgage 4½ percent, 1977.
$100,000 Illinois Central Railroad gold notes 4½ percent, 1934.
$300,000 Louisville & Nashville Railroad Co. first and refunding 4½ percent, 2003.
$44,000 Missouri Pacific Railroad first and refunding 5 percent, 1977.

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$150,000 Missouri Pacific Railroad Co. first and refunding mortgage 5 percent, 1981.
$102,000 Missouri Pacific Railroad Co. first and refunding mortgage 5 percent, 1980.
$416,000 Missouri Pacific Railroad Co. first and refunding 5 percent, 1978.
$280,000 Morris & Essex Railroad Co. construction mortgage 4½ percent, 1955.
$20,000 Morris & Essex Railroad Co. construction mortgage 5 percent, 1955.
$150,000 New York Central Railroad Co. (A) refunding and improvement 4½ percent, 2013.
$200,000 New York, Chicago & St. Louis Railroad refunding mortgage 4½ percent, 1978.
$300,000 New York, New Haven & Hartford Railroad first and refunding 4½ percent, 1967.
$10,000 New York, New Haven & Hartford Railroad secured gold 6 percent, 1940.
$12,000 New York, Susquehanna & Western Railroad Co. general mortgage 5 percent, 1940.
$24,000 Oregon-Washington Railroad & Navigation Co. (A) first and refunding 4 percent, 1961.
$300,000 Pennsylvania Co. secured gold 4¾ percent, 1963.
$200,000 Pennsylvania Railroad Co. secured gold 5 percent, 1964.
$50,000 Pere Marquette Railway Co. first mortgage 4½ percent, 1980.
$48,000 Pittsburgh, McKeesport & Youghiogheny Railroad second mortgage 6 percent, 1934.
$50,000 Reading Co. (B) general and refunding mortgage, 4½ percent, 1997.
£4,000 St. Paul, Minneapolis & Manitoba Railway Co. Pacific Extension 4 percent, 1940.
$250,000 Southern Pacific Co. gold with warrants 4½ percent, 1969.
$250,000 Terminal Railroad Association of St. Louis general mortgage 4 percent, 1953.
$25,000 Texas & Pacific Railway Co. general and refunding 5 percent, 1980.
$50,000 Western Maryland Railway Co. first and refunding mortgage 5½ percent, 1977.
$250,000 Western Pacific Railroad Co. first mortgage 5 percent, 1946.

PUBLIC-UTILITY BONDS

$100,000 American Power & Light Co. gold debentures, 6 percent, 2016.
$150,000 American Water Works & Electric Co., Inc., gold debentures, 6 percent, 1975.
$100,000 Bell Telephone Co. of Canada, first mortgage, 5 percent, 1955.
$200,000 Bell Telephone Co. of Canada, first mortgage, 5 percent, 1957.
$500,000 Brooklyn-Manhattan Transit Corporation, sinking fund gold, 6 percent, 1968.
$500,000 Brooklyn, Manhattan Transit, gold, 6 percent, 1934.
$20,000 Brooklyn, Queens County, and Suburban Railroad Co., first mortgage, 5 percent, 1941.
$110,000 Denver Gas & Electric Light Co., first and refunding, 5 percent, 1951.
$100,000 Detroit City Gas Co., first mortgage, 6 percent, 1947.
$250,000 Hudson & Manhattan Railroad Co., (A) first lien and refunding, 5 percent, 1957.
$20,000 International Hydro Electric System, convertible debentures, 6 percent, 1944.
$200,000 Interborough Rapid Transit Co., first and refunding, 5 percent, 1966.
$250,000 International Telegraph and Telephone Corporation, debentures, 5 percent, 1955.
$500,000 Massachusetts Gas Cos., sinking fund debentures, 5 percent, 1955.
$28,000 Montclair Water Co., gold, 5 percent, 1946.
$100,000 North American Edison Co., (B) 5½ percent, 1963.
$200,000 Pacific Power & Light Co., first mortgage, power and light, 5 percent, 1955.
$150,000 Standard Gas & Electric Co., debentures, 6 percent, 1966.
$110,000 Standard Gas & Electric Co., debentures, 6 percent, 1951.
$250,000 Western Union Telegraph Co., gold, 5 percent, 1960.

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INDUSTRIAL AND OTHER BONDS

$50,000 American & Continental Corporation, debenture, 5 percent, 1943.
$100,000 American International Corporation, convertible gold debenture, 5½ percent, 1949.
$1,000,000 American Metals Co., Ltd., gold notes, 5½ percent, 1934.
$800,000 American Securities Investment Corporation, debenture, 6 percent, 1937.
$54,000 American Type Founders Co., sinking-fund gold debenture, 6 percent, 1940.
$51,000 Associated Oil Co. notes, 6 percent, 1935.
$25,000 Atlantic Gulf & West Indies Steamship Line, collateral trust, 5 percent, 1959.
$1,000,000 Canadian International Paper Co., first mortgage, 6 percent, 1949.
$77,000 Consolidated Publishers, Inc., collateral trust sinking fund, 6¾, 1936.
$500,000 General American Investors Co., Inc., debenture, 5 percent, 1952.
$160,000 General Rayon Co., Ltd., debenture, 6 percent, 1948.
$250,000 Gobel, Adolph, Inc., collateral trust notes with warrants, 6½ percent, 1935.
$250,000 Goodyear Tire & Rubber Co., first mortgage collateral trust, 5 percent, 1957.
$169,000 Gotham Silk Hosiery Co., Inc., sinking-fund debenture, 6 percent, 1936.
$800,000 Grace Steamship Co., notes, 6 percent, 1934–41.
$50,000 Gulf Oil Corporation of Pennsylvania, sinking-fund debenture, 5 percent, 1947.
$303,000 Hudson, J. L., Co., notes, 5 percent, 1933–36.
$200,000 Hudson Coal Co., The, first mortgage sinking fund, 5 percent, 1962.
$500,000 International Paper Co., refunding mortgage sinking fund, 6 percent, 1933.
$100,000 Keith Corporation, B. F., first general refunding, 6 percent, 1946.
$100,000 Loew Theatre & Realty Corporation, first mortgage sinking fund, 6 percent, 1947.
$250,000 National Dairy Products Corporation debenture, 5¼ percent, 1948.
$100,000 Pennsylvania-Dixie Cement Corporation first mortgage sinking fund, 6 percent, 1941.
$214,000 Phillips Petroleum Co. sinking fund debenture, 5¼ percent, 1939.
$19,500 Prudence Bonds Corporation first mortgage collateral, 5½ percent, 1932–35.
$250,000 Prudence Co., Inc., The, guaranteed collateral trust, 5½ percent, 1961.
$55,000 Railway Express Agency, Inc., serial gold (A), 5 percent, 1933–48.
$250,000 St. Joseph Lead Co. convertible debenture, 5½ percent, 1941.
$205,000 Saks Realty Corporation leasehold, 6 percent, 1933–46.
$116,000 School of Education Realty Corporation of New York University, debenture, 6 percent, 1935.
$175,000 Schulco Co., Inc., (A) guaranteed mortgage sinking fund, 6½ percent, 1946.
$440,000 Solvay American Investment Corporation notes, 5 percent, 1942.
$50,000 Smith A. O. Corporation first mortgage, 6½ percent, 1933.
$250,000 United Drug Co. gold, 5 percent, 1953.
$100,000 United States Rubber Co. serial notes, 6½ percent, 1933–40.

FOREIGN BONDS

$249,000 Australia, Commonwealth of, extension loan of 1925, 5 percent, 1955.
$75,000 Australia, Commonwealth of, extension loan of 1928, 4½ percent, 1956.
$32,100 Cuba, Republic of, extension sinking fund, 5½ percent, 1953.
$90,400 Cuba, Republic of, internal 5 percent.
$25,000 Cuba, Republic of, serial gold 5½ percent, 1933–37.
$57,800 Cuba, Republic of, sinking fund 5½ percent, 1940.
$25,000 Dresden, Germany, city of, extension loan sinking fund 7 percent, 1945.
$605,000 German Government, gold 5½ percent, 1965.
$125,000 Imperial Japanese Government, sinking fund gold 5½ percent, 1965.
$76,000 Leipzig, Germany, city of, extension loan of 1926, 7 percent, 1947.

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$200,000 Newfoundland, Government of, bonds, 5 percent, 1952.
$300,000 New South Wales, Australia, State of, extension sinking fund, 5 percent, 1957.
$200,000 Province of Ontario, Canada, Treasury bills, 3½ percent, 1933.
$100,000 Queensland, Australia, State of, extension sinking fund, 7 percent, 1941.
$180,000 Siemens Schukertwerke, 7 and 7¾ percent, 1933–35.
$50,000 Taiwan Electric Power Co., Ltd., sinking fund gold bonds, 5½ percent, 1971.
$100,000 Uruguay, Republic of, sinking fund external, 8 percent, 1946.
$250,000 Uruguay, Republic of, sinking fund external, 6 percent, 1960.

STOCKS

9,990 shares of Corn Exchange Safe Deposit Co.
2,499 shares of Discount Corporation of New York.
27,000 shares of Federal Reserve Bank of New York.

PREFERRED STOCKS

550 shares of Johns-Mansville Corporation.
2,100 shares of New York, New Haven & Hartford Railroad Co.
1,095 shares of Standard Gas & Electric Co., 7 percent.
10,000 United Corporation.

COMMON AND OTHER STOCKS

4,200 shares of Allied Chemical & Dye Corporation,
100 shares of Bank for International Settlements.
1,000 shares of Bond & Mortgage Guarantee Co.
400 shares of Consolidated Gas Co.
8,000 shares of General Motors Corporation.
3,500 shares of Glen Alden Coal Co.
4,100 shares of Great Northern Railway Co.
400 shares of Guaranty Trust Co.
1,172 shares of International Elevating Co.
5,000 shares of Kennecott Copper Co.
5,000 shares of New York Central Railroad Co.
2,300 shares of New York, New Haven & Hartford Railroad Co.
3,500 shares of Northern Pacific Railway Co.
5,000 shares of Public Service Corporation of New Jersey.
5,000 shares of Standard Brands, Inc.
1,000 shares of Title Guarantee & Trust Co.
19,000 shares of United Corporation.
Sundry stocks and bonds not included in the above list are carried on our books at $1 with a quoted value on February 1, 1933, of $310,603.

COMMITTEE EXHIBIT No. 13, OCTOBER 6, 1933

UNITED STATES & INTERNATIONAL SECURITIES CORPORATION

Present and former directors

Ernest B. Tracy, president United States & International Securities Corporation.
Clarence Dillon, Dillon, Read & Co.
Matthew C. Brush, president American International Corporation.
J. H. Hillman, Jr., president J. H. Hillman Coal & Coke Co.
Charles Hayden, Hayden, Stone & Co.
Dean Mathey, Dillon, Read & Co.
E. G. Wilmer, retired.
G. M. Moffett, president Corn Products Refining Co.
M. S. Sloan, formerly president New York Edison Co.
S. Z. Mitchell, formerly chairman of the board, Electric Bond & Share Co.

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UNITED STATES & INTERNATIONAL SECURITIES CORPORATION

Date of meeting and directors present

November 7, 1928: Messrs. Clarence Dillon, Charles Hayden, Dean Mathey, George M. Moffett, Matthew S. Sloan, Ernest B. Tracy.

December 13, 1928: Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Matthew S. Sloan, Ernest B. Tracy.

January 10, 1929: Messrs. Clarence Dillon, S. Z. Mitchell, G. M. Moffett, Matthew S. Sloan, J. H. Hillman, Jr.

February 14, 1929: Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, G. M. Moffett, Matthew S. Sloan, Ernest B. Tracy.

March 15, 1929: Clarence Dillon, Dean Mathey, S. Z. Mitchell, Matthew S. Sloan, Ernest B. Tracy.

April 8, 1929: Dean Mathey, S. Z. Mitchell, G. M. Moffett, Matthew S. Sloan, Ernest B. Tracy, Charles Hayden.

June 27, 1929: Ernest B. Tracy, Clarence Dillon, Dean Mathey, S. Z. Mitchell.

September 9, 1929: Clarence Dillon, Charles Hayden, Dean Mathey, J. W. McConnell, Ernest B. Tracy.

October 16, 1929: Clarence Dillon, Dean Mathey, Charles Hayden, S. Z. Mitchell, George M. Moffett, Matthew S. Sloan.

November 11, 1929: Clarence Dillon, Dean Mathey, S. Z. Mitchell, G. M. Moffett, Ernest B. Tracy.

November 22, 1929: Ernest B. Tracy, Clarence Dillon, Charles Hayden, J. H. Hillman, Jr., Dean Mathey, S. Z. Mitchell, George M. Moffett.

December 9, 1929: Messrs. Clarence Dillon, Charles Hayden, Dean Mathey, G. M. Moffett, M. S. Sloan, Ernest B. Tracy.

January 8, 1930: Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, George M. Moffett, Ernest B. Tracy.

February 13, 1930: Clarence Dillon, Dean Mathey, George M. Moffett, Ernest B. Tracy, E. G. Wilmer.

March 10, 1930: Clarence Dillon, Charles Hayden, George M. Moffett, S. Z. Mitchell, E. G. Wilmer, Ernest B. Tracy, M. S. Sloan.

April 14, 1930: Clarence Dillon, Charles Hayden, T. H. Hillman, Jr., Dean Mathey, Matthew S. Sloan, E. G. Wilmer.

May 19, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, George M. Moffett, Matthew S. Sloan, E. B. Tracy, E. G. Wilmer.

June 9, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Sidney Z. Mitchell, George M. Moffett, Matthew S. Sloan, E. G. Wilmer.

August 11, 1930: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, George M. Moffett, Ernest B. Tracy, E. G. Wilmer.

September 8, 1930: Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, George M. Moffett, Matthew S. Sloan.

October 14, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, George M. Moffett, Matthew S. Sloan.

November 10, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z Mitchell, Matthew S. Sloan.

December 8, 1930: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Matthew S. Sloan, Ernest B. Tracy.

January 12, 1931: Matthew C. Brush, Clarence Dillon, Charles H. Hayden, Dean Mathey, Sidney Z. Mitchell, George M. Moffett, Matthew S. Sloan, Ernest B. Tracy.

February 9, 1931: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Matthew S. Sloan, Ernest B. Tracy.

March 9, 1931: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, George M. Moffett, Matthew S. Sloan, Ernest B. Tracy.

April 13, 1931: Matthew C. Brush, Charles Hayden, Dean Mathey, S. Z. Mitchell, George M. Moffett, Ernest B. Tracy, E. G. Wilmer.

May 11, 1931: Matthew C. Brush, Charles Hayden, S. Z. Mitchell, George M. Moffett, Ernest B. Tracy, E. G. Wilmer.

June 8, 1931: Matthew C. Brush, Charles Hayden, Dean Mathey, Ernest B. Tracy, E. G. Wilmer.

July 15, 1931: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy, E. G. Wilmer.

August 10, 1931: Clarence Dillon, Matthew C. Brush, Charles Hayden, Ernest B. Tracy, Sidney Z. Mitchell, Dean Mathey.

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September 14, 1931: Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy.
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July 11, 1932: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy.
August 8, 1932: Messrs. Clarence Dillon, Ernest B. Tracy, Dean Mathey.
September 12, 1932: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy.
October 10, 1932: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy, E. G. Wilmer.
November 14, 1932: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, Sidney Z. Mitchell, Ernest B. Tracy, E. G. Wilmer.
December 12, 1932: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy.
January 9, 1933: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell.
February 14, 1933: Messrs. Matthew C. Brush, Clarence Dillon, Charles Hayden, Dean Mathey, S. Z. Mitchell, Ernest B. Tracy.
March 13, 1933: Messrs. Matthew C. Brush, Clarence Dillon, Dean Mathey, Ernest B. Tracy.
April 10, 1933: Messrs. Matthew C. Brush, Clarence Hayden, Dean Mathey, Ernest B. Tracy.
May 8, 1933: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, Ernest B. Tracy.
June 12, 1933: Messrs. Matthew C. Brush, Charles Hayden, Dean Mathey, Ernest B. Tracy.
July 10, 1933: Messrs. Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy.
September 11, 1933: Messrs. Clarence Dillon, Charles Hayden, Dean Mathey, Ernest B. Tracy.

COMMITTEE EXHIBIT No. 14, OCTOBER 6, 1933

UNITED STATES & FOREIGN SECURITIES CORPORATION

Present and former directors

Ernest B. Tracy, president United States & Foreign Securities Corporation.
Clarence Dillon, Dillon, Read & Co.
F. H. Ecker, president Metropolitan Life Insurance Co.
G. M.-P. Murphy, G. M.-P. Murphy & Co.
C. S. McCain, chairman of the board, Chase National Bank.
W. A. Phillips, Dillon, Read & Co.
R. C. Schaffner, A. G. Becker & Co.
E. J. Bermingham, E. J. Bermingham & Co.
E. G. Wilmer, retired.
Percy H. Johnston, chairman of the board, Chemical Bank & Trust Co.
John Sherwin, formerly chairman, Union Trust Co., Cleveland.
George W. Davison, chairman of the board, Central Hanover Bank & Trust Co.
Anson W. Burchard, formerly chairman of board, General Electric Co.

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J. W. Hornor, retired.
George W. Wickersham, Cadwalader, Wickersham & Taft.
Harrison Williams.
Benjamin Joy, retired.
R. E. Christie, Jr., Dillon, Read & Co.
Daniel G. Wing, chairman of board, First National Bank, Boston.
Herbert Fleishhacker, president Anglo-California National Bank of San Francisco.

Date of meeting and directors present

December 10, 1924: Messrs. Clarence Dillon, G. W. Wickersham, John Sherwin, R. C. Schaffner, E. G. Wilmer, J. W. Hornor, F. H. Ecker, A. W. Burchard, W. A. Phillips.

April 13, 1925: F. H. Ecker, A. W. Burchard, C. Dillon, J. W. Hornor, H. Williams, W. A. Phillips, J. Sherwin, R. C. Schaffner, E. G. Wilmer.

May 28, 1925: A. W. Burchard, J. W. Hornor, F. W. Ecker, W. A. Phillips, R. C. Schaffner, E. G. Wilmer.

July 13, 1925: E. G. Wilmer, H. Williams, G. W. Wickersham, John Sherwin, R. C. Schaffner, J. W. Hornor, R. E. Christie.

September 30, 1925: E. G. Wilmer, F. H. Ecker, G. W. Wickersham, H. Williams, J. W. Hornor, W. A. Phillips, Anson W. Burchard, C. Dillon.

January 19, 1926: Messrs. E. G. Wilmer, Herbert Fleishhacker, F. H. Ecker, John Sherwin, Clarence Dillon, Anson W. Burchard, J. W. Hornor, William A. Phillips.

June 17, 1926: Messrs. Benjamin Joy, R. C. Schaffner, John Sherwin, William A Phillips, Anson W. Burchard.

October 4, 1926: Messrs. Benjamin Joy, Clarence Dillon, Frederick H. Ecker, Anson W. Burchard, G. W. Wickersham.

January 5, 1927: Messrs. Clarence Dillon, G. W. Wickersham, Frederick H. Ecker, John Sherwin, William A. Phillips, C. W. Davison, Benjamin Joy.

May 10, 1927: Messrs. George W. Davison, Frederick H. Ecker, Robert C. Schaffner, William A. Phillips, Robert E. Christie, Jr.

September 20, 1927: Messrs. Clarence Dillon, F. H. Ecker, W. A. Phillips, R. C. Schaffner, E. B. Tracy.

December 22, 1927: Messrs. Clarence Dillon, G. W. Davison, F. H. Ecker, G. M.-P. Murphy, R. C. Schaffner, E. B. Tracy.

January 5, 1928: Messrs. G. W. Davison, Clarence Dillon,, P. H. Johnston, G. M.-P. Murphy, W. A. Phillips, R. C. Schaffner, E. B. Tracy.

February 8, 1928: Messrs. Clarence Dillon, F. H. Ecker, P. H. Johnston, W. A. Phillips, E. B. Tracy.

March 14, 1928: F. H. Ecker, P. H. Johnston, G. M.-P. Murphy, W. A. Phillips, E. B. Tracy.

May 9, 1928: Clarence Dillon, F .H. Ecker, P. H. Johnston, G. M.-P. Murphy, John Sherwin, E. B. Tracy.

June 13, 1928: G. W. Davison, Clarence Dillon, F. H. Ecker, P. H. Johnston, G. M.-P. Murphy, W. A. Phillips, E. B. Tracy.

September 12, 1928: George W. Davison, Clarence Dillon, Percy H. Johnston, William A. Phillips, Robert C. Schaffner.

October 10, 1928: G. W. Davison, Clarence Dillon, P. H. Johnston, G. M.-P. Murphy, W. A. Phillips, E. B. Tracy.

October 24, 1928: Clarence Dillon, George W. Davison, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

October 29, 1928: Clarence Dillon, George W. Davison, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

November 14, 1928: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

December 12, 1928: George W. Davison, Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Robert C. Schaffner, John Sherwin, Ernest B. Tracy.

January 9, 1929: Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, Robert C. Schaffner.

February 13, 1929: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, Robert C. Schaffner, Ernest B. Tracy.

March 13, 1929: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Ernest B. Tracy, Daniel G. Wing.

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April 10, 1929: Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, John Sherwin.

June 12, 1929: Clarence Dillon, Percy H. Johnston, William A. Phillips, Ernest B. Tracy.

September 11, 1929: Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

October 9, 1929: Charles S. McCain, Grayson M.-P. Murphy, Percy H. Johnston, Daniel G. Wing.

November 13, 1929: Messrs. Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Percy H. Johnston, Frederick H. Ecker, Ernest B. Tracy.

November 22, 1929: Clarence Dillon, Percy H. Johnston, Charles S. McCain, Grayson H.-P. Murphy, Robert C. Schaffner, William A. Phillips, Ernest B. Tracy.

December 11, 1929: Clarence Dillon, Grayson M.-P. Murphy, William A. Phillips, John Sherwin, Percy H. Johnston, Ernest B. Tracy.

January 8, 1930: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, Robert C. Schaffner, Ernest B. Tracy.

February 13, 1930: Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

March 12, 1930: Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

April 9, 1930: Clarence Dillon, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

May 21, 1930: Messrs. Clarence Dillon, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

June 11, 1930: Clarence Dillon, Percy H. Johnston, Charles S. McCain; E. G. Wilmer.

August 13, 1930: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

September 10, 1930: Clarence Dillon, William A. Phillips.

September 11, 1930: Clarence Dillon, Percy H. Johnston, Charles S. McCain, William A. Phillips, John Sherwin.

October 9, 1930: Clarence Dillon, William A. Phillips.

October 23, 1930: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, Robert C. Schaffner.

November 12, 1930: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, William A. Phillips, Ernest B. Tracy.

December 10, 1930: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

January 14, 1931: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

February 11, 1931: Clarence Dillon, Grayson M.-P. Murphy, Charles S. McCain, William A. Phillips, Ernest B. Tracy.

March 11, 1931: Charles S. McCain, Percy H. Johnston, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

April 8, 1931: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

May 13, 1931: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

June 10, 1931: Messrs. Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

July 8, 1931: Clarence Dillon, Percy H. Johnston, Charles S. McCain, Ernest B. Tracy, E. G. Wilmer.

August 12, 1931: Clarence Dillon, Percy H. Johnston, Charles S. McCain, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

September 9, 1931: Clarence Dillon, Percy H. Johnston, William A. Phillips, Ernest B. Tracy.

October 14, 1931: Clarence Dillon, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

November 11, 1931: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

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December 9, 1931: Clarence Dillon, Frederick H. Ecker, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

January 13, 1932: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

February 10, 1932: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

March 9, 1932: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

April 13, 1932: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

April 20, 1932: William A. Phillips, Ernest B. Tracy.

April 27, 1932: Percy H. Johonston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

May 11, 1932: Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

June 8, 1932: Messrs. Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

July 13, 1932: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

August 10, 1932: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, Ernest B. Tracy.

September 14, 1932: Clarence Dillon, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

October 13, 1932: Clarence Dillon, Frederick H. Ecker, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy, E. G. Wilmer.

November 9, 1932: Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

December 14, 1932: Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, William A. Phillips, Ernest B. Tracy.

January 11, 1933: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

February 8, 1933: Messrs. Clarence Dillon, Frederick H. Ecker, Percy H. Johnston, Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

March 8, 1933: Messrs. Clarence Dillon, Frederick H. Ecker, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

April 12, 1933: Messrs. Clarence Dillon, Frederick H. Ecker, Charles S. McCain, William A. Phillips, Ernest B. Tracy.

May 10, 1933: Messrs. E. J. Bermingham, G. M.-P. Murphy, William A. Phillips, Ernest B. Tracy, E. G. Wilmer.

May 22, 1933: Messrs. Frederick H. Ecker, Charles S. McCain, Grayson M.-P. Murphy, Robert C. Schaffner, Ernest B. Tracy.

June 14, 1933: Messrs. Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

July 12, 1933: Messrs. Clarence Dillon, Charles S. McCain, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

August 9, 1933: Messrs. Charles S. McCain, Grayson M.-P. Murphy, William A. Phillips, Ernest B. Tracy.

September 13, 1933: Messrs. Clarence Dillon, Grayson M.-P. Murphy, William A. Phillips, Robert C. Schaffner, Ernest B. Tracy.

(Committee Exhibit No. 16 of October 6, 1933, is here printed in the record in full, as follows:)

(NOTE.—Committee Exhibit 16 appears only in the committee's copy of today's proceedings.)

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COMMITTEE EXHIBIT NO. 16 OF OCTOBER 6, 1933.—GENERAL UTILITIES SECURITIES INC., NEW YORK, N.Y.

TRAVIS, BROWNBACK & PAXSON,
New York City, October 5, 1933.

P. J. HURLEY Esq.,
Washington, D.C.

MY DEAR MR. HURLEY: I am enclosing photostatic copies of the following publicity of the so-called Associated Gas & Electric Co. Debenture Holders' Protective Committee headed by W. A. Nash:

1. Advertisement of the committee in the New York Times, June 2, 1933.
2. Advertisement of the committee in the New York Times, July 14, 1933.
3. Letter to debenture holders dated June 15, 1933, accompanied by a transmittal blank and slip offering commission to investment dealers.

Very truly yours,

CHARLES M. TRAVIS.

[From the New York Times, June 2, 1933]

ASSOCIATED GAS & ELECTRIC COMPANY

DEBENTURE HOLDERS' PROTECTIVE COMMITTEE

To All Debenture Holders of Associated Gas & Electric Co.:

On May 15th last, the Associated Gas & Electric Co. requested all debenture holders to exchange their debentures under 1 and 3 options. These options, apparently, are so adverse to the interests of debenture holders that many holders feel that they should take steps to protect their rights. It has been deemed advisable that a committee be formed for the protection of the debenture holders and the undersigned have been requested to and have agreed to act as such committee.

Immediately upon the announcement by the company of the so-called "options", the organization of this committee was commenced. The committee feels that immediate concerted action is necessary and that you can best conserve your rights by depositing your debentures with this committee at the earliest possible moment.

A deposit agreement has been prepared and is now on file with the depositary and with the secretaries of the committee.

Debenture holders are invited to communicate promptly with the secretaries or depositary of the committee or its counsel.

Counsel.—Battle, Levy, Van Tine & Flower, 37 Wall Street, New York, N.Y.; Poland & Davis, 27 State Street, Boston, Mass.

Secretary.—John H. Galloway, Jr., 20 Broad Street, New York, N.Y., Rm. 1418. Tele. HAnover 2-2980.

Assistant secretary.—Roger R. Phillips, 27 State Street, Boston, Mass., Telephone CAPitol 0900.

Committee.—W. A. Nash, chairman, 27 State Street, Boston, Mass.; Rex R. Thompson, 120 Broadway, New York, N.Y.; Ambrose W. Benkert, 52 Wall Street, New York, N.Y.; E. G. Diefenbach, 44 Wall Street, New York, N.Y.

Depositary.—The Commercial National Bank & Trust Co. of New York, 56 Wall Street, New York, N.Y.

Codepositary.—The National Rockland Bank of Boston, 30 Congress Street, Boston, Mass.

[From the New York Times, Friday, July 14, 1933]

ASSOCIATED GAS & ELECTRIC CO. DEBENTURE HOLDERS' PROTECTIVE COMMITTEE

HOW CAN SUCH A PLAN BE ATTRACTIVE?

Associated Gas & Electric Co. is offering holders of its several issues of debentures a so-called "Plan of rearrangement of debt capitalization" which is, this committee believes, merely a plan to persuade debenture holders to

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surrender their just rights in order to maintain the company's present management in their positions of control, and to preserve their positions as stockholders and the positions of other stockholders at the expense of the debenture holders.

Don't exchange 100 percent for 50 percent.—To maintain their present senior position, debenture holders should deposit their debentures with this committee. In the event of a default of interest by the company and the inability to pay the full face value of their securities, the debenture holders will then be in a position to claim the assets of the company, which include all the stock of Associated Gas & Electric Corporation, the subsidiary through which the company owns and controls the underlying utility properties which ultimately are the assets behind the debentures.

The company's management seek to forestall the objective of this committee. Though great profits were theirs in prosperous years, they are now entirely unwilling to make any sacrifice necessitated by the pressure of hard times. They seek to cast the whole burden on the debenture holders in order to protect the management and the stockholders. They ask debenture holders to accept, under option 1, in exchange for their present holdings, half the amount of their face value in fixed-rate debentures of the corporation; or, under option 2, income debentures of the corporation yielding less interest, when, as a matter of fact, all the stock of the corporation is owned by the company and is therefore already security to the face amount of the present outstanding debentures of the company. Thus, debenture holders are asked to give up half their principal and income, or to take the chance of receiving lesser income or no income, in exchange for their present right to enforce full payment of both principal and interest upon default in either or both.

The function of the protective committee.—This committee's purpose is to safeguard the debenture holders from being misled into surrendering their just rights. Its entire efforts aim to prevent any steps tending to impair the security they now have.

The committee's deposit agreement provides that all expenses shall not exceed 2½ percent of the face value of the debentures deposited with it, viz., not more than $25 per $1,000 debenture. This is relatively nominal when debenture holders consider that upon the committee's achieving its objective they stand to gain many times that amount.

In one of the company's recent advertisements nothing was said in answer to the committee's objections to the so-called "plan" of the company. Instead, the major portion of the advertisement was devoted to an attack upon this committee's policy of allowing security dealers $6 for each $1,000 debenture deposited through them with the committee. This item is included in the 2½ percent maximum expenses of the committee and has been rendered necessary by the fact that security dealers have been offered up to $7.50 for each debenture deposited with them under the company's so-called "plan." This fact has never been mentioned in the company's advertisements. Can it be that the company's treasury, either directly or indirectly, is footing this expense and the expense for advertising the management's own plan in the newspapers and through the mails?

It is obvious that the interests of debenture holders can best be conserved by immediate concerted action in depositing their holdings with this committee in support of its efforts to protect and maintain the rights of debenture holders. Literature of the committee may be obtained upon request from the secretary or assistant secretary of this committee, or from its depositary or co-depositary.

W. A. NASH, *Chairman*,
REX R. THOMPSON,
AMBROSE W. BENKERT,
F. G. DIEFENBACH,
Committee.

Counsel.—Battle, Levy, Van Tine & Fowler, New York; Poland & Davis, Boston, Mass.

Secretary.—John H. Galloway, Jr., 20 Broad Street, New York, N.Y., Room 1418, telephone Hanover 2-2980.

Assistant secretary.—Roger R. Phillips, 27 State Street, Boston, Mass., telephone Capital 0900.

Depositary.—The Commercial National Bank & Trust Company of New York, 56 Wall Street, New York, N.Y.

Codepositary.—The National Rockland Bank of Boston, 30 Congress Street, Boston, Mass.

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Until further notice the sum of $6 (which is approximately 4 percent of current market value) will be allowed and paid to investment dealers, who are active, for each debenture deposited through them, to cover their cost of assisting debenture holders in depositing with this committee, the same to be payable immediately upon satisfactory proof of deposit.

ASSOCIATED GAS & ELECTRIC CO.,
New York, N.Y., June 19, 1933.

To debenture holders of Associated Gas & Electric Co.:

In a letter dated May 15, 1933, the management of Associated Gas & Electric Co. proposed to its debenture holders a plan of rearrangement of capitalization, which, in the opinion of the undersigned committee, takes away from the debenture holders the legal and moral rights to which they are entitled. The plan proposes an exchange of your debentures under any one of three different options.

The committee is informed that, in connection with the sale of many of the company's debentures in recent years, it was generally stated that the debentures were a direct obligation of the company, but not secured by a mortgage or pledge, and that the company agreed not to pledge any of its properties without ratably securing the holders of the debentures except in the case of a purchase-money mortgage and liens and except in the case of pledges in the usual course of business as security for temporary loans maturing not more than 1 year from the date of issue, or indemnity not exceeding 1 year.

Associated Gas & Electric Co. was organized under the laws of the State of New York in 1906 as a holding company and became the owner and holder of large amounts of the capital stock of various utility operating companies, upon which stock, it is claimed, the debenture holders of Associated Gas & Electric Co. had a first claim for the payment of principal and interest.

Associated Gas & Electric Corporation was formed early in 1932 (being successor through change of name to Associated Utilities Investing Corporation, a Delaware corporation, which was originally organized in 1922), and immediately issued a large amount of 8-year 8-percent gold bonds, which became a first claim upon all of the assets, as we understand it, of Associated Gas & Electric Corporation.

Associated Gas & Electric Co. now proposes to exchange its issued and outstanding debentures under the terms of the options above referred to for debentures of Associated Gas & Electric Corporation, which, as explained above, is an intermediate holding company controlled directly by Associated Gas & Electric Co., the latter controlling all subsidiaries through the former.

We further understand that Associated Gas & Electric Co., on February 25, 1932, made it known that the only assets held by Associated Gas & Electric Co. were the entire outstanding shares of Associated Gas & Electric Corporation which, in turn, controls directly or indirectly all companies making up Associated Gas & Electric system.

As the proposition now stands, debenture holders of Associated Gas & Electric Co. are requested to exchange the debentures of that company, under the terms of which they have a first claim on the assets of the company, for debentures of Associated Gas & Electric Corporation, which would be junior, as we understand it, to a large amount of 8-year 8 percent gold bonds. The substitution of the debentures of the corporation for the debentures of the company as offered under option (1) materially nullifies the restrictions mentioned in paragraph 2 above. Although such action may or may not be legal, it seems to us that this move very clearly approaches a breach of faith. An exchange under option (1) involves the giving up of 50 percent of principal and interest and a consequent loss of this amount, without any sacrifice on the part of stockholders, preferred or common, who stand to benefit tremendously when prosperity returns.

Under option (2), the holder who exchanges receives an income bond with less coupon rate for an obligation with fixed interest. The holder who exchanges surrenders his legal rights to fixed interest and his rights to all the equities of the company for breach of contract. These equities, with return of prosperity, may become exceedingly valuable. It is to retain these valuable equity rights that the company is seeking to effect this plan of "rearrangement of capitalization."

Under option (3) the holder who exchanges receives a debenture which may become an income debenture, i.e., a debenture on which interest is paid only if earned. The slight additional income offered is inconsequential compensation for the present holder giving up his right to a fixed interest payment

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and his right to take over all the assets of the company in the event of default of contract. Debentures issued under this option have the further serious objection that they rank junior to the debentures issued under options (1) and (2). When the debentures issued under this option become income debentures, they are in effect nonvoting cumulative preferred stock. This option completely vitiates the security now held.

To many debenture holders, investment bankers and banks, the above-mentioned plan of "rearrangement of capitalization" seems not only extremely unfair to the debenture holders, but entirely unprecedented and unjust. It was, therefore, deemed necessary that a committee be formed to represent the debenture holders in order that this inequitable plan may be prevented from being enacted and/or in order to represent the debenture holders in forming a just and equitable plan of "rearrangement of capitalization."

The committee feels that Associated Gas & Electric Company, either directly or indirectly, owns valuable properties which should be kept intact and the committee will use its best efforts to do so. While we are not in sympathy with the company's financing operations, we would have no quarrel with the above proposition if all securities now junior to these debentures were also called upon to make some proper sacrifice, but that is not the case. All equity securities remain as they are, including of course that portion of the equity owned by those active in the management, and all sacrifices made by the present debenture holders will, in the long run, accrue directly to the benefit of the equity holders. This seems to us to be far from equitable. The committee feels that the sacrifices which the debenture holders are called upon to make and which are not shared in by the equity holders, is contrary to all precedent as, to the best of our knowledge, information, and belief, in all other "rearrangements of capitalization," the equity holders have been called upon to bear the brunt and to make the greater sacrifice.

The aim of the committee is to so represent the debenture holders that, in any financial reorganization, they will receive a more equitable and just interest in the new set-up than is provided for in the company's plan. If the company's position is so serious that it is imperative for its preservation that sacrifices be made, then the committee proposes to use their best endeavors to see that the sacrifices are made by the junior security holders and not by the debenture holders who occupy the senior position. If it should prove necessary for the debenture holders to sacrifice either a part of their principal or a part of their income, then we believe they should be compensated for this sacrifice by a substantial interest in the equity securities in the form of a bonus.

This committee has a definite and fixed purpose and, as stated above, it aims to so represent the debenture holders as to secure to them a fair, equitable, and just return for the debentures which they now hold. The committee shall endeavor, if possible, to obtain an independent audit of the books of the company and to cooperate with the management in an amicable manner in the arrangement of a plan, if it is found that a "rearrangement of capitalization" is necessary. The committee is very much averse at this time to receivership or other legal proceedings, feeling that, in order to safeguard the rights of the debenture holders, an amicable adjustment of matters is more desirable than litigation. Nevertheless, if it is necessary, the committee will not hesitate to take such action, whether at law or in equity, as its counsel may deem fit and proper in order that the rights of the debenture holders may be maintained to the fullest extent, even though such litigation would involve receivership.

None of the members of this committee or its counsel have ever been and none are now in any way directly or indirectly connected with the company or its management. The committee's sole interest is to extend to the Debenture holders the maximum protection at this time when the safety and security of their investment is threatened.

No money is asked with the deposit of debentures with this committee and there are three matters of interest to debenture holders to which the committee calls particular attention: First, the cost to debenture holders for all services of the committee under the terms of its deposit agreement cannot exceed a sum equal to more than 2½ percent; second, no personal liability for any debt of the committee can possibly attach to depositing debenture holders; and, third, interest accruing on all deposited debentures will be paid to the depositor or his successor in title if, as, and when such interest has been collected and, in receiving the payment of such interest, it will not be necessary for debenture holders to surrender or exhibit their certificates of deposit.

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For the convenience of the debenture holders depositing with this committee, the depositary banks will collect interest when, as, and if paid on debentures deposited with them, and mail to the depositing debenture holders a check for such interest.

The object in the organization of this committee is to create a responsible agency through which the debenture holders, who are so widely scattered through the United States, Canada, and in other foreign countries, may act in concert for the protection of their rights and interests. It is essential that every debenture holder wishing to protect his interests through this committee deposit his debentures as quickly as possible, using the letter of transmittal attached to this notice and sending the same directly to the depositary, co-depositary, or one of the agents. Deposits of debentures will be received and held by the depositary or codepositary subject to the terms and conditions of the deposit agreement, copies of which are on file with the depositary, co-depositary and their agents. A copy of the deposit agreement may be obtained upon request from the secretary or assistant secretary of this committee, or from the depositary, codepositary, or any of their agents. The depositary or codepositary will issue transferable certificates of deposit to each depositor.

If you wish to avail yourself of the protection afforded by this committee, it is important that you indicate the same by filling out the transmittal letter attached and sending it, together with your debetures, to one of the depositary banks, or one of the agents at once. All those who deposit their debentures with this committee will be kept informed as to the progress which is made in their behalf.

W. A. NASH, *Chairman*,
REX R. THOMPSON,
AMBROSE W. BENKERT,
E. G. DIEFENBACH,
Committee.
JOHN H. GALLOWAY, JR., *Secretary.*

TRANSMITTAL BLANK FOR DEPOSITING REFUNDING, GOLD AND/OR CONVERTIBLE DEBENTURES OF ASSOCIATED GAS & ELECTRIC CO.

Depositary.—The Commercial National Bank & Trust Co. of New York, 56 Wall Street, New York, N.Y.

Codepositary.—The National Rockland Bank of Boston, 30 Congress Street, Boston, Mass.

To the depositary or codepositary by which this letter is received:

GENTLEMEN: The undersigned hereby deposits with you as agent and depositary under the deposit agreement, between W. A. Nash, Rex R. Thompson, Ambrose W. Benkert, and E. G. Diefenbach, as a committee, and such holders of the refunding, gold and/or convertible debentures of Associated Gas & Electric Co. as may become parties to the agreement by depositing their debentures thereunder, a copy of which agreement is on deposit with you.

The undersigned hereby assents to all the provisions of said agreement and becomes a party thereto, depositing herewith the following described debentures of Associated Gas & Electric Co., all of which debentures so deposited are specifically indicated below:

Denomination	Serial numbers	Maturity	Rate of interest	Coupons attached	Total amount

Please issue your certificate(s) of deposit for said securities in the following name:

Name _____ Address _____
(Please type or print, using full name) Number Street
City or town _____ State _____

Very truly yours,

_____
(Signature of depositor)

Deposits may be sent to the depositary or codepositary or any one of their agents.

(See instructions on back hereof.)

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INSTRUCTIONS

Please fill out one letter of transmittal for each party depositing. Debentures should be sent, together with letter of transmittal, by registered mail to the depositary, codepositary, or any one of their agents. Additional letters of transmittal may be procured from the secretary of the committee or the depositary, codepositary, or any one of their agents.

Registered debentures should be accompanied by appropriate assignments executed in blank by the registered owner, whose signature should be guaranteed by a bank or trust company having a principal office or a correspondent in New York City, or by a brokerage firm having membership on the New York Stock Exchange. Assignments executed by fiduciaries should be accompanied with proper evidence of their authority to execute such assignments. Assignments executed in behalf of corporations should be accompanied by appropriate resolution of the board of directors or other evidence of proper authority for such assignment.

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STOCK EXCHANGE PRACTICES

TUESDAY, OCTOBER 10, 1933

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

The subcommittee met, pursuant to adjournment on Friday, October 6, 1933, at 10 o'clock a.m. in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher, presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Norbeck, Townsend, and Couzens.

Present also: Senators Goldsborough and Kean.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; George S. Franklin, Wallace P. Zachry, Warren Leslie, Walter G. Dunnington, Clifton Murphy, John T. Cahill, and Bernhard Knollenberg, counsel for Dillon, Read & Co.; Root, Clark, Buckner & Ballantine, George H. Murphy, of counsel, counsel for United States & Foreign Securities Corporation; and United States & International Securities Corporation.

The CHAIRMAN. The subcommittee will come to order. You may proceed, Mr. Pecora. I believe Mr. Tracy is on the stand.

TESTIMONY OF ERNEST B. TRACY—Resumed

Mr. PECORA. Mr. Tracy, when you were last on the stand you were asked if you could state who signed in behalf of United States & International Securities Corporation the letter of July 13, 1929, with relation to the so-called "railroad joint trading account" with Dillon, Read & Co. You said you would look it up for the information of the subcommittee this morning.

Mr. TRACY. We have that, I think. (After consulting an associate.) I am told that Dillon, Read & Co. were unable to find the original of that letter. It was signed by one of the officers of the company. Mr. Frank thinks he signed it as an officer of the company.

Mr. PECORA. Who managed that joint account?

Mr. TRACY. Well, we could not buy any securities without consulting Dillon, Read & Co., and they could not buy any without our consent.

Mr. PECORA. Then there was a matter of joint management?

Mr. TRACY. Yes; joint management.

Mr. PECORA. What individual or individuals connected with your investment trust looked after the investments that were made for that account?

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Mr. TRACY. The purchases?

Mr. PECORA. The purchases and sales, if any.

Mr. TRACY. Mr. Frank.

Mr. PECORA. Mr. Frank did that?

Mr. TRACY. Yes. To the best of my recollection he had charge of all purchases.

Mr. PECORA. Do you know how much experience he has had as a trader?

Mr. TRACY. Well, I know he always carried on the execution of orders very satisfactorily.

Mr. PECORA. How much money was furnished by the United States & International Securities Corporation for the purpose of that account?

Mr. TRACY. I will have to get for you the exact amount. (Consulting an associate.) I am told it is $14,261,000.

Mr. PECORA. And how many shares of railroad stocks were acquired by this joint account?

Mr. TRACY. Well, I will have to get the exact figure for you because there were quite a lot of them. (After securing a paper from an associate.) The following securities were purchased by that joint account, Mr. Pecora:

Twenty-seven thousand four hundred shares of Rock Island common at an average price of $138.36.

Ten thousand shares of Pennsylvania Railroad Co. at $98.98.

Thirty-two thousand St. Louis & San Francisco common at $130.39.

Ten thousand shares of Southern Pacific Co. at $145.73.

Fifteen thousand three hundred shares of Southern Railway common at $159.76.

One million nine hundred and eighty-seven thousand dollars par value Seaboard Air Line Railroad Co. adjustment 5s of 1949 at an average cost of $52.09.

Five hundred thousand dollars par value Seaboard Air Line Railway Co. consolidated 6s, 1945, at an average price of $71.65.

Mr. PECORA. This account was terminated I believe you said on last Friday, on November 9, 1929.

Mr. TRACY. That is correct.

Mr. PECORA. How many shares of Rock Island Co. stock had been acquired by that time for the purpose of this joint account?

Mr. TRACY. Twenty-seven thousand four hundred shares.

Mr. PECORA. In whose name were the purchases of these shares made?

Mr. TRACY. All securities were delivered to us. We bought the securities and kept them for the joint account.

Mr. PECORA. Which means the securities were purchased in the name of the United States & International Securities Corporation?

Mr. TRACY. They were purchased by us. We had charge of them, and we kept them, and kept them in the account.

Mr. PECORA. When you say they were purchased by you, do you mean to say that the transactions were put through in the name of United States & International Securities Corporation?

Mr. TRACY. I will have to ask for information about that question. I did not handle the account personally. I mean that I did not do the buying.

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Mr. PECORA. Well, didn't you determine, or help to determine, as the president of this corporation, the policy that was to be pursued with regard to the operation of this joint account?

Mr. TRACY. I do not believe I understood your question, Mr. Pecora.

Mr. PECORA. Well, will the committee reporter please read the question. [Which was done.]

Mr. TRACY. Yes, sir; I did.

Mr. PECORA. Well, can't you tell the committee whether or not that joint account purchased those railroad stocks in the name of your investment trust?

Mr. TRACY. I will have to look that up.

Mr. PECORA. All right, then.

Senator ADAMS. While that information is being looked up let me ask: Mr. Tracy, were the stocks transferred to the name of the investment trust?

Mr. TRACY. Well, I am not sure whether they were or not? I will have to look that up.

Senator ADAMS. Was it your custom in the purchase of stock to put them in the name of the investment trust?

Mr. TRACY. We usually put them in the name of the nominee, Senator Adams.

Senator COUZENS. Who was the nominee in this case?

Mr. TRACY. I will have to inquire. [After consulting an associate.] Mr. Pecora, I am told that those stocks went through the usual course. The Chase Bank had the custodianship of the account of the company.

Mr. PECORA. What was that?

Mr. TRACY. The Chase Bank had the custodianship of the account, and all securities were delivered to them, and they kept them for our account. They put the securities in the name of their nominee.

Senator COUZENS. And do you know who that was?

Mr. TRACY. I am not sure, but we think it was done in the name of Blass & Co.

Mr. PECORA. Well——

Senator COUZENS (interposing). Why don't we put Mr. Frank on the stand if the witness has to get all the information from him anyway?

Mr. PECORA. I naturally assumed that the executive head of the company would be able to tell us the details of these important transactions. But, apparently, he must rely on the superior knowledge or recollection of subordinates.

Mr. TRACY. The securities were bought for us, Mr. Pecora. We paid for them, and we had the holding of the securities. These are all details of operation. I do not know how to sit in the room and execute orders. I never do that.

Senator COUZENS. As a matter of fact, would anyone who would be buying those securities know who was making these purchases?

Mr. TRACY. Anyone delivering it?

Senator COUZENS. I mean that no one could tell from that handling of the securities who was actually buying, could he?

Mr. TRACY. I shouldn't think so.

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Senator COUZENS. It was all covered up in the process of the purchaser, the nominee, and so forth. Let us have on the stand one who knows about it.

Mr. TRACY. That is our usual practice. We do that with everything.

Senator COUZENS. I am not talking about your usual practice. That is what we are trying to get at, the usual practice, and are trying to break it up.

Mr. TRACY. I think the amounts that we were going to buy of Frisco and Rock Island would have meant that the market probably would have gone up, and we would not have gotten them as cheaply as we did.

Senator COUZENS. Then, the market is influenced more by who is buying and selling than the actual value of the securities; isn't that so?

Mr. TRACY. I wouldn't say that.

Mr. PECORA. Well, now——

Senator COUZENS (continuing). Well, you have just said that.

Mr. TRACY. I say they might have gone up, if people knew we were buying.

Senator COUZENS. Then, buyers and sellers have more influence upon the handling of the market than the real value of the securities themselves?

Mr. TRACY. Well, no; but——

Senator COUZENS (continuing). Well, your answer admits that when you say that, if it were known you were buying, those stocks might have gone up.

Mr. TRACY. They might have.

Senator COUZENS. Well, everybody knows that anyway, so I will not proceed further along that line.

Mr. PECORA. Mr. Tracy, when this joint account was terminated November 9, 1929, it had to its credit 27,400 shares of Chicago, Rock Island & Pacific Railway Co. common stock, didn't it?

Mr. TRACY. That is right, sir.

Mr. PECORA. And how much had been paid for that stock during the operation of this joint account?

Mr. TRACY. $3,791,593.99.

Mr. PECORA. Now, all that money was advanced by the investment trust of which you were president?

Mr. TRACY. Correct.

Mr. PECORA. And the stocks were delivered to the investment trust?

Mr. TRACY. Correct.

Mr. PECORA. Well, if that was the case—

Senator COUZENS (interposing). Just a minute, Mr. Pecora. They were first delivered to the nominee of the Chase Bank, as I understand.

Mr. PECORA. They were delivered in that way, and then—

Mr. TRACY (interposing). They were delivered to the Chase Bank, and the Chase Bank put them in the name of the nominee.

Mr. PECORA. When this joint account was terminated what was done with those 27,400 shares of Rock Island stock?

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Mr. TRACY. The securities company took half of them, and half of them were delivered to Dillon, Read & Co. against payment.

Mr. PECORA. What payment did they make for their half of those shares?

Mr. TRACY. Whatever was their cost at the time.

Mr. PECORA. That is, one half of this sum of $3,791,593.99?

Mr. TRACY. Correct.

Mr. PECORA. Did they actually make that payment, or was it made through a transfer of credit on the books of account?

Mr. TRACY. Well, I know they paid us for it. Whether they paid it through a transfer of credit or not I do not know. Let me find out.

Mr. PECORA. How do you know whether they paid if you do not know about that?

Mr. TRACY. I should have to look that up. There isn't any question about it, but just exactly how it was done, whether through a transfer or credit or by check, I do not know.

Mr. PECORA. We would like to know how it was done. However, we are sure of that one thing, I take it, that the investment trust paid out the full sum of $3,791,593.99 represented by the purchase of those 27,400 shares, didn't it?

Mr. TRACY. Yes, sir.

Mr. PECORA. Out of its own funds?

Mr. TRACY. That is correct.

Mr. PECORA. And when the joint account was terminated November 9, 1929, it had in its possession 27,400 shares of Rock Island stock, one half of which were delivered to Dillon, Read & Co. against payment.

Mr. TRACY. Yes.

Mr. PECORA. Now, you were going to look up and tell us, as I understood, what form the payment therefor took.

Mr. TRACY. We will have to go to the ledgers in order to look that up.

Mr. PECORA. Did you have anything at all to do with the operation of this joint trading account?

Mr. TRACY. Anything to do with it?

Mr. PECORA. Yes; anything whatsoever to do with it.

Mr. TRACY. No. They were told to purchase securities within certain limits, and those securities when purchased for the account were reported to the officers and directors.

Mr. PECORA. What were the limits that you refer to?

Mr. TRACY. It was on an income basis as I remember it. We bought those securities I think to yield approximately 5½ percent.

Mr. PECORA. Can you ascertain from any of your associates here present how payment was made by Dillon, Read & Co. for one half of those 27,400 shares of Rosk Island Railroad Co. stock?

Mr. TRACY. That is what I am having looked up from the ledger.

Mr. PECORA. How long will it take you?

Mr. TRACY. We will get it just as quickly as we can for you.

Mr. PECORA. But how long will it take, so I may determine whether it is advisable to wait for the answer or proceed with further examination.

Mr. TRACY. It will take at least 15 minutes.

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Mr. PECORA. Well, will you have it done, and meanwhile I will continue my examination of you.

Mr. TRACY. All right.

Mr. PECORA. Now, Mr. Tracy, do you recall that when this joint account was terminated on or about November 9, 1929, those 27,400 shares of Rock Island stock had sustained a rather severe depreciation of market value?

Mr. TRACY. The market had gone off; yes.

Mr. PECORA. And can you tell the subcommittee about what loss had been sustained on paper by reason of such depreciation?

Mr. TRACY. In the case of the Rock Island stock?

Mr. PECORA. Yes, sir.

Mr. TRACY. Let me get what the price was. [After consulting an associate.] They are trying to look up the market price as of that date, Mr. Pecora.

Mr. PECORA. While they are looking that up I will resume my examination.

Do you know what Dillon, Read & Co. did with their half of the 27,400 shares of common stock of the Chicago, Rock Island & Pacific Railway Co. that were turned over to them on November 9, 1929?

Mr. TRACY. What did they do with it?

Mr. PECORA. Yes.

Mr. TRACY. Yes.

Mr. PECORA. What?

Mr. TRACY. It was bought by the United States & Foreign Securities Co.

Mr. PECORA. That is the other investment trust of which you were then also the president?

Mr. TRACY. Surely.

Mr. PECORA. For what price?

Mr. TRACY (addressing one of his associates). Have you got the price on that? It was 114¼. It was the market price.

Mr. PECORA. The market price as of what date?

Mr. TRACY. As of the date of the transaction.

Mr. PECORA. Were you consulted, as president of the United States & Foreign Securities Corporation, with regard to that transaction before it was consummated?

Mr. TRACY. Was I? Of course I was.

Mr. PECORA. With whom did you confer about it?

Mr. TRACY. I conferred with practically all the directors that I could reach at that time.

Mr. PECORA. Among those directors there were gentlemen who were partners in the firm of Dillon, Read & Co., were there not?

Mr. TRACY. We wanted to buy railroad securities and we saw an opportunity of buying these blocks.

Mr. PECORA. You thought it was a good opportunity for the investment trust?

Mr. TRACY. Indeed I did; we all did.

Mr. PECORA. Have you got the minutes of the United States & Foreign Securities Corporation; that is, the minute book of the board of directors for the year 1929, and particularly that portion of it that includes the month of November?

Mr. TRACY. I will get that right away for you.

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The CHAIRMAN. Were the shares of your second trust transferred over to the first trust?

Mr. TRACY. At that time?

The CHAIRMAN. Yes, sir.

Mr. TRACY. No, sir.

The CHAIRMAN. What did you do with those shares?

Mr. TRACY. We still have them.

Senator ADAMS. How did the price at which Dillon, Read & Co. purchase its half of the stock compare with the price at which the stock was turned over to the United States & Foreign Securities Corporation?

Mr. TRACY. We bought this block for the United States & Foreign Securities Corporation at 114¼. It had cost them about 138.

Senator ADAMS. There was a loss to Dillon, Read & Co. on the transaction?

Mr. TRACY. Evidently; yes.

Mr. PECORA. When was that transaction effected?

Mr. TRACY (after conferring with associates). November 11.

Mr. PECORA. That was 2 days after the termination of the joint trading account?

Mr. TRACY. Right.

Mr. PECORA. Have you succeeded in finding the minute book of the United States & Foreign Securities Corporation for the year 1929?

Mr. TRACY. Yes, sir; I have it here in front of me.

Mr. PECORA. May I look at it?

(The witness handed book to Mr. Pecora.)

The CHAIRMAN. How much would that loss of 24 points amount to in dollars and cents, Mr. Tracy?

Mr. TRACY (after a calculation). I make it $328,800.

Mr. PECORA. Mr. Tracy, looking through the minute book of the United States & Foreign Securities Corporation which you have handed me—and the one which you have handed me is marked "Volume 3"—I notice that a meeting of the board of directors of that corporation was held, according to the minutes, on October 9, 1929, and that the next meeting of the board of directors was held on November 13, 1929. It would seem, therefore, that this transaction whereby the United States & Foreign Securities Corporation acquired these shares of the Rock Island road from Dillon, Read & Co. at 114-plus was consummated between those two meetings, or between the dates of those two meetings of the board of directors. What consultation did you have with members of the board of directors about that transaction before it was consummated?

Mr. TRACY. I discussed it with all members of the board that I could reach at that time.

Mr. PECORA. Whom did you reach?

Mr. TRACY. I do not remember, but it was my practice to get in touch with as many members of the board on all transactions as I could reach; and at that period it was pretty hard to get hold of some people. I had to either get hold of them at night or early in the morning, at breakfast—if you remember the period in question.

Mr. PECORA. Who were the most active directors of the company at that time?

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Mr. TRACY. The most active?

Mr. PECORA. Yes.

Mr. TRACY. Mr. Dillon was very active; I was very active; Mr. Ecker was very active, and Mr. Murphy—they were all very active in that period.

Mr. PECORA. Was Mr. Phillips very active?

Mr. TRACY. Yes.

Senator ADAMS. That was a period of rather rapidly declining markets, was it not?

Mr. TRACY. Yes. I think there was one low on November 15 when everybody thought we had hit the bottom of the market.

Mr. PECORA. Who first proposed that the United States & Foreign Securities Corporation purchase these railroad shares from Dillon, Read & Co. at that time? What I am trying to get at, Mr. Tracy, is to find out the course of the negotiations that culminated in this transaction. Who initiated them, and who conducted them on behalf of the contracting parties?

Mr. TRACY. I do not know. I do know we all wanted to buy railroad securities.

Mr. PECORA. Even after the stock market collapsed in October 1929 you all wanted to buy railroad securities?

Mr. TRACY. We wanted to buy railroad securities.

Mr. PECORA. In the open market?

Mr. TRACY. In the open market or in a block, if we could get them.

Mr. PECORA. Who proposed this particular transaction that was had with Dillon, Read & Co. by your investment corporation?

Mr. TRACY. I do not remember who proposed it in particular. I know I did a lot of talking about it.

Mr. PECORA. The idea started with somebody, didn't it?

Mr. TRACY. We wanted to buy railroad securities——

Mr. PECORA. When you say "we", whom are you referring to?

Mr. TRACY. I am referring to the securities company.

Mr. PECORA. You are referring to certain individuals connected with the securities company, are you not?

Mr. TRACY. I am referring to the directors of the securities company.

Mr. PECORA. With which of the directors did you discuss the matter of acquiring these shares from Dillion, Reed & Co.?

Mr. TRACY. I do not remember any particular one, but I undoubtedly consulted Mr. Murphy and Mr. Ecker, and whoever was available. I always got in touch with every one of the directors that I could reach.

Senator COUZENS. Then this evidently did not originate in the mind of any of the directors that you had to call up?

Mr. TRACY. We wanted to buy railroad securities; we were looking for them.

Senator COUZENS. But this particular deal, before it went through, must have originated, as Mr. Pecora says, in somebody's mind. It could not have originated in the minds of those directors whom you called up, otherwise you would not have had to call them up. It must have originated in yours, or somebody else's; otherwise you would not have had to consult with those directors.

Mr. TRACY. You see, the directors of both companies, Senator, knew that we had a joint account to purchase railroad securities.

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and it was discussed at the meeting of the United States & International Securities Corporation and also the meeting of the board of the United States & Foreign Securities Corporation. They both knew of that account, and we wanted to buy more railroad securities. We discussed it among the officers; but I do not know whether I suggested it originally, or who it was, to purchase those two blocks from Dillon, Read & Co. Those were the only ones we wanted—the Rock Island and the Frisco. As I told you the last time I was on the stand, we had an exhaustive report made on those two companies.

Senator COUZENS. Have you copies of those reports available?

Mr. TRACY. I have those two reports here; and I think you will find them very complete and elaborate, and I would like to have them made a part of the record.

Mr. PECORA. I was just wondering what this witness could tell the committee in the course of his testimony——

Senator COUZENS. May I suggest that these be left for the consideration of the committee as to whether we will put them in the record or not?

Mr. PECORA. I would like to look at them.

The CHAIRMAN. Without objection, that will be the course followed.

Mr. TRACY. They are voluminous and full of charts and figures.

The CHAIRMAN. The committee will take care of them, Mr. Tracy.

Mr. PECORA. Mr. Tracy, I have before me the minutes of the regular meeting of the board of directors of the United States & Foreign Securities Corporation which was held on November 13, 1929. That date was after the consummation of the transaction whereby the United States & Foreign Securities Corporation acquired from Dillon, Read & Co. their half of these Rock Island shares that were purchased in the joint account; and in reading through these minutes, Mr. Tracy, I find absolutely no mention in any way, shape, or form of this important transaction that had already been consummated prior to the holding of this meeting. Can you account for that?

Mr. TRACY. Will you let me look through those?

Mr. PECORA. Yes, sir [handing minute book to the witness].

Senator COUZENS. Mr. Pecora, do you recall when this trading agreement was presented?

Mr. PECORA. July 13, 1929.

Senator COUZENS. I observe that the report of the St. Louis & San Francisco Railroad Co. is dated September 6, 1929. That was much later than the time the trading agreement was entered into.

Mr. TRACY. That was being made during the entire summer, and we had reports on it from time to time.

Senator COUZENS. The report on the Rock Island was not made until August 20, 1929, long after the trading agreement was entered into.

The CHAIRMAN. What is the present market on the Rock Island shares?

Mr. TRACY. It is a nominal figure, Mr. Chairman, because the road is in receivership.

Now, Mr. Pecora, I would like to read to you from the Trade and Securities Service, Standard Statistics Co., dated October 4, 1929——

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Mr. PECORA. Before you read that will you answer the question that I put to you concerning the reason for the absence of any mention in the meeting of the board of directors held on November 13, 1929, of this important transaction whereby the United States & Foreign Securities Corporation acquired thousands of shares of Rock Island stock from Dillon, Read & Co.?

Mr. TRACY. The treasurer's report for the month of November, which contains all that information, is in the directors' report for the month of December. The transactions of the preceding month are always reported at the meeting held in the following month. That is our usual procedure.

Mr. PECORA. Is there anything in the minutes of any meeting of the board held at any time after November 11, 1929, that contains any reference to the negotiations whereby the United States & Foreign Securities Corporation acquired from Dillon, Read & Co. these railroad shares on November 11, 1929?

Mr. TRACY. No; there is simply the statement that we had bought those securities in the usual way, our usual form of reporting it.

Mr. PECORA. Is there anything in the minute book, any mention or a record of any authority having been given by the board of directors to this corporation to enter into this transaction with Dillon, Read & Co.?

Mr. TRACY. No; I do not think there is, and I do not think there would be.

Mr. PECORA. Why don't you think there would be? Did you not think the transactions were important enough to be brought specifically to the notice of the board of directors and their consent obtained before the transactions were consummated?

Mr. TRACY. We had all decided that we wanted to buy railroad securities.

Mr. PECORA. When had you made that decision?

Mr. TRACY. All through the summer. That summer railroad securities were considered the best securities to buy.

Mr. PECORA. Did you adhere to that decision after October 1929?

Mr. TRACY. Yes, sir.

Mr. PECORA. Particularly after the collapse of security values in the stock market that that month brought about?

Mr. TRACY. Yes. If you will permit me to read from this, which is the opinion of Standard Statistics, who have a very high standing, I think it will be of interest to you——

Mr. PECORA. Just wait. We will get that into the record.

Mr. TRACY. I will give you the opinion of somebody else other than ourselves.

Mr. PECORA. Is it an opinion that influenced your judgment?

Mr. TRACY. It did not.

Mr. PECORA. Then do not give it to us. We want to know what you acted upon, not what somebody else may have thought, independently of you.

Mr. TRACY. I simply want to show you what other people thought of railroad securities at that time; and I think, in fairness, you ought to let me quote this.

Mr. PECORA. If it did not influence you, it had nothing to do with your transaction; and if you did not know of those opinions at that time, they had nothing to do with it.

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Mr. TRACY. I did know of them at that time.

Mr. PECORA. I thought you said you did not.

Mr. TRACY. I said I did not think it influenced me; but I did know of them.

Mr. PECORA. In your conferences with representatives of Dillon, Read & Co. did they indicate that they had an opinion similar to yours about the wisdom of acquiring railroad shares at that time?

Mr. TRACY. I know that they believed in railroad shares at that time.

Mr. PECORA. If they believed in railroad shares at that time, will you explain why they parted with their railroad shares at that time to your investment trust?

Mr. TRACY. That I don't know.

Mr. PECORA. You thought they were gentlemen whose judgment was worth something with regard to securities values, did you not?

Mr. TRACY. Their judgment was worth a good deal, which the record shows.

Mr. PECORA. Did it strike you at any time during those transactions back in November 1929 that it might be unwise for your investment trust to take on these railroad shares, in view of the fact that Dillon, Read & Co., a company whose judgment you thought a great deal of, held an opinion apparently to the effect that they ought to sell their railroad shares?

Mr. TRACY. I do not know anything about their reasons at that time. I know we had a lot of money that we wanted to invest, and we thought those securities were good investments, and that is why we purchased them.

Mr. PECORA. When you testified last week I asked, or Chairman Fletcher asked, at page 502 of the reporter's minutes, referring to this joint account, who composed it, and it was stated, Dillon, Read & Co. and the investment trust in equal shares; each had a 50-percent interest, and you said, "We wanted to buy railroad securities. We formed this account with Dillon, Read & Co. to buy railroad securities. They wanted to buy railroad securities also." You meant Dillon, Read & Co. when you used the pronoun "they" in that answer, did you not?

Mr. TRACY. Correct.

Mr. PECORA. So that during the summer and fall of 1929 your directors and Dillon, Read & Co. were of one mind about the wisdom of buying railroad shares?

Mr. TRACY. Yes, sir; and a great many other people were, too.

Mr. PECORA. We are concerned now with the operation of your mind, not that of a great many other people; and you can shorten this examination by confining yourself to your own activities.

Mr. TRACY. I want to help you as much as I can.

Mr. PECORA. I think you will give us a real contribution in that way, by confining yourself to your activities, not anyone else's.

Now, when did Dillon, Read & Co. indicate that they had changed their minds about the wisdom or the advisability of acquiring railroad shares?

Mr. TRACY. I don't know when it was. I know we wanted to buy railroad securities. We knew that those blocks were owned by Dillon, Read & Co., and we asked them whether they would sell them

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to us. We only wanted the Rock Island and the Frisco; not the others.

Mr. PECORA. Two days after the distribution of the railroad shares that had been accumulated for this joint account, somebody in your company knowing that Dillon, Read & Co. had, through this joint account, acquired these railroad shares, went to Dillon, Read & Co., and asked them if they wanted to sell?

Mr. TRACY. Yes; we wanted to acquire more railroad securities.

Mr. PECORA. With whom did you confer between November 9 and November 11, 1929, with regard to buying these railroad shares from Dillon, Read & Co.? Can you not tell us?

Mr. TRACY. No; I do not remember whom we conferred with. I might have conferred with any one of the partners of Dillon, Read & Co.

Mr. PECORA. Whom did you confer with, as a matter of fact?

Mr. TRACY. I do not remember. It does not make any difference, as I see it, which one I conferred with.

Mr. PECORA. Did you make a proposal to them in writing to buy several million dollars' worth of railroad shares from them?

Mr. TRACY. No; I did not.

Mr. PECORA. What bargaining did you do with them in the matter of price, if anything?

Mr. TRACY. The price on the market.

Mr. PECORA. Whom did you take up negotiations with on behalf of Dillon, Read & Co.?

Mr. TRACY. Who in Dillon, Read & Co.?

Mr. PECORA. Yes.

Mr. TRACY. I told you I did not remember. It might have been any one of the partners.

Mr. PECORA. Who took it up at your request with any one of the partners?

Mr. TRACY. I know I discussed it with some of them, and I called up the directors and discussed it with them, and they were all of the same opinion, that it was a good opportunity to acquire a block of railroad securities. We did not want the other securities in the account.

Mr. PECORA. You did not want the other railroad securities in the account?

Mr. TRACY. No.

Mr. PECORA. Why not?

Mr. TRACY. The directors did not want them; that is all.

Mr. PECORA. Did they give any reason?

Mr. TRACY. I cannot give you the reason.

Mr. PECORA. Apparently up to this time the directors of your trust were keen about acquiring railroad shares?

Mr. TRACY. We had been, but we thought it was best to have those two.

Mr. PECORA. You did acquire a variety of shares of railroad stock for the purposes of this joint account between July and November 1929, did you not?

Mr. TRACY. Correct.

Mr. PECORA. Two days after the termination of the joint account with the distribution of the acquired shares to the participants we

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see that your investment trust, the first one, United States & Foreign, bought back from Dillon, Read & Co. not all of the railroad shares that had been the subject of the joint trading account, but only two issues, the Chicago, Rock Island & Pacific and the St. Louis & San Francisco?

Mr. TRACY. That is right.

Mr. PECORA. Why were not any of the other railroad shares purchased from Dillon, Read & Co. that had been acquired for the joint account?

Mr. TRACY. I believe we already owned a substantial amount of securities.

Mr. PECORA. You already owned substantial blocks of these two railroad securities, did you not?

Mr. TRACY. I would have to look up and see how much we had in the United States & Foreign Securities Corporation.

Senator COUZENS. Was Mr. Hayden of your company one of those consulted with respect to the purchase of the Rock Island shares from Dillon, Read & Co.?

Mr. TRACY. No; he is on the board of the United States & International Securities Corporation.

Senator COUZENS. He is not on the other board?

Mr. TRACY. No, sir; he is not on the other board. I will have to look that up, but I am pretty sure we did not have any Rock Island or Frisco in the United States & Foreign Securities Corporation at that time.

Mr. PECORA. Why did you not acquire the other railroad shares from Dillon, Read & Co. if you thought it was an advisable and wise thing for this investment trust in that market to buy large blocks of railroad stock?

Mr. TRACY. I would have to look up our railroad list before I could answer that.

Mr. PECORA. You seemed quite anxious to put into the record some opinion expressed by somebody else, a printed copy of which you have in your hands. What is that opinion?

Mr. TRACY. This is the Industries Section of Standard Trade and Securities Service, and it is——

Senator COUZENS. Who compose that company?

Mr. TRACY. It is a very well known statistical service, Senator.

Senator COUZENS. Yes; but who runs it? Who owns it?

Mr. TRACY. Who owns it?

Senator COUZENS. Yes.

Mr. TRACY. I do not know who owns it.

Senator COUZENS. The title does not mean anything to me, unless I know who the gentlemen are that operate the Standard Statistics.

Mr. TRACY. I cannot give you that information, but I can tell you that this is a service that practically everybody in the financial district subscribes to.

Senator COUZENS. That may be so.

Mr. PECORA. Who operate that service? What persons operate it?

Mr. TRACY. I do not know the people in the company.

Mr. PECORA. Then you are taking the judgment of someone whom you do not even know, are you?

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Mr. TRACY. I will tell you it is well known. It is an accepted service, quoted in all the newspapers, and Mr. Ross and Mr. Meehan will tell you it is as good as any service given in New York.

Mr. PECORA. Mr. Ross and Mr. Meehan are doing excellent work as members of the investigating staff of this committee, but they are not operating investment trusts, and I cannot ask them about these transactions; they had nothing to do with them.

Senator COUZENS. It is important to know—and that is what the committee is trying to get at—who influenced these opinions that you are so anxious to quote. Just who are the men that make that up?

Mr. TRACY. I know nobody in the organization.

Senator COUZENS. Then I want to say to the committee that that opinion is not worth anything. If we do not know who makes up the opinion, the opinion is not worth a thing to this committee. Unless we know who makes up the opinion, the mere name of "Standard" does not mean anything. The men who influenced this opinion are the important facts for this committee to know. I do not see what benefit it has if we do not know who makes up the opinion and who influenced the opinion.

The CHAIRMAN. The committee can, of course, attach such importance to it as it sees fit, but I think there is no objection to having it go into the record for what it is worth. I think he may read it.

Mr. TRACY. Thank you, sir. It is dated October 4, 1929——

Mr. PECORA. That was before the first big collapse in securities values on the exchange, was it not?

Mr. TRACY. Yes; the market had gone down considerably at that time.

Mr. PECORA. But nothing compared with what happened after October 4?

Mr. TRACY. No.

Mr. PECORA. Go ahead.

Mr. TRACY (reading):

> For the past two years the rail shares as a class have been priced at an average basis of about twelve and a half times earnings. Seldom has the rail price average deviated very far from such a valuation. The recent sharp decline of these issues, however, in sympathy with the rest of the market has greatly strengthened their price position. Beyond question more real investment bargains can now be found among the rails than in any other section of the list.

And further, in speaking of the Western Trunk Line rate increase, they point out the railroads that will profit by that, and in their calculations they say:

> Seven roads were found to lie wholly within the Western Trunk Line territory. The greatest benefit, however, accrues to those roads which, in relation to their total stock outstanding, have the largest proportion of traffic moving under class rates within that territory. The largest increase in revenues would accrue to Burlington and Chicago & Northwestern, but when translated into share earnings, other roads are found to fare better, as shown in the following table:
>
> On the basis of share earnings, Rock Island stockholders benefit most while among the larger roads Chicago & Northwestern comes next.

Mr. PECORA. These two roads happen to be in bankruptcy or receivership, do they not, Mr. Tracy?

Mr. TRACY. Yes.

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Mr. PECORA. The Chicago, Rock Island & Pacific and the St. Louis & San Francisco both happen to be in receivership today?

Mr. TRACY. Yes, sir.

Mr. PECORA. And their stock has only a nominal value?

Mr. TRACY. That is correct.

Mr. PECORA. And those were the two stocks that you singled out as being primary railroad stocks to buy in November 1929?

Mr. TRACY. That is correct.

Mr. PECORA. You did not want the other railroad stocks that had been acquired through this joint account with Dillon, Read & Co.?

Mr. TRACY. I told you, Mr. Pecora, that we would have to look up to see what we owned of other railway stocks. I think we owned a great many other railway stocks at that time.

Mr. PECORA. As a matter of fact, do you not know that at that very time your investment trust, the United States & Foreign Securities Corporation, had a block of 4,000 shares of Chicago, Rock Island & Pacific Railway Co. in its portfolio?

Mr. TRACY. We may have had a small amount. I will have to look that up.

Mr. PECORA. Is 4,000 shares a small amount?

Mr. TRACY. For a company of that size; yes.

Mr. PECORA. Do you remember what it had paid for those 4,000 shares?

Mr. TRACY. I will have to look that up.

Mr. PECORA. Well, my men have looked it up for you, and the amount is $552,500; and you consider that a small block, do you, for an investment trust like the United States & Foreign Securities Corporation?

Mr. TRACY. That is not a small investment; no. Mr. Pecora, I would like to point out to the committee, with your permission, the range of the price of the stock of the Rock Island after we purchased it, and the volume of sales.

Mr. PECORA. Over what period of time.

Mr. TRACY. I would like to give it any time up to April 18. I have got it here.

Mr. PECORA. Do you mean beginning with November 11, 1929?

Mr. TRACY. Beginning with November 1, 1929.

Mr. PECORA. Can you not give us the range instead of giving us the daily quotations?

Mr. TRACY. Beginning with November 9: High 115; low 101.

Mr. PECORA. No; can you not give us the range between high and low over that period of time?

Mr. TRACY. Over this period of time from November 1 to April 18 the high was 125⅛ in the week of February 8–14, and the low was 101 on November 15, and the total sales were 117,000 shares.

Mr. PECORA. The first date that you mentioned was November 1, I believe, 1929?

Mr. TRACY. Yes.

Mr. PECORA. What was the range on that date in the market?

Mr. TRACY. November 1 to November 8 was——

Mr. PECORA. No; on November 1. That one day.

Mr. TRACY. Well, I have not got it that one day.

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Mr. PECORA. What was the range for the week?

Mr. TRACY. The range for the week?

Mr. PECORA. Yes.

Mr. TRACY. High is 125, and the low 112½, and the volume 16,000 shares.

Mr. PECORA. May I look at that sheet?

Mr. TRACY. Certainly. [Handling same to Mr. Pecora.]

Mr. PECORA. The range as I get it from the sheet that you have given me for the week of November 9 to 15 was a low of 101 to a high of 115; is that correct?

Mr. TRACY. Correct.

Mr. PECORA. That is a pretty substantial range, is it not, for a week's time?

Mr. TRACY. Not in that week, Mr. Pecora.

Mr. PECORA. Do you mean by that that that week witnessed an unusual amount and kind of trading among railroad stocks?

Mr. TRACY. One thing that I remember very distinctly about that week is that November 15 was a very bad day.

Mr. PECORA. Do you mean that at that particular period of time security values were undergoing sharp fluctuations from day to day?

Mr. TRACY. Yes. Tremendous volume of sales.

Mr. PECORA. Yes. And did you think that under those circumstances it was wise for your investment trust to invest large sums of money in securities that were undergoing these sharp fluctuations from day to day?

M. TRACY. Yes; we did. As I told you before, Mr. Pecora, we wanted to buy railroad securities. And I want the committee to know that the Rock Island earned $2.70 in the month of October of that year, which we knew when we bought these securities.

Mr. PECORA. And we see that during the second week of that month, and in fact during the very week in which you had this transaction with Dillon, Read & Co., the market ranged from 101 to 115 in this security.

Mr. TRACY. That is correct. And subsequently sold at 125.

Mr. PECORA. And you thought it was wise at that time for an investment trust to put its funds in securities that were the subject of such wild or sharp fluctuations?

Mr. TRACY. We certainly did, as I told you, Mr. Pecora, and that is why we bought it. And with your permission I would like to make this price range and the volume of sales a part of the record.

Mr. PECORA. Yes. Put it in evidence.

The CHAIRMAN. Let it be received in evidence and spread upon the record.

(Chart containing high and low, as well as volume of sales of Chicago, Rock Island & Pacific common stock between November 1, 1929 and April 18, 1930, was received in evidence, marked "Committee Exhibit 17 of October 10, 1933," and is here printed in the record in full as follows:)

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COMMITTEE EXHIBIT No. 17, OCT. 10, 1933

1929	High	Low	Volume	1930	High	Low	Volume
Chicago, Rock Island & Pacific Ry. Co., common:				Chicago, Rock Island & Pacific Ry. Co., common—Continued.			
Nov. 1-8	125	112½	16,000	Jan. 25-31	119⅜	117	3,200
Nov. 9-15	115	101	16,700	Feb. 1-7	120½	117½	4,800
Nov. 16-22	120⅛	110⅛	7,500	Feb. 8-14	125⅛	119⅜	8,300
Nov. 23-29	119¼	117	2,200	Feb. 15-21	124½	120	1,800
Nov. 30-Dec. 6	122	115⅝	5,800	Feb. 22-28	121¼	115½	1,600
Dec. 7-13	121½	117½	6,700	Mar. 1-7	120	118	3,600
Dec. 14-20	120½	113	5,700	Mar. 8-14	119½	117¼	1,600
Dec. 21-27	115½	112	4,000	Mar. 15-21	122	117¾	6,800
Dec. 28-Jan. 3	116¼	111⅞	2,900	Mar. 22-28	124	120	3,200
Jan. 4-10	116⅛	114	1,500	Mar. 29-Apr. 4	124½	122	1,500
Jan. 11-17	118½	115½	4,200	Apr. 5-11	122	118¾	3,800
Jan. 18-24	118	116½	2,800	Apr. 12-18	118⅞	118¼	8,000
							117,000

Mr. PECORA. May I have that sheet that the witness just asked to have spread on the record. First, let me ask you: Who compiled the data shown on this sheet that has been marked "Committee exhibit 17"?

Mr. TRACY. The Keswick Corporation.

Mr. PECORA. When?

Mr. TRACY. Yesterday, I would say.

Mr. PECORA. You observe that according to committee exhibit 17, which was prepared yesterday by the Keswick Corporation, the total week's volume of transactions in the open market in the common shares of the Chicago, Rock Island & Pacific Railway Co., was 16,700 shares.

Mr. TRACY. I will accept your statement.

Mr. PECORA. And that the range at which they sold was from a low of 101 to a high of 115; is that right?

Mr. TRACY. That is correct.

Mr. PECORA. On November the 11th, which is included in this week, your investment trust purchased 13,700 shares of this stock from Dillon, Read & Co., did it not?

Mr. TRACY. Correct.

Mr. PECORA. At a price of 114 plus?

Mr. TRACY. That was the average market price.

Mr. PECORA. And that happened to be pretty nearly the high for that week?

Mr. TRACY. If that says so. But that was the market price on the date the sale was made.

Mr. PECORA. But I am basing my conclusion on the assumption that these figures compiled by the Keswick Corporation yesterday are accurate. On that assumption the price at which your investment trust took over these 13,700 shares from Dillon, Read & Co., on November 11, happens to be very nearly the high for that week.

Mr. TRACY. That is correct.

Mr. PECORA. That is pure coincidence, of course, is it not?

Mr. TRACY. As I remember it that was the low week in that particular panic.

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Mr. PECORA. Oh, was there a panic that week, too?

Mr. TRACY. I think there was a panic going on all that time.

Mr. PECORA. Well, that week it was especially violent?

Mr. TRACY. The latter part of the week was fairly violent, as I remember it.

Mr. PECORA. And your judgment as a director and as president of this investment trust was that it was a good thing to buy 13,700 shares of one railroad security during a panic week?

Mr. TRACY. Yes, sir.

Senator COUZENS. Mr. Pecora, may I draw your attention to the report on the Rock Island Lines by Coverdale & Colpitts, page 121, where it says:

We regard as an element of great strength to the company—

that is, the Rock Island—

the fact that its affairs are presided over by Mr. Charles Hayden as chairman of the board, Mr. E. M. Brown as chairman of the executive committee, and Mr. J. E. Gorman as president.

I should imagine that had some influence in their purchase of these securities.

Mr. PECORA. Mr. Charles Hayden at that time was a director of the United States & International Securities Corporation, was he not?

Mr. TRACY. Correct.

Senator COUZENS. But both investment trusts were controlled by the Dillon, Read & Co. interests.

Mr. PECORA. Yes. The record is already replete with considerable evidence on that.

Senator COUZENS. Yes.

Mr. TRACY. I think it would be fair, Mr. Pecora, to give the range by weeks subsequent to that purchase, so that the gentlemen of the committee will know——

Mr. PECORA. Wait a minute, Mr. Tracy. You did not buy these shares from Dillon, Read & Co. on November 11 because of what you knew was going to happen in the weeks to follow, did you?

Mr. TRACY. Because we believed they were a good purchase at the time we purchased them.

Mr. PECORA. All right. You told us that. But that belief was not based upon any preknowledge of what was going to happen in the weeks to come?

Mr. TRACY. No. We do not profess to any preknowledge.

Mr. PECORA. Then there is no sense in putting that in.

Mr. TRACY. But the price of the stock went up; it did sell considerably higher after we had made that purchase.

Mr. PECORA. All right.

Mr. TRACY. Mr. Pecora, may I ask you something? You asked me why we did not want to buy the other securities that were in that account.

Mr. PECORA. The other railroad securities that were in the account.

Mr. TRACY. Yes. The list of railroad stocks that we had on that day already in our portfolio included: 5,000 shares of Atchison, Topeka & Santa Fe; 1,000,000 marks of Deutsche Reichsbahn, 7 percent preferred stock; 10,000 shares of Pennsylvania Railroad; 1,000 shares of Pere Marquette; 10,000 shares of Southern Pacific Co.;

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10,000 shares of Southern Railway Co.; and 8,000 shares of Union Pacific Railroad Co.

Mr. PECORA. While we are going back to the questioning of a few minutes ago, have your associates succeeded in supplying you with the definite information as to the form of payment that was made by Dillon, Read & Co. when this joint trading account was terminated on November 9?

Mr. TRACY. They have not been able to get it yet, Mr. Pecora.

Mr. PECORA. Well, they were to get it in 15 mintues, and half an hour has passed now.

Mr. TRACY. They said they thought they could get it in 15 minutes. They have gone back to the hotel to get it for me, Mr. Pecora.

Mr. PECORA. All right. You regarded the funds of these two investment trusts of which you were president at that time as trust funds?

Mr. TRACY. We were responsible to the stockholders for the investment of their money.

Mr. PECORA. And you regarded them in that sense as trust funds committed to your care and custody for investment and reinvestment?

Mr. TRACY. Correct.

Mr. PECORA. And you regarded yourself as a trustee for the stockholders of these two investment trusts, did you not?

Mr. TRACY. Certainly. I was responsible to the stockholders.

Mr. PECORA. And do you think that it was sound judgment to discharge that kind of responsibility by buying railroad shares during a panic week in the stock market?

Mr. TRACY. I do.

Mr. PECORA. With prices fluctuating as much as 14 points in 1 week?

Mr. TRACY. I certainly do. We thought those securities were very cheap, and that is why we purchased them.

Mr. PECORA. Did you happen at the same time to invest any of your own personal moneys in these railroad shares?

Mr. TRACY. I do not remember that I did in those particular ones.

Mr. PECORA. If they were good enough for the investment trust they would be good enough for you, would they not?

Mr. TRACY. Well, you see the security companies were long in cash. I do not think that I was very long in cash at that time.

Mr. PECORA. Did Dillon, Read & Co. give you any reason at that time why they were willing to sell these railroad shares that you thought were a mighty good purchase for the investment trust?

Mr. TRACY. No; Dillon, Read & Co. gave me no reason.

Mr. PECORA. Did you have to argue with them to induce them to sell their shares to you?

Mr. TRACY. I do not recall that there was any argument with them.

Mr. PECORA. Did you have any difficulty in inducing them to sell to you?

Mr. TRACY. Oh, we wanted to purchase those securities.

Mr. PECORA. And they readily agreed to sell, did they?

Mr. TRACY. And they agreed to sell. I do not remember the discussions.

Mr. PECORA. Without much argument?

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Mr. TRACY. I do not remember the discussions. We had a lot of money at that time, Mr. Pecora, to invest.

The CHAIRMAN. Mr. Hayden was one of your directors, was he?

Mr. TRACY. He was not a director of the United States & Foreign Securities Corporation, Mr. Chairman. He was a director of the United States & International Securities Corporation.

The CHAIRMAN. Were any of the directors in the United States & Foreign Securities Corporation interested in the St. Louis & San Francisco road?

Mr. TRACY. Yes. I believe Mr. Ecker was on the board of the Frisco.

Mr. PECORA. Let me ask you this, Mr. Tracy. If Dillon, Read & Co. had attempted to dispose of these 13,700 shares at that time in the open market they would not have gotten anything like 114 and a fraction, would they, where the high for the week was 115, and the total volume of trading for the entire week was 16,700 shares?

Mr. TRACY. I certainly think that Dillon-Read could have sold them in the open market and probably realized a higher price over a period of a few weeks. I think the records will show——

Mr. PECORA. Is that not contrary to all stock market experience?

Mr. TRACY. I beg your pardon.

Mr. PECORA. Is that not contrary to all stock market experience, which is that where the holder of a large block of shares of a certain security disposes of them in the open market that the price goes down instead of up?

Mr. TRACY. If you had put on the market at that period 20,000 shares of Steel you would put Steel down—or any other active stock at that time.

Mr. PECORA. You gave Dillon, Read & Co. the market price, which happened to be 114 plus?

Mr. TRACY. Correct.

Mr. PECORA. And when you did that did you not realize that if Dillon, Read & Co. had attempted to dispose of their 13,700 shares in the open market at that time they would have had to sell in a declining market?

Mr. TRACY. I do not think I was thinking of Dillon, Read & Co. I was thinking of the company. If we had gone out to purchase that stock over a period of weeks we would have had to pay a higher price.

Mr. PECORA. But if Dillon, Read & Co. had wanted to sell in the open market they would have had to take a good deal less than 114, would they not?

Mr. TRACY. If they had gone out and sold it at one fell swoop and broken the market; but I do not think they would have done that.

Mr. PECORA. So Dillon, Read & Co. got all the benefit from the transaction in that way?

Mr. TRACY. No. I think, looking at it as we did, and as we still do, I think we could not have gone out and purchased a block of that size without putting the market up.

Mr. PECORA. And they could not have sold without putting the market down?

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Mr. TRACY. I do not think so on that day, but if they could have sold it over a period of weeks, as the market transactions will show, they probably would have averaged a higher price for it.

Mr. PECORA. Did you discuss the acquisition of these shares for the United States & Foreign Securities Corporation with Mr. Charles Hayden?

Mr. TRACY. No. I do not think I did. He was not on the board of the United States & Foreign.

Mr. PECORA. He was on the board of the United States & International?

Mr. TRACY. Correct.

Mr. PECORA. And there was a very close community of interest between the two investment trusts?

Mr. TRACY. Yes.

Mr. PECORA. And he was also chairman of the board of the Rock Island Railroad, was he not, at that very time?

Mr. TRACY. Yes; he was.

Mr. PECORA. Did you not think his opinion at that time might have been of some special value to you?

Mr. TRACY. Well, we had these reports; we had the opinion of all the directors, and they all thought very highly of the investment. If I met Hayden I would have probably spoken to him about that. I often consulted him and asked his opinion about railroad securities.

Mr. PECORA. Do you know that you talked with every member of the board of directors of the United States & Foreign Securities Corporation before you concluded this purchase from Dillon, Read & Co.?

Mr. TRACY. It is my practice to reach every director——

Mr. PECORA. Did you in this particular case succeed in reaching all the directors?

Mr. TRACY. I cannot remember in this particular case. I say it is my practice to try to get in touch with all the directors.

Mr. PECORA. It is your practice to try to get in touch with them, but do you always succeed?

Mr. TRACY. Not if they are out of town, if they are away.

Mr. PECORA. Did you succeed in this particular instance in reaching all the members?

Mr. TRACY. As I remember, I reached most of them.

Mr. PECORA. How did you reach them? By telephone?

Mr. TRACY. By telephone.

Mr. PECORA. Then there never was a meeting of two or more of the directors at which opinions pro and con were expressed on the proposition, was there?

Mr. TRACY. We had discussed the Frisco Railroad and the Rock Island.

Mr. PECORA. Can you not answer that question "yes" or "no"?

Mr. TRACY. Dozens of times at officers' meetings and directors' meetings.

Mr. PECORA. No; I am talking about this transaction.

Mr. TRACY. Not that particular transaction, except by telephone, as I remember it. There may have been an officers' meeting, but I do not recall it.

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Mr. PECORA. How many shares did this investment trust called the United States & Foreign Securities Corporation purchase from Dillon, Read & Co., of the St. Louis & San Francisco Railroad Co.?

Mr. TRACY. May I look that up?

Mr. PECORA. Yes.

Mr. TRACY. We purchased from Dillon, Read & Co., St. Louis & San Francisco Railway Co. common stock 16,050 shares, at a cost of $1,793,587.50.

Mr. PECORA. Was that the market price as of November 11, 1929?

Mr. TRACY. Yes, sir. That was the market.

Mr. PECORA. And those 16,050 shares were the 16,050 shares that Dillon, Read & Co. acquired upon the termination of this joint account on November 9, 1929, were they not?

Mr. TRACY. That is correct.

Senator COUZENS. I would like to ask Mr. Tracy if the fact that these railroads were so closely related to each other, as shown in these reports of Coverdale & Colpitts, influenced you in selecting the common stocks of these two railroads?

Mr. TRACY. No, sir.

Senator COUZENS. I notice in reading the report that you received on the Frisco from Coverdale & Colpitts on September the 6th that it says:

> The Frisco is fortunate in the fact that its affairs are presided over by eminent railroad executives—Mr. E. N. Brown as chairman of the board and Mr. J. M. Kurn as president.

In the report on the Rock Island Line from which I just read the same Mr. E. N. Brown is referred to as chairman of the executive committee. In other words, they are both operated by substantially the same officials, and I wondered whether that influenced the trust in selecting these two stocks.

Mr. TRACY. No, sir. We had reports made on a number of railroads at that time that we did not go into.

Mr. PECORA. Who proposed that the United States & International Securities Corporation acquire these large blocks of the bonds of the Seaboard Air Line Railway Co. that were referred to in your examination last Friday?

Mr. TRACY. That was discussed as usual at the board meetings and officers' meetings.

Mr. PECORA. Is there any reference to any such discussions in any minutes of the meetings of the board that you can find?

Mr. TRACY. I do not think those would have been. It would not have been usual for us to have put it in the minutes of the meetings.

Mr. PECORA. As a rule, what went into the minutes of the board meetings?

Mr. TRACY. At the board meetings?

Mr. PECORA. Yes.

Mr. TRACY. The purchase and sale of securities. What we had done; what actions we had taken. Our discussions were never written up in the minutes. I do not know of any board, Mr. Pecora, where they are, myself

Mr. PECORA. Well, I do. I know of many boards where the minutes contain a fairly complete statement of the business transacted at the meetings. Meetings of important corporations, too. You

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say you have never been connected with a corporation whose board kept minutes that fairly recorded the activities of the board?

Mr. TRACY. Our minutes record everything that we have done.

Mr. PECORA. Let me see if they did. Let me have that minute book of the United States & Foreign Securities Corporation again, will you?

Mr. TRACY. I think you will find that all our transactions were recorded.

Mr. PECORA. All right. As I understood your testimony last week the custom at board meetings was for a report to be made of transactions that had already been consummated by or on behalf of the investment trust at the meeting held after the consummation of such transaction. Is that right?

Mr. TRACY. That is right.

Mr. PECORA. Let us now turn to the minutes of the meeting of the board of the United States & Foreign Securities Corporation held on November 13, 1929. These minutes are set forth at pages 490 and 491 of the minute book that you have handed me. The only business that appears to have been transacted at that meeting was as follows—and I am going to read it right from the record. After reciting the names of those present who acted as officers the minutes read as follows:

> The minutes of the last meeting of the board of directors held on October 9, 1929, were presented to the meeting, and, on motion duly made and seconded, were unanimously approved as recorded.
>
> A financial report of the treasurer of the corporation for the month of October 1929, covering transactions during such month, was presented to the meeting, and after discussion of this report and of the securities held by the corporation, the following resolution was, on motion duly made and seconded, unanimously adopted:
>
> *Resolved*, That the report of the treasurer of the corporation covering transactions of the corporation during the month of October 1929, copies of which have been submitted to this meeting, and all the transactions therein set forth, hereby are in all respects approved, ratified, and confirmed.
>
> There being no further business to come before the meeting, it was, on motion duly made and seconded, unanimously resolved to adjourn.

You notice, do you not, from my reading of these minutes that on November 13, 1929, absolutely no mention was made, according to the minutes, of this transaction consummated on November 11, 1929, through the medium of which millions of dollars of the funds of the investment trust were invested in two railroad securities?

Mr. TRACY. Mr. Pecora, I think I testified already this morning that the transactions of the month previous were always reported at the meeting the following month. At the meeting the following month all the transactions for that month were recorded.

Mr. PECORA. Well, now, let us see where we stand.

Senator COUZENS. Just a minute, Mr. Pecora. This minute book that you just read approves of all of the activities of October without any reference to what the activities are.

Mr. PECORA. Except that they are set forth in the report which is attached to the minutes.

Mr. TRACY. Attached as a part of the minutes.

The CHAIRMAN. That is the treasurer's report, isn't it?

Mr. PECORA. Treasurer's report.

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The CHAIRMAN. The treasurer's report is made a part of that record.

Mr. TRACY. That is for the previous month, covering everything that we have done in the way of purchases and sales.

Mr. PECORA. Apparently the next meeting that the board of directors of the United States & Foreign held was held on November 22, 1929, and that happens to be referred to as a special meeting.

Mr. TRACY. Special meeting.

Mr. PECORA. Is there anything in those minutes to show that the matter of the acquisition of these shares of the Chicago, Rock Island & Pacific and of the St. Louis & San Francisco Railway Co. was brought to the attention of the board?

Mr. TRACY. In normal course of our business, it would not have been recorded until the December meeting.

Mr. PECORA. All right; we will look at the December meeting.

Senator COUZENS. As a matter of fact, Mr. Tracy, wouldn't it be hard to rectify any error that might have been committed by the officers when they just simply accept the treasurer's report? In other words, the directors just ratify rather than to authorize?

Mr. TRACY. If any one director objects to any security that has been bought we dispose of it.

Senator COUZENS. Yes, but you may have to dispose of it at a great loss.

Mr. TRACY. Yes, sir; but I think I testified that I got in touch with all of the directors about this purchase.

Senator COUZENS. Of course, there is no record of that, is there?

Mr. TRACY. No record of it.

Mr. PECORA. According to the minutes held on December 11, 1929, a treasurer's report was made and ratified and approved by the board covering the transactions of the corporation during the month of November 1929, and the copy of such treasurer's report, which is made part of the minutes of this meeting, states as follows with regard to these two particular railroad stock transactions:

> Purchases as follows; in the amounts and at the prices indicated:
> C. Chicago, Rock Island & Pacific Railroad Co. common, 13,700 shares at $114.25, a total of $1,565,225, from Dillon, Read & Co.
> D. St. Louis-San Francisco Railway common, 16,050 shares at $111.25, a total of $1,793,587.50, from Dillon, Read & Co.

That is the only mention I see in the treasurer's report with regard to these two transactions. Am I to conclude that that is the only mention that can be found in the minute book anywhere regarding the action taken by the board of directors with regard to these two transactions?

Mr. TRACY. I presume that is correct.

Mr. PECORA. There is nowhere in the minutes any discussion, any reference to a discussion having been had, among the directors and a decision arrived at by them to buy these shares and to make this investment of over three million and a quarter dollars to the benefit of the trust, is there?

Mr. TRACY. It is not recorded in the minute book; no. It is not usual for us to do it.

Mr. PECORA. It appeared from evidence submitted last Friday that portfolio statement as of December 31, 1932, which was made by the

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United States & International Securities Corporation to its stockholders, showed that there had been a total shrinkage in value of portfolio securities of $26,562,400 up to that date, December 31, 1932, and that of that total shrinkage $11,192,512 had occurred in the securities of the Chicago, Rock Island & Pacific Railway and the St. Louis & San Francisco Railway Co., or approximately 42 percent of the entire loss represented by the depreciation in value of all the securities in your portfolio was represented by the shrinkage in these two particular issues.

Mr. TRACY. I have not figured out the exact percentage. I know it was a very large amount. But in spite of that we still have a value of $90 for every $100 the public put into that company.

Mr. PECORA. And you would have had a good deal more than $90 if you had not bought these shares of these two railroad companies that were more or less under the supervision of a member of the board of the United States & International Securities Corporation?

Mr. TRACY. Yes; but we did not make that purchase on his recommendation.

Mr. PECORA. Did you avoid Mr. Hayden's recommendation?

Mr. TRACY. No; I would not say that I avoided it. I would say that I talked to him.

Mr. PECORA. You did not even seek it, did you?

Mr. TRACY. I think I talked to him a great deal about it.

Mr. PECORA. Well, did he recommend it?

Mr. TRACY. He thought very highly of his road.

Mr. PECORA. Did he recommend these particular purchases?

Mr. TRACY. No, not to my knowledge; he never recommended it.

Mr. PECORA. Did you think it advisable to seek his judgment about it at the time?

Mr. TRACY. As I said, Mr. Pecora, I talked to him at great length about it.

Mr. PECORA. Did you seek his judgment with regard to these particular transactions at the time of the transaction?

Mr. TRACY. I don't remember doing that at all; no. I saw Mr. Hayden frequently and always talked to him about the railroad.

The CHAIRMAN. Have you any idea, Mr. Tracy, what was operating to cause a shrinkage in value of these particular stocks at that time?

Mr. TRACY. Between 1929 and 1932, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. TRACY. All securities were going off tremendously in value.

The CHAIRMAN. I know, but these seem to have suffered most of all apparently.

Mr. TRACY. Those particular railroads, unfortunately, happened to be in receivership.

The CHAIRMAN. Yes.

Mr. TRACY. But taking our securities as a whole, our shrinkage has been very small, and I think there were very few companies formed at the time that company was formed, I don't think there is one, that can show the record we have in maintaining our assets in the way we did, in spite of those losses.

The CHAIRMAN. But what were the elements or factors operating with reference to these two railroads during that period of time that caused this depreciation?

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Mr. TRACY. I have some figures on railroads that I would like to show you. I think it will enlighten you.

The CHAIRMAN. With particular reference to these particular roads, that is all. Those are the ones we are concerned about, these particular roads.

Mr. TRACY. Mr. Chairman, I find that I have the figures here. All class 1 railroads in 1929 had a gross of $6,279,000,000. The Rock Island had a gross of $147,000,000 and the Frisco of $89,000,000.

In 1932 all of the class 1 railroads had a gross of $3,126,000,000, or about one half. The Rock Island had a gross of $70,000,000, or just a little less than a half of what it was in '29. The Frisco had a gross of $42,600,000 against $89,100,000 in '29. In other words, their revenue went off about the same as the average for all class 1 railroads.

Mr. PECORA. Mr. Tracy, have your associates been able up to the present moment to obtain the information as to how Dillon, Read & Co. paid the United States & International for the railroad shares that it had acquired on the termination of the joint account on November 9, 1929?

Mr. TRACY. Dillon, Read & Co. credited the account of the United States & International Securities Corporation with $7,131,184.62.

Mr. PECORA. That is, they merely placed a credit on their books to the account of the United States & International for one half of the 14 odd million dollars that had been laid out by the United States & International for the operation of the joint account; is that right?

Mr. TRACY. That is right. Then on the order of the United States & International Securities Corporation Dillon, Read & Co. paid part of these funds to the Chase National Bank to the credit of the United States & International Securities Corporation and part to the Central Hanover Bank & Trust Co. for the credit of the United States & Foreign Securities Corporation.

Mr. PECORA. Why was it done in that way, Mr. Tracy?

Mr. TRACY. I don't remember the details of the transaction, but I can get it for you. I am not familiar with the bookkeeping end of it.

Mr. PECORA. Now, these securities of the Chicago, Rock Island & Pacific Railroad and of the St. Louis-San Francisco Railway eventually found their way into the portfolio of the United States & International Securities Corporation, didn't they?

Mr. TRACY. The ones owned by the——

Mr. PECORA. The ones which the United States & Foreign Securities Corporation took over from Dillon, Read & Co. on November 11, 1929.

Mr. TRACY. Eventually found their way into——

Mr. PECORA. Into the portfolio of the United States & International Securities Corporation.

Mr. TRACY. I will have to check that up and find out. [After conferring with associates:] Yes; that was sold in December 1929 to the United States & International Securities Corporation.

Mr. PECORA. What price?

Mr. TRACY. I will have to look that up. [Conferring with associates:] They are looking up the market price, Mr. Pecora, what the market was at that time.

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Mr. PECORA. Do you recall whether the market price was less than the market price on November 11, 1929?

Mr. TRACY. I will have to look that up. [Addressing an associate:] Have you got that figure? [After a pause:] $111.84. We paid $114.25 and sold it at the market, which was $111.84. So there was a loss of——

Mr. PECORA (interposing). You are referring now to the Rock Island stock?

Mr. TRACY. Yes; Rock Island.

Mr. PECORA. Now, the United States & Foreign paid Dillon, Read & Co. on November 11 for these 13,700 shares $114.25 per share; is that right?

Mr. TRACY. That is correct.

Mr. PECORA. And then in December—what was the specific date in December, by the way?

Mr. TRACY. December 31.

Mr. PECORA. And on December 31, the end of the fiscal year 1929, the United States & Foreign Securities Corporation sold those shares to the United States & International Securities Corporation for 111 and a fraction?

Mr. TRACY. The market; yes.

Mr. PECORA. That was then the market?

Mr. TRACY. Then the market.

Senator COUZENS. Was the whole amount sold, the whole 13,700 shares sold?

Mr. TRACY. I will have to look that up. [After conference with associates]. Yes; it was, Senator.

Mr. PECORA. And on the same date, December 31, 1929, did the United States & International Securities Corporation buy from the United States & Foreign Securities Corporation the 16,050 shares of the St. Louis-San Francisco Railway Co. stock?

Mr. TRACY. Yes; they did.

Mr. PECORA. At what price?

Mr. TRACY. $105.22.

Mr. PECORA. The United States & Foreign had paid Dillon, Read & Co. on November 11, 1929, $111.75 for that stock?

Mr. TRACY. That is correct.

Mr. PECORA. Yes.

Senator COUZENS. Was that done for the purpose of creating a loss in making your income-tax return?

Mr. TRACY. That is done for the purpose, Senator, of offsetting—partly offsetting—our profits, and to give a truer picture of the year's operations.

Senator COUZENS. Well, but that was not really the true picture, because you were transferring from one investment trust you controlled to another investment trust you controlled, and you created automatically a loss which you used to offset your profits?

Mr. TRACY. That is right.

Mr. PECORA. The preferred stockholders of the United States & International Securities Corporation were not the same individuals as constituted the preferred stockholders of the United States & Foreign, were they?

Mr. TRACY. No, sir; they were not.

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Mr. PECORA. But the two accounts were practically officered by the same men, weren't they?

Mr. TRACY. Well, I was president of both corporations.

Mr. PECORA. Yes; and they had members of the Board of Directors in common; interlocking directors?

Mr. TRACY. I think Mr. Dillon and I were the only two members in common on both boards.

Mr. PECORA. What decision, or rather what consideration, prompted the directors of the United States & Foreign in December, 1929, from selling their railroad holdings they were so keen to acquire in November 1929?

Mr. TRACY. We sold them to offset profits.

Mr. PECORA. What do you mean by that?

Mr. TRACY. They were allowed under the Internal Revenue Act.

Mr. PECORA. What do you mean by that?

Mr. TRACY. Well, the loss was there, and we could not record it unless we made a sale.

Mr. PECORA. All right. Did you think on December 31, 1929, that railroad securities were still a good thing to acquire for an investment trust?

Mr. TRACY. I did.

Mr. PECORA. And why didn't you give the stockholders of the United States & Foreign the benefit of that judgment by retaining in its portfolio these railroad securities?

Mr. TRACY. Because we wanted to sell them, as I told you, to offset profits.

Mr. PECORA. Well, having sold them, you divested the stockholders of the United States & Foreign of the right to make profits by an improvement in the market, didn't you?

Mr. TRACY. No, I won't admit that.

Mr. PECORA. Well, you still thought that the acquisition of railroad shares was a good thing for an investment trust on December 31, 1929, didn't you?

Mr. TRACY. Yes, I did.

Mr. PECORA. Why didn't you then exercise that judgment for the benefit of the stockholders of the first investment trust which bought these shares from Dillon, Read & Co., if they were a good thing for an investment trust to hold?

Mr. TRACY. Because we decided to sell them at that time to offset profits.

Mr. PECORA. Well, did you thereafter reacquire them?

Mr. TRACY. I beg your pardon?

Mr. PECORA. Did the first investment trust thereafter reacquire these shares?

Mr. TRACY. I don't think so. Not to my recollection.

Mr. PECORA. If the object of this transfer by the United States & Foreign to the United States & International was to offset profits for the benefit of the United States & Foreign, that result was obtained by that transaction at the end of the tax year, wasn't it?

Mr. TRACY. As I remember it, it was the end of the year; yes.

Mr. PECORA. All right then, why weren't the securities acquired after the first of the year in 1930 by the United States & Foreign, if that was the sole purpose of this transfer on December 31, 1929?

Mr. TRACY. I don't think I understood that. I am sorry.

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Mr. PECORA. Will you read the question?

(The shorthand reporter read the last question of Mr. Pecora.)

Mr. TRACY. As I remember it, we purchased the United States & Foreign Securities at that time, the year end, purchased a substantial amount of securities from the United States & International, which also included a lot of railroad securities.

Mr. PECORA. Why weren't these securities acquired back again after the first of the year by the United States & Foreign if the sole purpose of transferring them on December 31, 1929, to the United States & International was to enable the United States & Foreign to offset the shrinkage in market value against their profits for the tax year 1929?

Mr. TRACY. I don't remember.

Mr. PECORA. Do you know?

Mr. TRACY. I do remember that the United States & International sold a substantial amount of railroad securities to the United States & Foreign Securities Co.

Mr. PECORA. When?

Mr. TRACY. Year end in 1929.

Mr. PECORA. Well, I am talking about the time subsequent to the year end of 1929.

Mr. TRACY. Why the United States & Foreign did not buy them back?

Mr. PECORA. Yes.

Mr. TRACY. Probably because the United States & International did not want to sell them. I don't remember.

Mr. PECORA. You were the president of both. Don't you know whether that was the reason?

Mr. TRACY. I don't remember. I haven't any recollection of anything of that kind.

Mr. PECORA. Well, you have a distinct recollection that the sole purpose of making the transfer on December 31, 1929, to the United States & International was to enable the United States & Foreign to offset against its profits for the tax year 1929 the shrinkage in the market value of those two securities?

Mr. TRACY. That was the principal object of the sale.

Mr. PECORA. Was there any other object sought to be attained?

Mr. TRACY. Not as I remember, but I know that was the principal object of the sale.

Mr. PECORA. Well, if that was the principal object of the sale, that object was fully attained by this transfer on December 31, 1929, wasn't it?

Mr. TRACY. It was.

Mr. PECORA. And if you still thought that railroad securities were a good thing for these investment trusts to acquire, why didn't the United States & Foreign after January 1, 1930, buy back these securities from the United States & International?

Mr. TRACY. As I remember it, we bought a good many before the end of the—during the year end—we bought a lot more.

Mr. PECORA. Did you buy these particular two issues back?

Mr. TRACY. Not to my recollection.

Mr. PECORA. Well, why not? Can you give any reason why you did not?

Mr. TRACY. No; I cannot give you any reason.

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The CHAIRMAN. As I understand, the United States & International still owns these shares?

Mr. TRACY. Yes; that is right.

Mr. PECORA. Now, can you explain, Mr. Tracy, why it is that in the treasurer's report to the board of directors of the United States & Foreign Securities Corporation covering the transactions for the month of November 1929 no date is assigned specifically to these two transactions which you say took place on November 11, 1929, whereby the United States & Foreign Securities Corporation bought these two blocks of railroad shares from Dillon, Read & Co.?

Mr. TRACY. It was not customary to put the date on.

Mr. PECORA. Well, with prices fluctuating from day to day, wasn't that an important thing to put on your records?

Mr. TRACY. I don't think so.

Mr. PECORA. What evidence have you in documentary form of any kind that these transactions took place on November 11, 1929?

Mr. TRACY. Well, they must be recorded on the books of the company.

Mr. PECORA. Can you produce any documentary evidence of any kind that establishes that as the date of these transactions?

Mr. TRACY. I will have to ask the people who keep the books and accounts. [After conferring with associates.] Mr. Pecora, we can do that, of course, but it will take a little time to get it.

Mr. PECORA. Now, Mr. Tracy, do you know of any mention anywhere in the minute book of the United States & International Securities Corporation of the decision reached by the directors of that company to take over these railroad securities from the United States & Foreign Securities Corporation?

Mr. TRACY. It would be recorded in the treasurer's report for the month, in which it was done, and we discussed it.

Mr. PECORA. That would be the only mention?

Mr. TRACY. That would be as usual.

Mr. PECORA. Have you before you all of the data necessary to enable you to tell the committee precisely how Dillon, Read & Co. paid United States & International Securities Corporation for the railroad shares that it acquired upon the termination of the joint railroad trading account that terminated on November 9, 1929?

Mr. TRACY. Dillon, Read & Co. credited the account of the United States & International Securities Corporation with $7,131,184.62. Then on the order of the United States & International Securities Corporation, Dillon, Read & Co. paid part of these funds to the Chase National Bank.

Mr. PECORA. How much of these funds?

Mr. TRACY. For credit of the United States & International Securities Corporation.

Mr. PECORA. How much did it pay? You said it paid part of the funds.

Mr. TRACY (addressing associate). How much? (After a pause.) We haven't got a breakdown of it.

Mr. PECORA. What is that?

Mr. TRACY. We haven't a breakdown of it, but I can get it for you.

Mr. PECORA. At what date did Dillon, Read & Co. make part payment to Chase?

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Mr. TRACY. I will have to get that for you, Mr. Pecora. But I am told they paid out the entire amount almost immediately. I will have to get those dates for you. It was on the same day, I am told, that they paid out the entire amount.

Mr. PECORA. And what day was it?

Mr. TRACY. On the day that the——

Mr. PECORA (interposing). On November 11?

Mr. TRACY. On the date the securities were taken up. I will have to look that up on the books. I haven't the date of it here. But it was paid out immediately.

Mr. PECORA. How about the acquisition of those large blocks of bonds of the Seaboard Air Line Railway Co. by the United States & International Securities Corporation, who recommended their acquisition by the United States & International?

Mr. TRACY. Who recommended them?

Mr. PECORA. Yes.

Mr. TRACY. Well, I wouldn't remember that offhand. But the Seaboard Railroad was the topic of discussion in a great many of our meetings.

Mr. PECORA. Did Dillon, Read & Co. have any special interest in that railroad company at that time?

Mr. TRACY. They were the bankers for the Seaboard.

Mr. PECORA. They were the bankers for the Seaboard, and hence were, presumably, in possession of complete knowledge of all facts respecting its financial condition; isn't that so?

Mr. TRACY. To the best of my recollection a very complete report was made on the Seaboard Air Line situation, and——

Mr. PECORA (interposing). Well, that is not an answer to my question, Mr. Tracy.

Mr. TRACY. Well, Mr. Pecora, if you will be kind enough to let me finish——

Mr. PECORA. Go ahead.

Mr. TRACY. And that gave all details about the Seaboard Air Line Railroad. So they must have been in possession of all facts.

Mr. PECORA. So far as you know, were Dillon, Read & Co., as bankers for the Seaboard Air Line Railway Co., in full possession of all the facts relating to the financial condition of that railroad company at the time that the United States & International purchased its bonds?

Mr. TRACY. I should think so.

Mr. PECORA. When the decision was arrived at by the United States & International to buy those bonds, what directors and officers of the United States & International do you recall having consulted with before that decision was reached?

Mr. TRACY. Which purchase are you now referring to?

Mr. PECORA. Of the Seaboard Air Line Railway Co. bonds, all the bonds that it acquired. Mr. Tracy, it strikes me you ought to be able to answer the question based upon your own recollection, as to whom you consulted.

Mr. TRACY. Mr. Pecora, there were some Seaboard bonds bought long before I was connected with the company.

Mr. PECORA. But I am talking about the large block of bonds bought while you were president.

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Mr. TRACY. If you will give me exactly what bonds they were, and the date, I will refresh my memory about it.

Mr. PECORA. I gave them to you a while ago. Now, if you will turn to the report as of December 31, 1932, of the portfolio of the United States & International Securities Corporation, made by Price, Waterhouse & Co., you will find, listed under the caption "Bonds" a block of $746,500 face value of Seaboard Air Line Railway Company first and consolidated 6 percent mortgage bonds, due 1945, won't you?

Mr. TRACY. I am just getting that now, Mr. Pecora.

Mr. PECORA. All right.

Mr. TRACY. Mr. Pecora, according to the sheet I have in front of me, on November 12 we got $250,000 par value from the joint railroad securities trading account, and on January 27 there were $496,500 that we received on the exchange plan.

Mr. PECORA. What do you mean by that? Do you mean exchange of 6-percent bonds for the 5's?

Mr. TRACY. I don't remember the details of the plan. But in general it was a plan to revamp the whole financial structure of the Seaboard Air Line Railroad Co.

Mr. PECORA. You don't remember the details of it at all?

Mr. TRACY. I can give them to you, but——

Mr. PECORA (interposing). Well, give me the general terms of the exchaange if you don't know the details. Do you know those?

Mr. TRACY. I will have to get that for you. (After consulting an associate.) I haven't got that here, but we will get it for you.

Mr. PECORA. Now, can you tell us upon whose recommendation the United States & International Securities Corporation acquired for its portfolio those bonds of the Seaboard Air Line Railway Co.?

Mr. TRACY. Well, I cannot tell you specifically on whose recommendation it was made. But I am quite sure it was not made by any of the partners of Dillon, Read & Co. who might have been on the board, because they never made recommendations of their own securities.

Mr. PECORA. Did they ever oppose the acquisition of their own securities by the investment trust?

Mr. TRACY. Not to my recollection.

Mr. PECORA. Can you tell us who recommended specifically the acquisition of those bonds?

Mr. TRACY. No; I could not possibly remember who specifically did it. We have had thousands of transactions, Mr. Pecora, and to try to remember who specifically recommended each transaction I think is asking too much of anyone.

Mr. PECORA. Not even when the transactions are of the magnitude of the Chicago, Rock Island & Pacific or the St. Louis-San Francisco?

Mr. TRACY. No, sir.

Mr. PECORA. You cannot remember any of the details?

Mr. TRACY. No; because these matters were discussed at so many meetings.

Mr. PECORA. As a matter of fact, didn't you tell us before that you discussed them over the telephone with individual directors if not at meetings?

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Mr. TRACY. Over the phone?

Mr. PECORA. Yes.

Mr. TRACY. I am in constant touch with directors on the telephone.

Mr. PECORA. There were large blocks of securities, both stocks and bonds, of a corporation called Louisiana Land & Exploration Co. in the portfolio of United States & International Securities Corporation, were there not?

Mr. TRACY. Louisiana Land & Exploration Co.?

Mr. PECORA. Yes; and they are still in the portfolio.

Mr. TRACY. Well, the original bonds were paid off at maturity, Mr. Pecora.

Mr. PECORA. How about the stock? Is it still in the portfolio?

Mr. TRACY. As to the stock, we have 100,000 shares, I believe, in the International Securities Corporation.

Mr. PECORA. Have you any in the portfolio of the United States & Foreign Securities Corporation?

Mr. TRACY. I do not think so.

Mr. PECORA. Did you ever have any?

Mr. TRACY. Yes; we did have.

Mr. PECORA. How large a block at any one time?

Mr. TRACY. As I remember, and I have forgotten exactly, but I think somewhere around 80,000 or 90,000 shares.

Mr. PECORA. And they were disposed of by United States & Foreign Securities Corporation to no one other than the United States & International Securities Corporation?

Mr. TRACY. I don't believe they were.

Mr. PECORA. Who recommended the acquisition of that issue by the investment trust?

Mr. TRACY. The original bonds?

Mr. PECORA. The bonds and stock. This block of 100,000 shares of stock, for instance, which is still in the portfolio of United States & International Securities Corporation.

Mr. TRACY. I wouldn't remember offhand.

Mr. PECORA. You were an officer of the Louisiana Land & Exploration Co., weren't you?

Mr. TRACY. I am, sir; yes.

Mr. PECORA. And particularly well posted as to its financial condition and operation, aren't you?

Mr. TRACY. Correct.

Mr. PECORA. And were at the time of the acquisition of those 100,000 shares by your investment trust?

Mr. TRACY. Correct.

Mr. PECORA. Did you recommend the purchase of those shares of the Louisiana Land & Exploration Co.?

Mr. TRACY. I don't remember, but don't think I would have done it because it is not my custom to recommend securities of any company of which I am on the board. I always give them information about it, though.

Mr. PECORA. Well, apparently it was not the custom of any member of the board to recommend to the board of directors of the investment trust the purchase of any securities that that particular director might have been interested in. Is that so?

Mr. TRACY. As a rule it was never done.

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Mr. PECORA. In other words, that was the custom?

Mr. TRACY. Yes, sir.

Mr. PECORA. Nevertheless, we find in the portfolio of that investment trust large blocks of securities issued by corporations in which directors of the investment trust were interested.

Mr. TRACY. Oh, unquestionably. We would have to eliminate a great many good securities if we did not do that.

Mr. PECORA. You would have to eliminate, for instance, such good securities as Rock Island Railroad and San Francisco Railway, which brought a loss of over 11 million dollars to the portfolio.

Mr. TRACY. That is correct.

Mr. PECORA. You would have to eliminate those, too?

Mr. TRACY. We would have to eliminate those too; yes.

Mr. PECORA. And you would have to eliminate Louisiana Land & Exploration Co., too?

Mr. TRACY. Well, that does not happen to be in receivership, but we would have to eliminate it; yes.

Mr. PECORA. Well, it is not in receivership, but according to your statement of December 31, 1932, those 100,000 shares of stock, although costing the investment trust $278,125, their market value as of December 31 last was $75,000.

Mr. TRACY. Yes; that shows that.

Mr. PECORA. How about Seaboard Airline Railway Co. securities—and that railroad is in receivership, isn't it?

Mr. TRACY. It is.

Mr. PECORA. Will you please tell the subcommittee all the securities held in the portfolio of United States & International Securities Corporation as of December 31, 1932, that were issued by corporations of which one or more directors and officers of the United States & International Securities Corporation or with which one or more were identified?

Mr. TRACY. I would have to check that up, because I do not know all of the directorships of Mr. Hayden, for instance, which may be something like——

Mr. PECORA (interposing). Could you check them up and give the subcommittee that information this afternoon?

Mr. TRACY. I do not think I can because I do not have the book here that gives directors. I would have to get that list, of Charles Hayden and Mr. Burchard, of 35 or 40. And I wouldn't want to assert my own without going over them.

Mr. PECORA. How about Seaboard Air Line Railway Co. securities are in the portfolio of the United States & International Securities Corporation as of December 31, 1932, with which you had been identified in any way. Can you answer that now?

Mr. TRACY. Yes, sir; I am ready now whenever you are.

Mr. PECORA. Go ahead.

Mr. TRACY. These are companies of which I am a director and in which the United States & International Securities Corporation own securities as of December 31, 1932.

Mr. PECORA. All right.

Mr. TRACY. The first one appearing on the list is Empire Trust Co. The next one is American Gas & Electric Co.——

Mr. PECORA (interposing). Well, let us see right there——

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Mr. TRACY (continuing). And the next one is——

Mr. PECORA (interposing). One minute. In the case of the American Gas & Electric Co., according to the portfolio report as of December 31, 1932, the investment made by the investment trust in that security aggregated $1,321,683.08, didn't it?

Mr. TRACY. Correct.

Mr. PECORA. All right. You may proceed.

Senator GOLDSBOROUGH. The witness did not hear you, Mr. Pecora.

Mr. PECORA. You may proceed, Mr. Tracy.

Mr. TRACY. The next one is American Power & Light Co.

Mr. PECORA. What is the aggregate amount of the investment made by this investment trust in the securities of that company?

Mr. TRACY. $265,000.

Mr. PECORA. Plus.

Mr. TRACY. Yes. It is $265,761.98.

Mr. PECORA. Now, you may continue.

Mr. TRACY. The next one is National Power & Light Co.

Mr. PECORA. What was the aggregate amount of the investment made by the investment trust in that security?

Mr. TRACY. That amount is—let me see.

Mr. PECORA. It is $95,175, isn't it?

Mr. TRACY. Yes, sir.

Mr. PECORA. You may proceed.

Mr. TRACY. The next one is Amerada Corporation.

Mr. PECORA. What is the aggregate amount invested in the issues of that corporation?

Mr. TRACY. $887,502.

Mr. PECORA. Now, continue, please.

Mr. TRACY. Louisiana Land & Exploration Co.

Mr. PECORA. And we have already got on the record the total amount invested of that security, namely, $278,125. Is that right?

Mr. TRACY. That is right.

Mr. PECORA. Now you may give us the next one.

Mr. TRACY. United States & Foreign Securities Corporation.

Mr. PECORA. First preferred stock of that company?

Mr. TRACY. First preferred stock, 8,745 shares and 5,000 shares of common.

Mr. PECORA. For the respective sums of $859,371.50 and $225,000. Is that correct?

Mr. TRACY. That is correct.

Mr. PECORA. All right. Now, are there any others?

Mr. TRACY. I am looking it over now, sir. That is all that I see here.

Mr. PECORA. Mr. Tracy, have you with you a copy of the charter of United States & International Securities Corporation?

Mr. TRACY. Yes, we have one.

Mr. PECORA. Will you produce it, please?

Mr. TRACY. Certainly. I will get it for you.

The CHAIRMAN. Did those corporations pay dividends, I mean the corporations that you have just mentioned?

Mr. TRACY. Some of them did, sir, yes. I would have to go over them in order to give you the details.

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Mr. PECORA. Are you ready to answer my question now?

Mr. TRACY. I have the certificate of incorporation here now.

Mr. PECORA. May I have it, please?

Mr. TRACY. Yes, sir. Here it is.

Mr. PECORA. Have you also a copy of the charter of United States & Foreign Securities Corporation?

Mr. TRACY. Yes. We have it.

Mr. PECORA. Will you please produce that also?

Mr. TRACY. Here it is.

Mr. PECORA. Thank you. Now, Mr. Tracy, isn't it a fact that the original charter of United States & Foreign Securities Corporation contains the following provision, among others:

8th. In case the corporation enters into contracts or transacts business with one or more of its directors or with any firm of which one or more of its directors are members, or with any other corporation or association of which one or more of its directors are stockholders, directors, or officers, such contract or transaction shall not be invalidated or in anywise affected by the fact that such director or directors doing it may have interests therein which are or might be adverse to the interests of this corporation, even though the vote of the director or directors having such adverse interest shall have been necessary to obligate the corporation upon such contract or transaction. No such director or directors shall be liable to the corporation or to any stockholder or creditor thereof, or to any other person, for any loss incurred by it under or by reason of such contract or transaction, nor shall such director or directors be accountable for any gains or profits realized thereon.

Mr. TRACY. Yes, sir. I accept that.

Mr. PECORA. And was that article 8 of the original certificate of incorporation in effect until this amendment, on or about March 12, 1930, when the original article was stricken out and the following substituted therefor:——

Senator ADAMS (interposing). Is that eighth article in the bylaws, or in the certificate of incorporation?

Mr. PECORA. It is in the certificate of incorporation of the company.

Senator ADAMS. Very well. You said bylaws and I wanted the record to be correct on that point.

Mr. PECORA. I meant in the charter. Now, that substitute is as follows:

Any contract or other transaction between the corporation and any one or more of its directors, or between the corporation and any firm of which one or more of its directors are members or employees, or in which they are interested, or between the corporation and any corporation or association of which one or more of its directors are stockholders, members, directors, officers, or employees, or in which one or more directors of the corporation are interested, shall be valid for all purposes notwithstanding the presence of such director or directors at the meetings of the board of directors which acts upon or in reference to such contract or transaction, and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the board of directors and the board of directors shall authorize, approve, or ratify such contract or transaction by the votes of a majority of the directors present at a meeting of the board of directors at which a quorum is present without counting the vote or votes of such interested director or directors.

Such interested director or directors may be counted in determining whether a quorum is present at such meeting. No director or directors interested in such contract or transaction shall be liable to the corporation, or to any stockholder or creditor thereof, or to any person for any loss incurred by it under or by reason of any such contract or transaction so authorized, approved, or

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ratified. Nor shall any director or directors be accountable for any gains or profits realized therein. This article 8 shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

Do you approve of the original provision of this charter that I have read? Do you think it is a proper provision to put in the charter of an investment trust whose securities are sold to the public?

Mr. TRACY. I see no objection to it. Our directors are on so many boards that if we eliminated the securities of all companies with which our directors are connected we would have had a very restricted list from which to make our investments.

Mr. PECORA. You see no objection to including in your charter a provision which exempts officers and directors of this investment trust from any liability whatsoever to the company, or to any of its stockholders, for any losses incurred by the investment trust in a transaction with another corporation in which a director of the investment trust is interested, even though the vote of that director was necessary to put the transaction through?

Mr. TRACY. No.

Mr. PECORA. Do you think that is fair?

Mr. TRACY. Yes.

Mr. PECORA. Even though the director thus exempt from liability in casting his vote might have represented an adverse interest to the investment trust? You still think it is fair?

Mr. TRACY. Well, wait a minute, Mr. Pecora. I do not think any of our directors have ever done anything of that kind.

Mr. PECORA. Whether they ever did it or not, they could have done that under the terms of this charter without being liable.

Mr. TRACY. Well, a board of directors are either honest or dishonest, and if they are honest they do not do things detrimental to their stockholders. And ours have never done it.

Mr. PECORA. And if the Board of Directors had desired, by a dishonest judgment, to commit the investment trust to a transaction with a corporation in which they had an adverse interest, they could have done it without being liable. And if you have a dishonest board in one of these companies the security holders are just out of luck. And you think you do not put any temptation in the directors by an article of this kind.

Mr. TRACY. I do not care, Mr. Pecora, what statute or article or clause you may have, if your board is not honest it makes no difference, for in that case they will not operate the company honestly. On the other hand, if they are honest they will operate the company honestly, as this company was operated.

Mr. PECORA. But nobody can guarantee the honesty of anybody.

Mr. TRACY. No, but——

Mr. PECORA (continuing). And here you are exempting a director who might have acted dishonestly, from any liability to your corporation by reason of any loss incurred as a result thereof, aren't you?

Senator ADAMS. I do not believe this is an appropriate time for you gentlemen to get into a huddle [referring to a whispered suggestion by an associate of the witness].

Mr. NITZE. Well, there is one provision of the charter which says——

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Senator ADAMS (interposing). But this is a matter of examination of the witness.

Mr. PECORA. I think you are right, Senator Adams.

Mr. NITZE. Well, there is one provision of the charter in which it says——

Senator ADAMS (interposing). But you are not being asked to answer the question.

The CHAIRMAN. Mr. Pecora, when was this last language that you read substituted for the other?

Mr. PECORA. On March 12, 1930, this other clause was substituted, which also exempts them from liability.

The CHAIRMAN. Was that done by an act of the State legislature?

Mr. PECORA. No; it was done by a mere adoption of an amendment by the stockholders at an annual meeting or some meeting of the stockholders. Isn't that so, Mr. Tracy?

Mr. TRACY. Yes, sir.

Mr. PECORA. Then you say you approve of that sort of provision?

Mr. TRACY. I do.

Mr. PECORA. You think it is proper and essential to the best interests of the investment trust to have its directors and officers protected from liability in case of any dishonest exercise of judgment by such a clause as this? I mean in event that they should be guilty of such action.

Mr. TRACY. So many of our directors are directors of other companies that I suppose the lawyers put that in. I think it is all right. And our company has always been run honestly, as the results show.

Senator ADAMS. Mr. Tracy, aside from the question of honesty, it is a question of good judgment. You recognize that almost all human minds are influenced in their decisions by their personal interest. It may be an honest influence. This permits a man to participate in a transaction in which he has conflicting interests and in which his honest judgment may be influenced by those interests. Do you not think that that is an objectionable thing?

Mr. TRACY. I think it is, in a way, Senator; but with all the directorships that a great many of our directors have we would have had to eliminate some of the best securities that there were available for investment.

Senator ADAMS. Oh, not at all, because this goes this far. For instance, all Mr. Dillon has to do is to stay out and not participate in the situation. But this goes so far that any member of your board may participate and may vote upon a transaction dealing with things in which he is interested. I am only discussing it from the standpoint of the effect on his judgment. You have demonstrated in your testimony that even your board of directors made errors of judgment, I think, in some of these very purchases.

Mr. TRACY. Oh, yes.

Senator ADAMS. So you have seen fit in that to incorporate a provision setting aside the law that has been established as a result of a good deal of experience. That is, the courts in the absence of this could say to you that a director might not participate in passing upon a transaction in which he has an interest. The courts have said that that is necessary, in their judgment, to protect against these errors of judgment as well as against perhaps a violation of

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the fiduciary relation. It is a question of whether or not a corporation acting as an investment trust rather than as a fiduciary should set itself up in conflict with the rule which equity courts have seen fit to establish.

Mr. TRACY. Of course that was drawn up by counsel, Senator. I am not a lawyer, but I do not think that anything we put in the charter sets aside the statutes. That would not make any difference, would it? Even if we did that in our charter and the law did not conform to that, it would not be worth anything, would it? I am not a lawyer; I am just asking you——

Senator ADAMS. We are discussing a question of ethics, partly, and I am just merely a country lawyer. Morals and the law, we have always thought, ought to run rather close together.

Mr. TRACY. And conform.

Senator ADAMS. And usually, if you find out what is the right thing to do, you will find it is the legal thing to do also. So that Mr. Tracy does not have to be a lawyer ordinarily to decide the law correctly if his ethics are sound.

Mr. TRACY. That is my opinion.

The CHAIRMAN. That provision would authorize you to serve two masters.

Mr. PECORA. And if he served the other master on this investment trust he is immune from liability to this trust or any of its stockholders. Is not that so?

Mr. TRACY. I do not know that that has ever been the case.

Mr. PECORA. That is the effect of this provision, is it not?

The CHAIRMAN. It does not require it, but authorizes it.

Mr. TRACY. I do not think we can do anything that is not legal.

Mr. PECORA. If a director did anything under the law that was not legal, he is exempted from liability by this clause.

Mr. TRACY. You know more about law than I do. I do not know anything about law.

Mr. PECORA. But you still think this was a wise provision to insert in the charter?

Mr. TRACY. Our counsel did.

Mr. PECORA. Did you? You are the president of the corporation. The counsel are mere hired servants.

Mr. TRACY. Yes; I think it is all right.

Mr. PECORA. You approved of it in principle?

Mr. TRACY. I approved of it.

Mr. PECORA. Why was not a similar provision put in the charter of the United States & International Securities Corporations when it was organized in 1928?

Mr. TRACY. I don't know.

Mr. PECORA. If it was good in the first instance, why was it not good for the second investment trust, in 1928?

Mr. TRACY. Counsel did not put it in; I cannot tell you.

Mr. PECORA. Who organized this corporation—counsel?

Mr. TRACY. No, sir. They drew up the bylaws.

Mr. PECORA. This is in the charter. They carried out the wishes of the organizers, did they not?

Mr. TRACY. Yes.

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Mr. PECORA. Do you recall the meeting of the stockholders held on March 12, 1930, at which this clause 8, paragraph 8, of the certificate of incorporation of the United States & Foreign Securities Corporation was modified by the substitution of paragraph 8 that I have read?

Mr. TRACY. If it says so there, that was the date.

Mr. PECORA. Were you present at the meeting of the stockholders?

Mr. TRACY. No, sir; I was not.

Mr. PECORA. Did you participate as president and director of the United States & Foreign Securities Corporation in any discussion at which it was proposed to modify the provisions of the original paragraph 8 of the charter?

Mr. TRACY. Yes. I remember a discussion with the lawyers on that. I don't remember the details of it.

Mr. PECORA. What was the reason for the change?

Mr. TRACY. I don't remember.

Mr. PECORA. Did you ever know?

Mr. TRACY. Undoubtedly I did know. I have discussed it with counsel.

Mr. PECORA. What discussion did you have with counsel about it?

Mr. TRACY. I don't remember the details of it.

Mr. PECORA. Do you know any reason for the change? Just look at the original paragraph and the substituted paragraph and see if you now can give this committee any reason for the change that was made on March 12, 1930.

Mr. TRACY. No. I don't know of any specific reason.

Mr. PECORA. Do you know who proposed originally that such a change be made in the charter?

Mr. TRACY. No, I don't; I don't remember.

Mr. PECORA. Did you ever recognize any necessity for a change?

Mr. TRACY. I may have when I discussed it with counsel.

Mr. PECORA. Do you know now the change effected by the substitution of the present paragraph 8 for the original paragraph 8?

Mr. TRACY. I cannot say that I do.

Mr. PECORA. Did you agree, as president and stockholder and officer, to a change the nature of which you did not understand?

Mr. TRACY. In a matter of this kind I would accept the advice of counsel.

Mr. PECORA. What advice did counsel give in the matter that influenced you to agree to it?

Mr. TRACY. He undoubtedly advised this change, and I agreed to it.

Mr. PECORA. For what reason?

Mr. TRACY. I don't remember the reason.

Mr. PECORA. Can you tell us any reason now by comparing the original paragraph 8 with the substituted paragraph 8?

Mr. TRACY. I don't remember any reason. I can ask counsel and he can give it to you and save your time.

Mr. PECORA. Do you know whether or not, when the securities of the United States & Foreign Securities Corporation were offered to the public for subscription—I am referring, now, principally to the $25,000,000 worth of first preferred stock—any publication was made which apprised prospective purchasers of the first preferred stock

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that the charter of this company, $25,000,000 of the securities of which they were being asked to buy, contained that provision embodied in paragraph 8 of the charter?

Mr. TRACY. I do not recall it; but I was not connected with the company at that time.

Mr. PECORA. Mr. Chairman, I am suffering from a cold and hoarseness, and I would ask that the committee take a recess at this time until 2 o'clock.

The CHAIRMAN. We will take a recess until 2 o'clock.

(Whereupon, at 12:40 o'clock p.m., a recess was taken until 2 o'clock p.m.)

AFTERNOON SESSION

The subcommittee reconvened at 2 p.m., Tuesday, October 10, 1933, at the expiration of the noon recess.

TESTIMONY OF ERNEST B. TRACY—Resumed

The CHAIRMAN. The committee will come to order. Proceed, Mr. Pecora.

Mr. PECORA. As I recall your testimony this morning, you stated for the record the date of the acquisition of the St. Louis & San Francisco Railway stock by the United States & International Securities Corporation from Dillon, Read & Co., and the price paid, on November 11, 1929—no. It was transferred originally by Dillon, Read & Co. to the United States & Foreign.

Mr. TRACY. Yes.

Mr. PECORA. Will you state the price at which that stock was transferred on December 31, 1929, to the United States & International Securities Corporation?

Mr. TRACY. I will have to look that up [after examining papers]. $105.22, according to the market as of that date.

Mr. PECORA. Per share?

Mr. TRACY. Yes.

Mr. PECORA. Do you have the total consideration in dollars and cents? You will find it in the report of the meeting of the board of directors of January 1930.

Mr. TRACY. $2,157,079.

Mr. PECORA. In your testimony this morning you indicated the securities in the portfolio of the United States & International Securities Corporation as of December 31, 1932, which had been issued by companies with which you were connected or affiliated. Can you give us similar information with regard to the securities in that portfolio as of the end of last year, which were issued by corporations in which other directors of the United States & International Securities Corporation were members, or interested?

Mr. TRACY. I would have to get a directors' record to check that up for you.

Mr. PECORA. Can you point to any securities on this portfolio list as of December 31 last, which were issued by any corporation or corporations with respect to which no director of the United States & International Securities Corporation and no member of the firm of Dillon, Read & Co. was interested?

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Mr. TRACY. I would be guessing at that. I would not take a chance on saying what corporations Mr. Hayden was a director of, or Mr. Brush, or Mr. Ecker. I have not a complete list of their directorships.

Mr. PECORA. Calling attention to Price, Waterhouse & Co.'s report of the United States & International as of December 31, 1932, there were in its portfolio on that date, among other securities, 8,745 shares of United States & Foreign Securities Corporation first preferred, and 5,000 shares of United States & Foreign Securities Corporation common stock.

Mr. TRACY. That is right.

Mr. PECORA. When did the United States & International acquire the 8,745 shares of first preferred stock of the United States & Foreign Securities Corporation?

Mr. TRACY. I will have to look that up for you.

Mr. PECORA. What was the total consideration paid, while you are looking up this other matter, for those 8,745 shares of the first preferred stock of the United States & Foreign?

Mr. TRACY. $859,371.50.

Mr. PECORA. And what was the total consideration paid for the 5,000 shares of the common stock of the United States & Foreign Securities?

Mr. TRACY. $225,000.

Mr. PECORA. Do you know when the 5,000 shares of the common stock were acquired?

Mr. TRACY. I will find out for you [after conferring with associates]. The preferred stock, Mr. Pecora, was acquired in October, the end of October, and the first of November 1928.

Mr. PECORA. Yes.

Mr. TRACY. And the common on December 12, 1928.

Mr. PECORA. Were those issues purchased in the open market?

Mr. TRACY. The preferred was purchased in the open market, through Dillon, Read & Co., and the common was purchased from the United States & Foreign Securities Corporation.

Mr. PECORA. Do you know whether the 8,745 shares of the first preferred stock of the United States & Foreign that were acquired, as you say, in October and November 1928 by the United States & International, and which you say were acquired through Dillon, Read & Co., were shares that were owned by Dillon, Read & Co. or any of the individual members of that firm?

Mr. TRACY. Not to my knowledge. They were purchased, as I understand it, through Dillon, Read & Co. in the open market.

Mr. PECORA. What was the reason for the acquisition of the 5,000 shares of the common stock on December 12, 1928, of the United States & Foreign Securities Corporation?

Mr. TRACY. Those were shares that the company gave me an option on.

Mr. PECORA. Under the terms of the option, what were you to pay for those shares if you exercised the option?

Mr. TRACY. $25 a share.

Mr. PECORA. $25 a share.

Mr. TRACY. And they sold up to $72.

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Mr. PECORA. They sold up to $72. The company bought them at a little less than 50.

Mr. TRACY. I will look up the price.

Mr. PECORA. Say at 45.

Mr. TRACY. At 45.

Mr. PECORA. Five thousand shares of common for $225,000 makes a transaction on the basis of $45 a share; is that right?

Mr. TRACY. Yes; that is the figure.

Mr. PECORA. Then, immediately upon the acquisition of those 5,000 shares at $45 a share, the company gave you an option to buy them from it at $25 a share.

Mr. TRACY. That is right.

Mr. PECORA. What was the reason for that, Mr. Tracy? Isn't that an unusual transaction?

Mr. TRACY. Unusual?

Mr. PECORA. Yes.

Mr. TRACY. I would not call it unusual.

Mr. PECORA. Did you ever have any other transaction of that sort?

Mr. TRACY. Any other of that sort?

Mr. PECORA. Yes; where a corporation of which you are president buys in the open market, or buys from the issuing corporation, 5,000 shares of its stock at $45 a share, and immediately gives an option to its president to repurchase those shares at $25 a share?

Mr. TRACY. The directors asked me what I wanted in the way of compensation, and I told them I wanted options on stock. I did not take part in their decision.

Mr. PECORA. I asked you if you knew of any other kind of transaction like that.

Mr. TRACY. I cannot recall any.

Mr. PECORA. Then it was unusual, was it not, even within your own experience?

Mr. TRACY. It may have been. I had options on stock in other companies, though.

Mr. PECORA. Under similar circumstances, where you were president, and where the company went out and bought the stock at a much higher price for your benefit? Have you had those experiences?

Mr. TRACY. They bought it at the then market.

Mr. PECORA. They bought it at the then market, which was $45, and gave you an option to purchase it from them at $25?

Mr. TRACY. Correct.

Mr. PECORA. You have never had any other transaction of that sort, have you?

Mr. TRACY. Not to my recollection, but I did not exercise the option.

Mr. PECORA. What is that?

Mr. TRACY. I did not exercise the option.

Mr. PECORA. You could have.

Mr. TRACY. I could have, but I did not.

Mr. PECORA. The company gave it to you for you to exercise if you wished?

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Mr. TRACY. Correct. I asked them for an option on stock.

Mr. PECORA. Can you not tell this committee the reason why such a transaction was had?

Mr. TRACY. Well, I simply told the board that I wanted for my remuneration options on stock; that I did not want a salary.

Mr. PECORA. Were you asked if you wanted a salary for your services as president?

Mr. TRACY. I told them I did not want a salary.

Mr. PECORA. Were you asked if you wanted a salary?

Mr. TRACY. I believe I was.

Mr. PECORA. And you declined a salary?

Mr. TRACY. I declined a salary.

Mr. PECORA. Was any discussion had between you concerning the question of salary they would be willing to offer you?

Mr. TRACY. No; I did not want any salary. That is as far as it went, as far as I was concerned.

Mr. PECORA. You preferred to take your compensation in the form of this option?

Mr. TRACY. I preferred to take my compensation in the form of an option.

Mr. PECORA. Why was that preferable to you, Mr. Tracy?

Mr. TRACY. Because I felt that I would get my reward if the company was a success.

Mr. PECORA. How much of a reward did you expect to get?

Mr. TRACY. Depending on how much of a success I made of the company.

Mr. PECORA. What were the terms of the option?

Mr. TRACY. I was to be allowed to take up, as I remember it, a thousand shares per year over a period of 5 years, and I would take it up, or it could accumulate, at $25 per share, with interest at the rate of 6 percent.

Mr. PECORA. Was that option given in writing?

Mr. TRACY. Yes.

Mr. PECORA. Have you a copy of the option agreement?

Mr. TRACY. They are looking for it now.

Mr. PECORA. All right, sir. While they are looking that up, let me ask you if, when you became president of the United States & Foreign Securities Corporation, you entered into a similar arrangement for your compensation.

Mr. TRACY. Yes, sir.

Mr. PECORA. In lieu of a salary?

Mr. TRACY. That is right.

Mr. PECORA. Then, will you produce, if you can, whatever option agreement was given to you by the United States & Foreign Securities Corporation?

Mr. TRACY. Yes, sir. That is the agreement [handing paper to Mr. Pecora].

Mr. PECORA. Can you let us have this copy for the record?

Mr. TRACY. Yes, sir.

Mr. PECORA. I offer in evidence the copy of the agreement produced by the witness, purporting to constitute the option agreement entered into between him and the United States & International

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Securities Corporation for the purchase of 5,000 shares of the common stock of the United States & Foreign Securities Corporation, which agreement is dated December 27, 1928, and is executed by the United States & International Securities Corporation by R. A. Nellis, treasurer, and by Ernest B. Tracy, this witness.

The CHAIRMAN. Let it be received and introduced into the record.

(The document referred to, option agreement between Tracy and United States & International Securities Corporation, December 27, 1928, was received in evidence, marked "Committee's Exhibit No. 18", see p. 1853.)

Mr. PECORA. I offer in evidence a copy of the agreement produced by the witness, purporting to be the option agreement between himself and United States & Foreign Securities Corporation, dated December 26, 1928, executed on behalf of United States & Foreign Securities Corporation by R. A. Nellis, its treasurer, and by the witness, Ernest B. Tracy, in his individual capacity.

The CHAIRMAN. Let it be received and entered in the record.

(The document referred to, option agreement between Tracy and United States & Foreign Securities Corporation, December 26, 1928, was received in evidence, marked "Committee's Exhibit No. 19", and will be found at the end of today's record.)

Mr. PECORA. The second option covered 15,000 shares.

Mr. TRACY. That is correct.

Senator COUZENS. Of the same stock?

Mr. PECORA. Of the same stock.

Mr. TRACY. Yes.

The CHAIRMAN. To what extent have you exercised those options, Mr. Tracy?

Mr. TRACY. I have not exercised them.

The CHAIRMAN. Either one?

Mr. TRACY. No.

The CHAIRMAN. I understood 500 shares came from one of these.

Mr. TRACY. No, sir. I have not exercised them.

Mr. PECORA. The option agreement between you and the United States & Foreign Securities Corporation bears date December the 26th, 1928, and has been marked "Committee's Exhibit 19" of this date. I notice from this option agreement, Mr. Tracy, that it covers 15,000 shares of the common stock of the United States & Foreign Securities Corporation, and that the option to you to purchase those 15,000 shares fixes a price of $25 per share.

Mr. TRACY. That is right.

Mr. PECORA. You are entitled to exercise this option in amounts of not more than 3,000 shares on or before March 1, 1929, and a similar number for each succeeding year thereafter, up to and including March 31, 1933. That is substantially correct, is it not?

Mr. TRACY. Whatever that says.

Mr. PECORA. Was this treasury stock that the United States & Foreign Securities Corporation agreed to sell you at $25 a share under the terms of this option?

Mr. TRACY. My recollection is that it was bought in the market, but I will have to check that to be sure.

Mr. PECORA. Will you please look into that and tell us?

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Mr. TRACY. I am getting those figures for you, Mr. Pecora. Purchased throughout 1928.

Mr. PECORA. Can you tell us what the market value was of the common stock of the United States & Foreign Securities Corporation on December 26, 1928, the date of this option?

Mr. TRACY. I can get that for you. I have not any record.

Mr. PECORA. It was considerably more than $25 a share, was it not?

Mr. TRACY. Yes.

Mr. PECORA. And the stock was listed at that time on the New York Curb Exchange, was it not?

Mr. TRACY. I believe it was.

Mr. PECORA. How long will it take you or your associates to get the data which will enable you to tell the committee when the United States & Foreign Securities Corporation purchased these 15,000 shares, and the price which it paid for them?

Mr. TRACY. I have a note right here on that. We began buying them on February 20, 1928, and the first 200 shares were bought at $25.08. The next 100 shares——

Mr. PECORA. Do not go through the whole list. Give the period of time during which the company acquired these 15,000 shares of its stock in the market and the total purchase price.

Mr. TRACY. From February 20 to October 31.

The CHAIRMAN. 1928?

Mr. TRACY. Yes.

Mr. PECORA. What was the total purchase price?

Mr. TRACY. I will have that totaled up for you, Mr. Pecora.

Mr. PECORA. And then while they are totaling it they can give us the average price per share represented by these purchases. When did you become the president of the United States & Foreign Securities Corporation?

Mr. TRACY. It was in the latter part of 1927, Mr. Pecora, and it was at that time that it was agreed that I should receive options at $25 per share.

Mr. PECORA. Was the agreement at that time reduced to writing?

Mr. TRACY. It was not.

Mr. PECORA. It was only reduced to writing for the first time on December 26, 1928?

Mr. TRACY. That is correct.

Mr. PECORA. About a year or more after the agreement you say had actually been made?

Mr. TRACY. That is correct. There was a long delay, as I remember it, in drafting the agreement.

Mr. PECORA. It was a simple agreement to draft, was it not?

Mr. TRACY. It was a simple agreement to draft. I did not push it. Their word was good enough for me.

Mr. PECORA. With whom did you make this agreement on behalf of the United States & Foreign Securities Corporation? I mean with what officers of that corporation did you have these negotiations that culminated in this agreement providing for your compensation?

Mr. TRACY. Mr. Dillon said there was a vacancy on the board of directors and that he would like me to fill it. That was in the spring of 1927. I said I would be very glad to do so. And in the fall of

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the year he asked me whether I would accept the presidency of the company, and I said I would. And they asked me what compensation I wanted, and I told them I wanted option warrants. They asked me if I wanted a salary and I said I did not; that I would not assume the responsibility for a salary, that I preferred to have option warrants. At that time the stock was selling, as I remember it, around 25.

Mr. PECORA. It was not listed at that time, was it?

Mr. TRACY. I do not remember whether it was listed or not.

Mr. PECORA. Well, it was not listed, as I remember it, until February 1928 on the New York Curb Exchange.

Mr. TRACY. If that is the listing date, it was not listed at that time.

Mr. PECORA. Can you explain the reason for the delay of a year or more in the actual drafting and execution of this simple option agreement?

Mr. TRACY. No; I cannot.

Mr. PECORA. And you were not pushing it at all?

Mr. TRACY. No.

Mr. PECORA. Did you have the advice of any lawyer that such an agreement could well rest on an oral understanding?

Mr. TRACY. I did not need the advice of a lawyer. Their word was good enough for me, Mr. Pecora.

Mr. PECORA. Well, how about the ability of your estate in the event of your death being able to enforce this agreement of which there was no written evidence for more than a year?

Mr. TRACY. Well, during that first year, you see, I could not anyway have taken any of those options.

Mr. PECORA. That is because this option agreement was not made until December 26, 1928, more than a year after?

Mr. TRACY. That is right. And at the end of the year I was entitled to take up the option.

Mr. PECORA. Was there a similar lapse of time between the making of the agreement by word of mouth between you and the United States & International Securities Corporation and the actual execution of the agreement in writing?

Mr. TRACY. No; there was not, Mr. Pecora. I remember that several drafts were drawn up and then changed by the lawyers, and they said they would get it ready. I did not push them about it.

Mr. PECORA. Are you talking now about the agreement between you and the United States & Foreign Securities Corporation?

Mr. TRACY. Yes.

Mr. PECORA. There were several drafts drawn up by lawyers?

Mr. TRACY. Yes.

Mr. PECORA. Submitted to you?

Mr. TRACY. Yes.

Mr. PECORA. Did you object to any of the provisions in those various drafts that caused you to reject them?

Mr. TRACY. No, sir; not that I remember.

Mr. PECORA. Why was not the first one of those agreements drafted actually executed between the parties?

Mr. TRACY. I cannot remember the details. Of course I took my draft and submitted it to my counsel and had him go over it. I

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do not even remember whether we made any changes, because in substance what I was to get was an option on stock at 25.

Mr. PECORA. I thought a few moments ago you said you did not have to consult a lawyer and did not consult a lawyer for your own personal guidance.

Mr. TRACY. I do not think that was the question that you asked me, Mr. Pecora.

Mr. PECORA. Well, what question did you think I asked you to which you made answer that you did not find it necessary to consult a lawyer.

Mr. TRACY. I would like to have it read to me, if I may.

Mr. PECORA. What transaction did you think I was questioning you about when you answered that you did not find it necessary to consult a lawyer?

Mr. TRACY. Well, I will have to find out what the question is before I can answer that question, Mr. Pecora.

(Thereupon the following was read by the reporter, as above recorded:)

Mr. PECORA. Did you have the advice of any lawyer that such an agreement could well rest on an oral understanding.

Mr. TRACY. I did not need the advice of a lawyer. Their word was good enough for me, Mr. Pecora.

Mr. PECORA. The oral understanding——

Mr. TRACY. I did not need the advice of a lawyer on the question of the oral side of it. I said their word was good enough for me that I was to get these options.

Mr. PECORA. Do you not recall why you rejected—if you did reject—any of the original drafts of this option agreement submitted to you?

Mr. TRACY. No; it was perfectly simple. I said these were the terms on which I will be glad to accept the presidency of the company. I discussed it with the board and they said all right, and that was all there was to it so far as I was concerened.

Mr. PECORA. Then for about a year or more the whole thing got lost in the shuffle.

Mr. TRACY. Yes; for that at least. It was all during that period.

Mr. PECORA. On December 26, 1928, when this option agreement was given to you by the United States & Foreign Securities Corporation, what was the market value of the stock?

Mr. TRACY. We have not got that here. We will have to look it up in the Chronicle to get the market on that date.

Mr. PECORA. Do you not recall that it was around $45 a share?

Mr. TRACY. It was around that, or higher, Mr. Pecora.

Mr. PECORA. Around that or higher?

Mr. TRACY. Yes.

Mr. PECORA. Under this option agreement you had the right on or before March 1, 1929, which was a period of only 2 months and a few days after the date of this option agreement, to purchase 3,000 shares at $25 a share, did you not?

Mr. TRACY. In the United States & Foreign?

Mr. PECORA. In the United States & Foreign.

Mr. TRACY. Yes.

Mr. PECORA. If that stock was worth in the market $45 or more a share at that time, and you could have bought 3,000 shares on or

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before March 1st at $25 a share you could have taken in a profit of $20 a share, or $60,000, within 2 months' time, could you not?

Mr. TRACY. I assume your arithmetic is correct, but I did not do it.

Mr. PECORA. Why did you not do it? Did you not think that was enough compensation for 2 months' work as the president of this corporation?

Mr. TRACY. No, I had just been made president of the company and I would not have sold my stock if I had owned it.

Mr. PECORA. Why did you not take it down under this option?

Mr. TRACY. Because the option could accrue. Why should I take it down when the option accrued?

Mr. PECORA. So you could make a profit on it by disposing of it in the open market.

Mr. TRACY. But I told you I did not want to sell it.

Mr. PECORA. How did you expect to get any compensation if you were not going to sell the stock?

Mr. TRACY. Well, over a period of years I would have probably taken up stock, as I expect to do eventually, and keep it.

Mr. PECORA. Have you exercised any of these options up to the present time?

Mr. TRACY. I have not.

Senator ADAMS. Have any of those lapsed or are they all still available to you?

Mr. TRACY. They are all still available to me. They were renewed.

Mr. PECORA. I was coming to that. They actually did lapse according to the tenor of their original terms, but their option periods have been extended, have they not?

Mr. TRACY. Their option period has been extended because it was agreed to be extended before the option expired.

Mr. PECORA. In the extension agreement were any of the terms changed?

Mr. TRACY. No; not a bit.

Mr. PECORA. Do you know of any reason why you did not exercise your rights under either of those two option agreements at any time thereafter?

Mr. TRACY. Well, because I did not want to do it; that is why I did not do it.

Mr. PECORA. What was the sense of having the options as your form of compensation if you were not going to exercise your rights?

Mr. TRACY. I had 5 years in which to take up those options.

Mr. PECORA. How did you intend to profit by these options and thereby be compensated for your years of service as president of these two investment trusts?

Mr. TRACY. I intended to take them up eventually and hold the stock and have a very valuable asset, which I still hope to do, and receive dividends on that common stock.

Mr. PECORA. And when you had a chance to buy this stock at $25 a share at a time when market conditions would have enabled you to realize a handsome profit you preferred for reasons of your own not to exercise the option?

Mr. TRACY. You are quite right. I would not have sold out on my company.

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Senator ADAMS. Mr. Pecora, you see he had a good deal of confidence in the president of the company. He thought maybe the president of the company would make it prosper.

Mr. TRACY. You are quite right, Senator. I did.

The CHAIRMAN. Have dividends been paid on the common stock?

Mr. TRACY. No, sir.

Senator COUZENS. When did the stock go down below the option price? At what time?

Mr. TRACY. I think it was in the spring of 1930, but I will have to look it up to be exact.

Senator COUZENS. You think in the spring of 1930 the price went down below the option price?

Mr. TRACY. I think it did.

Senator COUZENS. And therefore you would not want to exercise the option under those circumstances?

Mr. TRACY. I beg your pardon?

Senator COUZENS. I say, you would not want to exercise the option under those circumstances?

Mr. TRACY. No. I would let the options accrue.

Senator ADAMS. You were really making a speculation and letting the other fellow furnish the money against your services as long as your option lasts?

Mr. TRACY. That is the way I am getting my compensation.

Senator ADAMS. That is the way you are playing it?

Mr. TRACY. That is the way I am getting my compensation. If I make a success of the company I will profit. If the company is not successful I will not profit.

Senator ADAMS. You are betting your time and your services?

Mr. TRACY. My services and my efforts, yes; and my endeavors to make a success of this company. If it is a success I will make a profit out of it. If it is not a success I will not make any profit.

Senator ADAMS. But so far as the stock is concerned, heads you come out at least even on that, and tails you win?

Mr. TRACY. Well, I devote time to it in which I might possibly otherwise make money.

Senator ADAMS. In the past few years it has been much more profitable for people to handle other people's money than their own in investing it.

Mr. TRACY. I believe we have done well with this company. I think we have done unusually well with it.

Mr. PECORA. Has the United States & Foreign Securities Corporation made investments for its portfolio in issues other than those in which officers or directors of the United States & Foreign Securities Corporation have been interested?

Mr. TRACY. I will have to look up the list of all of the directorships of the officers and directors and check every investment that they have made to be able to give you a correct answer on that, Mr. Pecora. I have not the slightest idea of all the directorships of a number of our directors.

Mr. PECORA. Have your associates completed their research into the records for the purpose of giving us the total consideration paid by the United States & Foreign Securities Corporation for the 15,000 shares that were covered by the option agreement with you?

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Mr. TRACY. The cost, Mr. Pecora, was $571,194.11. An average price of $38.08 per share.

Mr. PECORA. When that company made this option agreement with you to sell you this stock at $25 a share which it had bought at $38 a share average, did it write down those shares in its portfolio to the $25 a share option price to you?

Mr. TRACY. We carried it on our books here, of course.

Mr. PECORA. Not at the option price to you?

Mr. TRACY. On this statement that I have before me it is carried on the books.

Mr. PECORA. I say, it was never written down to the option price to you?

Mr. TRACY. I will have to find out from the accountants.

Mr. PECORA. While they are looking that up will you let me look at the minute book again, minute book of the investment trust?

Mr. TRACY. What period?

Mr. PECORA. 1929, those that we had this morning.

The CHAIRMAN. Those options are extended to 1936, Mr. Tracy?

Mr. TRACY. They were extended for 3 years, 1936.

Mr. PECORA. From which office did you principally conduct the affairs of the United States & Foreign Securities Corporation as its president?

Mr. TRACY. As its president?

Mr. PECORA. As its president, from which office did you direct or conduct its affairs principally?

Mr. TRACY. From the directors' meetings. My job was to follow the investments.

Mr. PECORA. From which office?

The CHAIRMAN. The location of the office?

Mr. TRACY. Why, the office of the company, the only office is in Newark, N.J.

Mr. PECORA. I know that, but from which office did you, as president, actually conduct its operations and business?

(Mr. Tracy started to confer with associates.)

Mr. PECORA. Do you have to have the advice of anybody to answer that question?

Mr. TRACY. We have only got the one office, Mr. Pecora.

Mr. PECORA. I know, you are talking about the Newark office.

Mr. TRACY. Yes; that is the only office the company has.

Mr. PECORA. Did you as its president use that office for the conduct of the operation of the company's business and affairs?

Mr. TRACY. All the details of the company are carried on in that office, Mr. Pecora.

Mr. PECORA. Which office did you principally occupy in the daily routine of the conduct of the company's business?

Mr. TRACY. My office as far as running the investments of this company, which is my job, is to follow the investments and the securities that we have, I can do it anywhere.

Mr. PECORA. From which office did you do it?

Mr. TRACY. Directors' meetings.

Mr. PECORA. From which office did you principally conduct your direction of the company's business?

Mr. TRACY. The company has but one office and that is the Newark.

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Mr. PECORA. Is that the office that you occupied as a matter of routine?

Mr. TRACY. As a matter of routine, I occupy an office at 1 Wall Street.

Mr. PECORA. And did you use that office at No. 1 Wall Street principally in your business of directing the affairs of this company?

Mr. TRACY. I did not.

Mr. PECORA. What other office did you use principally?

Mr. TRACY. In directing the affairs of the company? The affairs of the company are run by the directors. The purchase and sale of securities, selection of their investments, are principally decided upon at officers' meetings, which may be held in my office, may be held at 28 Nassau Street, as a matter of convenience.

Mr. PECORA. Where was the treasurer's office?

Mr. TRACY. The treasurer of the company? It is in the office of the company.

Mr. PECORA. Where?

Mr. TRACY. Newark.

Mr. PECORA. Who was the treasurer?

Mr. TRACY. Mr. Nellis is the treasurer.

Mr. PECORA. What office did he occupy? What headquarters or office did he occupy in the discharge of his duties as treasurer, or from what office did he discharge his duties as treasurer?

Mr. TRACY. From the only office that the company has in Newark.

Mr. PECORA. Then Mr. Nellis was always located at the Newark office, was he, and no other office?

Mr. TRACY. To my knowledge, that is where he always was.

Mr. PECORA. Who was the secretary of the corporation?

Mr. TRACY. At what time, sir?

Mr. PECORA. In 1928 and 1929.

Mr. TRACY. Because there were certain changes.

Mr. PECORA. Well, in 1928 and 1929.

Mr. TRACY (after conferring with associates at length). I am told that Mr. Nellis was also secretary in 1928, Mr. Pecora.

Mr. PECORA. Did you go to the Newark office of the company every business day?

Mr. TRACY. Indeed I don't.

Mr. PECORA. Did you go as often as once a week?

Mr. TRACY. No; I wouldn't say that I went as often as once a week.

Mr. PECORA. Did you go as often as once a month?

Mr. TRACY. I might have gone over there once a month.

Mr. PECORA. There is a possibility that you did?

Mr. TRACY. Yes.

Mr. PECORA. Now, you certainly then could not have attended to the current business of this company as its president on the occasions that might have been as frequently as once a month when you went over to the Newark office, which you say is the only office?

Mr. TRACY. Only office. All the confirmation of securities, orders placed, bookkeeping, and all the routine of the business of the company, is conducted in its only office at Newark. I do not have to go there to think what security I will buy.

Mr. PECORA. Your principal duties consisted of what?

Mr. TRACY. Presiding at the directors' meetings, keeping in touch with the directors, and following all the investments that the com-

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pany has, such as making suggestions for purchases and sales and keeping in contact constantly with all the directors.

Mr. PECORA. And from what office did you discharge those duties principally?

Mr. TRACY. I do it in New York.

Mr. PECORA. From what office, Mr. Tracy? Give us the address, please.

Mr. TRACY. I may call them up from my office.

Mr. PECORA. Which office did you principally use?

Mr. TRACY. I probably used my own office.

Mr. PECORA. Well, it has taken me 10 minutes to find that out.

Mr. TRACY. To a large extent.

Mr. PECORA. Now, do you want to qualify it any further? First you said "probably" and "to a large extent." Any other qualifications?

Mr. TRACY. Undoubtedly I have seen the directors in their own offices and talked to them. I have seen them at the directors' meetings and at officers' meetings.

Mr. PECORA. The directors' meetings as a rule were held at No. 28 Nassau Street, were they not?

Mr. TRACY. As a rule they were held at 28 Nassau Street.

Mr. PECORA. And by 28 Nassau Street is meant the offices of Dillon, Read & Co.?

Mr. TRACY. Yes, sir; that is where they were held.

Mr. PECORA. And where were the officers' meetings held?

Mr. TRACY. They were held there, as a rule, also.

Mr. PECORA. At 28 Nassau Street, in the offices of Dillon, Read & Co.?

Mr. TRACY. Yes, sir.

Mr. PECORA. And is that also true of the United States & International Securities Corporation?

Mr. TRACY. It is, sir.

Mr. PECORA. That is, that you attended principally to the discharge of your duties as its president from your own office at No. 1 Wall Street and that the meetings of its board were usually held at 28 Nassau Street, in the offices of Dillon, Read & Co.?

Mr. TRACY. They were.

Mr. PECORA. And likewise the meetings of officers whenever they occurred usually occurred at 28 Nassau Street?

Mr. TRACY. That is correct.

Mr. PECORA. Can you now supply us with the information as to whether or not the United States & Foreign Securities Co. wrote down the 15,000 shares of its common stock which it had purchased for $38 plus to the option price of $25 to you?

Mr. TRACY (after conference with associates and examining documents). It was carried at cost.

Mr. PECORA. Never marked down to the option price to you?

Mr. TRACY. On our balance sheet. No, sir. On our annual report we stated that these 15,000 shares were under option, in two places.

Mr. PECORA. In connection with the option agreement given to you by the United States & International Securities Corporation covering 5,000 shares of the common stock of the United States & Foreign

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Securities Corporation, did the United States & International write down on its books these 5,000 shares to the option price of $25 a share to you?

Mr. TRACY. It was carried at cost.

Mr. PECORA. Did it ever write it down to the option price to you?

Mr. TRACY. It was always carried at cost. It was not written down, Mr. Pecora.

Mr. PECORA. Now, as a matter of mathematical calculation, the cost to the United States & Foreign Securities Corporation of the 15,000 shares which it had given you an option to buy at $25 a share, and the 5,000 of the common stock of United States & Foreign which the United States & International bought in order to option them to you at $25 a share were purchased for a consideration, an aggregate consideration, of about $300,000 in excess of the aggregate option price to you of those 20,000 shares?

Mr. TRACY (after conferring with associates). I will accept those figures, Mr. Pecora, without wasting time to check them.

Mr. PECORA. Do you think it was sound bookkeeping to continue those shares on the books of these two investment trusts at their cost price and not at the option price to you, which would represent a difference of about $300,000?

Mr. TRACY. I think that would be something that would be up to Price, Waterhouse & Co., the accountants. There was no way of telling whether I would exercise that option at 25.

Mr. PECORA. But so long as the option agreement was outstanding those shares represented an actual value to the corporations of $300,000 less than the price at which they were carried?

Mr. TRACY. Correct.

Senator COUZENS. Did you testify previously, Mr. Tracy, that Mr. Dillon selected you for the presidency of both of these investment trust companies?

Mr. TRACY. No. The board of directors selected me as president.

Senator COUZENS. I thought I heard him say——

Mr. PECORA (interposing). He did say that Mr. Dillon spoke to him about it.

Mr. TRACY. He spoke to me about going on the board, Mr. Pecora. That was in the spring of 1927. He told me there was a vacancy on the board and the directors would like to have me join the board.

Senator COUZENS. Who first suggested to you that you could become president of both of these investment trusts?

Mr. TRACY. I think it was Mr. Dillon, although I remember one or two of the other directors mentioned it.

Senator COUZENS. But he was the dominating character of both the boards?

Mr. TRACY. No; he was not the dominating character of both the boards.

Senator COUZENS. As a matter of fact, didn't Dillon, Read & Co. control the common stock of both?

Mr. TRACY. They control the majority of the stock.

Mr. PECORA. Now, can you tell the reason for the acquisition of the 8,745 shares of the first preferred stock of the United States & Foreign Securities Corporation by the United States & International?

Mr. TRACY. Yes, sir. It was a good investment.

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Mr. PECORA. When was that investment made?

Mr. TRACY. I will have to look that up for you, Mr. Pecora. [After conference with associates:] From October the 29th, Mr. Pecora, to and through November the 1st, 1928.

Mr. PECORA. That is in a period of 2 or 3 days' time?

Mr. TRACY. Yes.

The CHAIRMAN. What did it cost?

Mr. PECORA. $859,371.50.

The CHAIRMAN. You say it is a good investment. What is its value now? What is the price now?

Mr. PECORA. According to the portfolio statement of December 31, 1932, its market value on that date was $419,760. Is that correct?

Mr. TRACY. That is right. We have received our 6 percent on that investment, and the assets behind it today are about $138 for every share of preferred.

The CHAIRMAN. That is figuring the assets at cost?

Mr. TRACY. At market, sir.

Mr. PECORA. I wish you would make available to this committee, say, by tomorrow morning, Mr. Tracy, statement of any securities purchased by the United States & International Securities Corporation which were in its portfolio as of the end of the year 1932 and which were issued by corporations other than those in which any officer or director of your corporation or other than those in which Dillon, Read & Co. or any of its partners had any interest.

Mr. TRACY. May I get a transcript of that afterwards so that I will have that exactly? There may be people out of town. I will have to telephone to New York. I will have to get the list of directors of the board and all the people that served on it.

Mr. PECORA. Perhaps you can tell us this: Do you know of a single security purchased by either one of these investment trusts now in their portfolios which were issued by corporations in which no officer or director of either of these investment trusts or in which Dillon, Read & Co. or none of its partners had any interest?

Mr. TRACY. As I told you before, Mr. Pecora, I would have to guess at that. I think Mr. Hayden is a member of 50 boards. I don't know.

Mr. PECORA. What would your best guess be?

Mr. TRACY. I would certainly think that we had a number of them, yes, but I don't remember. I have no idea what boards Mr. Burchard was on. I am told there were about 40 or 50, and I would have to check every one of them. I don't know all the boards of all the Dillon, Read & Co. members referred to this morning. I would have to check that. And I don't know where I can get that information here. I will try to get it to the best of my ability.

Mr. PECORA. You could get that pretty quickly from the use of a directory of directors, couldn't you?

Mr. TRACY. I could get the most of them, although the New York Directory of Directors only gives directorships who are residents of New York.

Mr. PECORA. Now, will you place before you, for the purpose of reference and in order to enable you to answer the questions which I am now about to put to you, a copy of the portfolio statement of

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the United States & International Securities Corporation as of December 31, 1932?

Mr. TRACY. All right.

Mr. PECORA. Have you got it before you now?

Mr. TRACY. Yes, sir.

Mr. PECORA. There was put in evidence here last week, Mr. Tracy, the answer to question no. 3 of the questionnaire that was submitted by me to Dillon, Read & Co., which question called for the following information:

The names of all corporations in which any partner or representative of the firm of Dillon, Read & Co., or any of its agencies, is a director or officer.

The answer thereto indicated that the following corporations were corporations in which a Dillon, Read & Co. member was a director or officer: The Amerada Corporation. Now, I notice in the portfolio of your investment trust there is a large block, 35,000 shares, of the stock of the Amerada Corporation.

Mr. TRACY. Yes, sir.

Mr. PECORA. Beneficial Industrial Loan Corporation. Are there any securities issued by that corporation in the portfolio of your investment trust?

Mr. TRACY. I do not see any here, Mr. Pecora.

Mr. PECORA. Brazilian Traction, Light & Power Co., Ltd. Are there any securities of that corporation in the portfolio of your investment trust?

Mr. TRACY. I have the portfolio of the United States & International Securities Corporation in front of me, Mr. Pecora.

Mr. PECORA. Yes.

Mr. TRACY. No. There are no Brazilian Traction securities here.

Mr. PECORA. Will you also make immediately available to you a copy of the portfolio statement of the United States & Foreign Securities Corporation as of December 31, 1932?

Mr. TRACY. Yes, sir. I now have it. We have Brazilian Traction, Light & Power Co., Ltd., securities in the portfolio of the United States & Foreign Securities Corporation.

Mr. PECORA. Broadway Department Store, Inc. That appears to be another corporation according to the answer to question 3 of our questionnaire addressed to Dillon, Read & Co., of which a member of that firm was a director or officer.

Mr. TRACY. Yes, sir. We have 1,000 shares of common.

Mr. PECORA. Now, Commercial Investment Trust Corporation seems to be another corporation in which a member of Dillon, Read & Co. was a director or officer. Have you any issues of that company in your portfolios?

Mr. TRACY. Yes, sir; we have, both preferred and common.

Mr. PECORA. Consolidated Cigar Corporation appears to be another one of those corporations. Have you any of its securities in your portfolios?

Mr. TRACY. I do not find the Consolidated Cigar.

Mr. PECORA. Neither do I. Educational Pictures, Inc., is another one of those corporations of which a member of the firm of Dillon, Read & Co. was an officer or director. Do you find any of its securities in your portfolios?

Mr. TRACY. No; I do not.

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Mr. PECORA. Equitable Office Building Corporation is another one of those corporations. Are any of its securities in your portfolios?

Mr. TRACY. Yes, sir; there are.

Mr. PECORA. In both investment trusts?

Mr. TRACY. No, sir; in one of them.

Mr. PECORA. In the United States & International Securities Corporation, is it?

Mr. TRACY. In the United States & International; yes, sir.

Mr. PECORA. Goodyear Tire & Rubber Co. is another one of those corporations. Do you find any of its securities in the portfolios of either one of those investment trusts?

Mr. TRACY. No; I do not, sir.

Mr. PECORA. Louisiana Geophysical Exploration Co. is another one of those companies. Are any of its securities in the portfolios?

Mr. TRACY. No; none of the Louisiana Geophysical Exploration Co.

Mr. PECORA. Now, Louisiana Land & Exploration Co. is another one of those corporations, isn't it?

Mr. TRACY. Yes, sir.

Mr. PECORA. Do you find any of its securities in either of those portfolios?

Mr. TRACY. Would you mind allowing the committee reporter to repeat that question?

Mr. PECORA. The Louisiana Land & Exploration Co. Are any of their securities in the portfolio of either of those two investment trusts?

Mr. TRACY. Yes, sir. We have 100,000 shares.

Mr. PECORA. In which portfolio?

Mr. TRACY. In the United States & International.

Senator COUZENS. At what cost are those 100,000 shares carried?

Mr. TRACY. $278,000.

Mr. PECORA. It is $278,125, isn't it?

Mr. TRACY. Yes, sir—no; it is $125,000.

Mr. PECORA. That is the company that you are the president of?

Mr. TRACY. I am happy to say I am the president of it.

Mr. PECORA. Do you get a salary from that company as its president, or is your compensation in the form of option agreements to buy stock?

Mr. TRACY. My compensation is in the form of option agreements.

Mr. PECORA. Loew's, Inc., seems to be another corporation in which Dillon, Read & Co. was interested, or one or more of its members is an officer or director. Do you own any of its securities in your portfolios?

Mr. TRACY. Yes, sir.

Mr. PECORA. In which ones?

Mr. TRACY. We have 1,000 shares of common stock, and it is in the United States & International.

Mr. PECORA. Now, there is a corporation called the Nederlandsche Crediet en Financiering Maatschappij, as near as I can pronounce it.

Senator ADAMS. How do you spell it?

Mr. PECORA. I will have to "sneeze" it.

Mr. TRACY. We haven't any of that that I can find.

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Mr. PECORA. Now, weren't you mistaken when you said in answer to my previous question, there were no securities issued by Loew's Inc., in the portfolio of either of these investment trusts?

Mr. TRACY. No. I said we do have some.

Mr. PECORA. You had some also in the United States & Foreign Securities Corporation, didn't you?

Mr. TRACY. Yes, sir; 7,500 shares.

Mr. PECORA. Now, how about the Panhandle Eastern Pipe Line Co.? Have you any of its securities in either of these portfolios?

Mr. TRACY. No; we haven't any.

Mr. PECORA. Now, it seems that the St. Louis & San Francisco Railway Co. is another corporation in which a partner of Dillon, Read & Co. is a director or officer. We know the extent of the holdings of securities of that railroad corporation in these portfolios, I believe.

Mr. TRACY. Yes, sir.

Mr. PECORA. How about A. C. Spalding & Bros.? That is another corporation in which Dilon, Read & Co. or a partner is an officer or director.

Mr. TRACY. We have nothing in Spalding Bros.

Mr. PECORA. How about the Tubize Chattilon Corporation?

Mr. TRACY. We have none of that.

Mr. PECORA. Nothing in that?

Mr. TRACY. No, sir.

Mr. PECORA. How about United New Jersey Railroad & Canal Co.?

Mr. TRACY. Nothing in that.

Mr. PECORA. And how about Union Oil Co. of California.

Mr. TRACY. We have none of that.

Mr. PECORA. How about Victor Chemical Works?

Mr. TRACY. We have none of that.

Mr. PECORA. Now, in answer to question no. 3 of our questionnaire as it appears from the record before this committee, Dillon, Read & Co. stated that the following-named corporations are corporations in which an employee or representative of Dillon, Read & Co., other than a director, is an officer or director; and the companies are as follows: Ault-Wiborg, Ltd., Ernesto Breda Co., Cespedes Sugar Co., Commander-Larabee Corporation, 419–435 Flatbush Avenue Extension, Inc., General Cable Corporation, German Credit & Investment Corporation.

Mr. TRACY. That is the only one we have so far on that list.

Mr. PECORA. Its securities are in the portfolios of both investment trusts, aren't they?

Mr. TRACY. Yes, sir; we have some in both.

Mr. PECORA. And next is the International Printing Ink Corporation.

Mr. TRACY. Yes; we have some of that.

Mr. PECORA. That is in both portfolios, isn't it?

Mr. TRACY. Yes, sir.

Mr. PECORA. And International Water Co., Inc., and International Water Corporation, South America?

Mr. TRACY. No.

Mr. PECORA. Layne-New York Co., Inc., of Delaware?

Mr. TRACY. No.

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Mr. PECORA. National Cash Register Co.?
Mr. TRACY. No; we haven't got any of that.
Mr. PECORA. San Francisco Bridge Securities Corporation?
Mr. TRACY. No.
Mr. PECORA. Societe d'Electricite de la Region de Malmedy?
Mr. TRACY. No; we haven't any of that.
Mr. PECORA. And Societe d'Etude d'Execution des Grands Travaux?
Mr. TRACY. No; we have none of that.
Mr. PECORA. As I recall your testimony of a few minutes ago—and you are the president of the Louisiana Land & Exploration Co., aren't you?
Mr. TRACY. Yes, sir.
Mr. PECORA. You said you got no salary from it as president?
Mr. TRACY. No, sir.
Mr. PECORA. That the only form of compensation you receive from it is through the medium of the exercise of options to purchase its stock as granted you by the company.
Mr. TRACY. To purchase the stock of the Louisiana Geophysical Exploration Co., which is a subsidiary company.
Mr. PECORA. Have you exercised any of those options?
Mr. TRACY. No, sir.
Mr. PECORA. So that you have been serving these four corporations, two investment trusts, and the Louisiana Geophysical Exploration Co. and the Louisiana Land & Exploration Co., up to the present time, without any actually realized compensation?
Mr. TRACY. Correct, aside from what I have received as directors' fees, of course.
Mr. PECORA. Now, the portfolio of the United States & Foreign Securities Corporation as of December 31, 1932, among other things, shows an investment of $1,250,000 in the securities of the German Credit & Investment Corporation 6 percent preferred stock, 12,500 shares. That is correct, isn't it?
Mr. TRACY. That is correct.
Mr. PECORA. Now, your portfolio report as of December 31, 1932, gives the market value to that stock as of $1.
Mr. TRACY. That is correct. Anything that is not quoted we put down at a nominal market value of $1.
Mr. PECORA. Who recommended the acquisition of those 12,500 shares of the German Credit & Investment Corporation 6 percent second preferred stock?
Mr. TRACY. I assume that that was passed on by the board, Mr. Pecora.
Mr. PECORA. What did you say?
Mr. TRACY. I assume it was passed on by the board, but that was purchased before I became the president of the company.
Mr. PECORA. And has it been retained in its portfolio during periods when its market value was receding, during your term as president?
Mr. TRACY. It has been in the portfolio in my term as president; yes, sir.
Mr. PECORA. Are you familiar with that particular investment?
Mr. TRACY. I beg your pardon?

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Mr. PECORA. I say, are you familiar with that particular investment?

Mr. TRACY. I am fairly familiar with it; yes, sir.

Mr. PECORA. What do you know about it?

Mr. TRACY. I know that it has assets today, of cash and Government securities, equivalent to approximately—well, what is it [addressing an associate]? Well, the securities that they own in this country have a market value in excess of $25 per share, not counting securities that they own in Germany, which are long-term investments, short-term investments, and loans to small investors.

Mr. PECORA. Why is this stock marked down to $1?

Mr. TRACY. Because there is no market quotation for it. And in the case of a number of our securities, as you will see, on our annual report it shows, in the absence of a market, where we cannot find a market quotation, we give it a nominal value of $1.

Senator COUZENS. Do you ever attempt to sell any of those securities?

Mr. TRACY. I beg your pardon?

Senator COUZENS. Has any attempt been made to sell any of those securities that you carry at $1?

Mr. TRACY. I do not think we have tried to sell any of them.

Mr. PECORA. Now, tell the committee on whose recommendation—I know I asked you this question before, but I do not know whether you have had the information before—on whose recommendation the bonds of the Seaboard Air Line Railway Co. were acquired by these investment trusts.

Mr. TRACY. The matter was discussed at some of the meetings.

Mr. PECORA. What do you recall as having been urged at any of these many meetings in favor of the acquisition of these bonds by your investment trust?

Mr. TRACY. Of the Seaboard?

Mr. PECORA. Of the Seaboard.

Mr. TRACY. As I remember the Seaboard situation, a plan of refinancing it was discussed at a number of the directors' meetings and officers' meetings, and the development of the plan was followed.

Mr. PECORA. At the time of that discussion some of the bonds had already been acquired by one or other of these two investment trusts, had they not?

Mr. TRACY. I believe they had.

Mr. PECORA. What do you recall that anyone said in urging or recommending these bonds as a proper investment for either of these two investment trusts?

Mr. TRACY. I do not remember any specific recommendation that was made, because the Seaboard situation, as I remember clearly, was discussed at a great many meetings.

Mr. PECORA. What was said specifically at all these meetings? Apparently the security was frequently discussed. You surely ought to be able to tell us some of the things that were urged in favor of investing in that security.

Mr. TRACY. The general opinion was that the plan for refinancing the company would improve the financial structure of the company——

Mr. PECORA. Of which company—the Seaboard?

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Mr. TRACY. Yes, sir—that it would be a benefit to all the security holders; and that plan was under discussion for a long time.

Mr. PECORA. Are you familiar with the financial history of the Seaboard Air Line Railway for the past 15 years?

Mr. TRACY. I would not go back 15 years; no.

Mr. PECORA. Would you go back 10 years?

Mr. TRACY. Since I have been familiar with the securities as we have been buying them into the company; yes.

Mr. PECORA. How far would you have to go back?

Mr. TRACY. I know that back in the old days there was a receivership, and then they borrowed money from the United States Treasury after the railroads were turned back by the Government in 1920, and then its earnings began to show an improvement. Mr. Warfield died, as I remember, somewhere along in 1927 or 1928, and at that time I believed it was Dillon, Read & Co. who suggested to the management that they had a complete survey made for the road.

Mr. PECORA. When was that made by Dillon, Read & Co.?

Mr. TRACY. The report was made by Coverdale & Colpitts——

Mr. PECORA. When?

Mr. TRACY. I think that report was in 1928.

Mr. PECORA. Had not Dillon, Read & Co., as bankers, undertaken the reorganization of that road prior to that time?

Mr. TRACY. I do not remember. I would have to check that up. I would have to refresh my memory on that.

Mr. PECORA. Was your judgment, as the president and a director in these two investment trusts, consulted about investing in Seaboard Air Line Railway Co. bonds?

Mr. TRACY. Certainly.

Mr. PECORA. Did you approve of the acquisition? Did you favor the purchase of these bonds?

Mr. TRACY. I certainly did.

Mr. PECORA. What were the factors that prompted you to favor them?

Mr. TRACY. In the first place, the report of Coverdale & Colpitts was very favorable——

Senator ADAMS. I suppose that report wound up with commending the road for the high class of its management? I notice in the two reports here they are very commendatory of the management of those roads.

Mr. TRACY. I think that is the usual courtesy that they put in at the end of a report.

Senator ADAMS. I was wondering if that was customary.

Mr. TRACY. Yes; I think it is put in at the end of all reports.

Mr. PECORA. In other words, the operation of the road was successful, but the patient died?

Mr. TRACY. Yes; the railroad is in receivership.

Mr. PECORA. Do you know that Coverdale & Colpitts were members of an underwriting syndicate managed by Dillon, Read & Co. in connection with the reorganization of the Seaboard Air Line Railway Co.?

Mr. TRACY. Yes. They took a substantial interest in it and in the Pennsylvania Railroad. They took a very substantial interest in the underwriting of the common stock.

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Mr. PECORA. Do you mean, the Pennsylvania Railroad or the Pennroad Corporation?

Mr. TRACY. The Pennroad Corporation.

Mr. PECORA. Do you happen to have read the testimony that was given before this committee last June or July by the president of the Pennroad Corporation with regard to the purchase by the Pennroad Corporation of large blocks of the shares or bonds of the Seaboard Air Line Railway?

Mr. TRACY. No, sir.

Mr. PECORA. Do you remember that Mr. Lee, president of the Pennroad Corporation, testified——

Mr. TRACY. No, sir; I did not read any of it.

Mr. PECORA (continuing). That the Pennroad Corporation acquired a much larger block of those securities than it had ever intended to acquire, and it was led to do so by some oversight in the preparation of some agreement——

Mr. TRACY. I did not read any of the testimony.

Mr. PECORA (continuing). Which pledged them, apparently, to take over more than they had intended to take? It seems to me I recall some such testimony having been given last summer.

Mr. TRACY. As I remember—and this is memory only, Mr. Pecora—in Pennsylvania Railroad, the Pennroad Corporation, agreed to take 25 percent of the stock that was not taken by the stockholders, and I think the agreement with the Seaboard was finally signed some time in October, and there was the usual delay in getting the approval of the Interstate Commerce Commission. That was obtained in the early part of the next year; and when the stock was taken over, in the meantime there had been a very precipitous drop in the market, and very few stockholders subscribed, so they very probably got their full amount.

Mr. PECORA. They took over more than 400,000 shares, whereas they contemplated originally taking over only 125,000 shares. That is my present recollection of Mr. Lee's testimony before this committee in the early summer of this year.

Mr. TRACY. I have not read the testimony, as I told you, Mr. Pecora; but between the date of the closing of that agreement with the Seaboard and the approval of the Interstate Commerce Commission, which I think was 2 or 3 months, there had been a panic, as everyone knows, and very few of the stockholders to whom the stock had to be offered took any stock, on account of the decline in the market. So that the Pennroad Corporation got their full participation, as all the others did, because the stockholders took very little. There was a decline in the market during that time.

Mr. PECORA. According to Mr. Lee, they got more than their full participation, more than they contemplated acquiring when they entered into the underwriting agreement.

Mr. TRACY. I do not know anything about Mr. Lee's testimony; but of course the market went down and they got 25 percent of what the stockholders did not subscribe for. The market declined and the stockholders did not subscribe to the stock which they would have probably subscribed for if it had stayed up.

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Mr. PECORA. When were the Seaboard Air Line Railway Co.'s stocks and bonds acquired by this investment trust of which you were president?

Mr. TRACY (after conferring with associates). Those are the acquisitions of the United States & Foreign Securities Corporation (handing papers to Mr. Pecora); and I will give you others shortly.

Mr. PECORA. I notice, for instance, in the portfolio statement of the United States & International as of December 31, 1932, that there were in this portfolio at that time 131,908 shares of the common stock of the Seaboard Air Line Railway and 9,930 warrants for the purchase of common stock of that company, which stock and warrants cost the United States & International a total of $1,478,675.79. Do you find that to be correct, in the portfolio of the United States & International as of December 31, 1932?

Mr. TRACY. $1,478,675.79.

Mr. PECORA. And do you also find that at the same time in this portfolio were bonds of the Seaboard Air Line Railway Co. which cost the investment trust $506,847.13?

Mr. TRACY. That is correct, sir.

Mr. PECORA. There is a gross investment of very close to $2,000,000 in common stock and bonds of this railroad company. When was that investment made?

Mr. TRACY. That was made in the fall of 1928—I find I am incorrect; it was in the early part of 1930.

Mr. PECORA. That was after the stock market collapsed in October and November, 1929, was it not?

Mr. TRACY. That is correct. I believe we signed the agreement in October. If you will let me look it up——

Mr. PECORA. It was after the stockholders of the Seaboard Air Line Railway Co. had failed in large numbers to subscribe for the stock of the company under the reorganization plan?

Mr. TRACY. If my memory serves me correctly—I would like to look this up to be exact and give you the accurate information—we signed the agreement to go into that in October 1929. Then it had to be submitted to the stockholders. They had to be given the right to subscribe, the opportunity to subscribe, to the common stock. After that had been ratified, it had to have the approval of the Interstate Commerce Commission; but we were permitted, as I remember, by the Interstate Commerce Commission——

Mr. PECORA. You were committed by virtue of this agreement of October 1929?

Mr. TRACY. We agreed to go into it.

Mr. PECORA. Do you know the date of that agreement?

Mr. TRACY. If you will let me check it up I will give you accurate information on it, but my distinct recollection is that the cause of that delay was the delay in getting the machinery through and the approval of the Interstate Commerce Commission. This was a long, big, constructive job to build up that railroad.

Mr. PECORA. To build up a railroad that had had a bad record up to that time. Up to that very time the Seaboard Air Line Railway had had a bad record?

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Mr. TRACY. It had; but those are the kinds of things that you can often make the most money out of.

Mr. PECORA. And you think investment trust funds are the kind of funds to put into ventures of that sort?

Mr. TRACY. We believed thoroughly——

Mr. PECORA. Not "we." I want your individual opinion.

Mr. TRACY. I did, thoroughly.

Mr. PECORA. You think that would be a good investment for moneys that this morning you said should be regarded as a trust fund?

Mr. TRACY. It was money given to us by the stockholders. We were responsible to our security holders. It was not in the nature of a trust fund, as you might say, or trust estate, limited by law as to what you can put funds into.

Mr. PECORA. The great virtue claimed for these investment trusts is that they are managed and operated by persons of trained and expert minds possessing a judgment superior to that of the ordinary investor, whereby the ordinary investor is enabled in subscribing for the shares of an investment trust to obtain a safe diversification of investment?

Mr. TRACY. I think the fact that we have $138 a share on every $100 of public money that has been paid into this company is proof that this company has been well managed during this very trying period.

Mr. PECORA. You do not happen to have $138 a share behind these shares because of such investments as those you made in the Seaboard Air Line Railroad Co. or the Chicago, Rock Island & Pacific or the St. Louis & San Francisco——

Mr. TRACY. We do not profess to be infallible.

Mr. PECORA (continuing). Where your original investments have been almost completely wiped out by depreciation.

Mr. TRACY. We do not pretend to be infallible.

Mr. PECORA. But you do think it is proper for the funds of an investment trust to be invested in an enterprise having for its object the rebuilding of a railroad corporation which had had a bad history up to that time? You think that is a proper investment for funds of an investment trust?

Mr. TRACY. When we made that investment we believed in it thoroughly.

Senator ADAMS. Mr. Tracy, may I divert? In this schedule that is on file here, showing the holdings of the Foreign Co., I see in addition to the columns headed "Book value" and "Market value" there is one headed "Dividends received in cash", with a total at the foot of that column of $129,000. Does that represent the dividends received during the year 1932?

Mr. TRACY. I will have to find out.

Senator ADAMS. It is exhibit III apparently.

The CHAIRMAN. I do not think it has been offered for the record.

Senator ADAMS. No; it is not one of the committee's exhibits. It is marked "III" on one of these carbons.

Mr. TRACY. In the year 1932 the cash dividends received on domestic stocks of corporations was $671,159, and on foreign corporations $9,221.

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Senator ADAMS. This is a tabulation headed "Securities on December 31, 1932."

Mr. TRACY. I am told those dividends were declared but not yet paid, Senator, totaling $84,947.

Senator ADAMS. Totaling $129,000.

Mr. TRACY. You may have a different one. You have the other company.

Senator ADAMS. This is the Foreign Securities.

Mr. TRACY. Yes, sir. Those were dividends that had been declared but not yet received.

Senator ADAMS. You have no list in here of the dividends paid, on this tabulation?

Mr. TRACY. We have right here the dividends received during the year, cash dividends received [indicating].

Senator ADAMS. $671,000.

Mr. TRACY. Yes.

Mr. PECORA. Mr. Tracy, what experience had you had in the investment market before you became president of these two investment trusts ?

Mr. TRACY. In the investment market?

Mr. PECORA. Yes.

Mr. TRACY. I am on the board of a number of other investment security companies.

Mr. PECORA. Before you became president of these two investment trusts, what experience had you had in the investment market?

Mr. TRACY. You mean you want to go back to my early history?

Mr. PECORA. I want you to answer the question, narrating your experience in the investment market up to the time that you became president of these two investment trusts.

Mr. TRACY. I will be very glad to give it to you. I joined the firm of William P. Bonbright & Co. in 1909 and I was with them until the war broke out, when I went into the Army in 1917. I had charge of all the foreign business in Bonbright & Co., in the sale of securities to the foreign correspondents. After the war I did not go back with Bonbright, and I have been on my own since. I am on the board, and I have been on the board since 1911, I think it is, of the American & European Securities Co., and its predecessor company, which is the securities company that was originally formed in Geneva, Switzerland. I am on the board of the Societe Financiere Franco Suisse, that was formed in 1892, with Swiss and French bankers, and I have been on that board for a great many years. I am on the board of the Electrical Securities Corporation, and have been on that for a great many years. That was formed in 1905. I am on the board of the Illuminating & Power Securities Corporation, which was formed, if my memory is right, about 1911. I am on the board of the Public Utility Corporation, which is another security company which was formed, I think, in about 1904 or 1905; and for the last 10 years my entire time has been given to the management and supervision of investment funds.

Mr. PECORA. Investment funds of investment trust corporations?

Mr. TRACY. Of investment trust corporations; and I also advise——

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Mr. PECORA. Have you served all these investment trust corporations without salary as president?

Mr. TRACY. No; I am not president. I am a director of most of them. I am president of one, the American & European Securities Co.; and in addition to that, if I may add, I acted in an advisory capacity to a number of foreign bankers on American securities.

Mr. PECORA. At the time, in the early part of 1930, when the United States & International Securities Corporation, of which you were then president and director, invested nearly $2,000,000 of its funds in the stock and bonds of the Seaboard Air Line Railway Co., did you make any personal investment in those securities for your individual account?

Mr. TRACY. I believe I did buy some of the common stock of the Seaboard.

Mr. PECORA. How much, in shares?

Mr. TRACY. I do not remember off-hand, but I know I sold it about 2 years afterward, and took a loss of $35,000 to $40,000 on it, or something like that.

Mr. PECORA. When this agreement was made in October 1929 by the United States & International Securities Corporation, that obligated it to buy this large block of the common stock of the Seaboard Air Line Railway, with whom did it make that agreement?

Mr. TRACY. As I remember it—I will check it up for you—Dillon, Read & Co. headed that syndicate.

Mr. PECORA. You mean it made the agreement with Dillon, Read & Co.?

Mr. TRACY. With whoever the syndicate managers were.

Mr. PECORA. The syndicate managers happened to be Dillon, Read & Co.

Mr. TRACY. I believe they were Dillon, Read & Co. and Ladenburg-Thalman.

Mr. PECORA. Although the agreement was made in October 1929, the investment was not actually made until January 1930.

Mr. TRACY. No. It was because we had to wait until we got the approval of the Interstate Commerce Commission.

Mr. PECORA. Meanwhile, had the price at which the common stock was to be acquired by your investment trust been fixed in the October 1929 agreement?

Mr. TRACY. We agreed to take a certain percentage in the syndicate which was to take up the stock not subscribed by the stockholders, as I remember it.

Mr. PECORA. At what price were you to take that stock?

Mr. TRACY. Would you mind my checking that? (After examining papers.) The underwriting price, Mr. Pecora, was $12, less $1, which was the commission. Of course, the amount was not fixed, because we did not know how much the stockholders might take. The stock had to be offered to the stockholders first.

Mr. PECORA. Do you know the date of that agreement?

Mr. TRACY. October 11, 1929.

Mr. PECORA. Between that time, when you agreed to buy, in behalf of this investment trust, 131,000 shares, more or less, of the common stock of the Seaboard Air Line Railway, and January 1930,

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when the transaction was consummated, there had been a very substantial decline in securities values in the stock market, had there not?

Mr. TRACY. Indeed there had.

Mr. PECORA. And that decline affected the common stock of the Seaboard.

Mr. TRACY. It also affected the amount we bought.

Mr. PECORA. And you had to take more than you originally intended to take.

Mr. TRACY. More than we originally intended to take, because the stockholders did not take any when the stock went down.

Mr. PECORA. How much of a depreciation had there been in the market value of the common stock of the Seaboard Air Line between October 11, 1929, and the date in January 1930, when the transaction was consummated?

Mr. TRACY. May I look that up for you? [After conferring with an associate.] We have not got the Financial Chronicle here, to look that up.

Mr. PECORA. You recall the decline was quite a substantial one?

Mr. TRACY. Indeed, it was, in all securities, Mr. Pecora.

Mr. PECORA. Was any suggestion made by anybody in behalf of the investment trust to anybody connected with Dillon, Read & Co., that the investment trust be released from this agreement?

Mr. TRACY. I do not remember any such suggestion. We had signed an agreement.

Mr. PECORA. You signed an agreement with persons who, by virtue of their stock ownership, were in control of the United States & International Securities Corporation?

Mr. TRACY. They were managers of the syndicate.

Mr. PECORA. They were managers of the syndicate, and the principal participants in that syndicate, were they not?

Mr. TRACY. Well, I will have to check that. I do not know. I know they were participants in the syndicate, but I do not know offhand what the extent was.

Mr. PECORA. And this agreement, made early in October, had, to use the vernacular, "turned sour" by January 1930, when it was consummated; is that right?

Mr. TRACY. A great many securities went down. It was a failure because there was a break in the market, and the stockholders would not take up more than a very small amount of stock.

Mr. PECORA. And nobody connected with your investment trust, which, through stock ownership, was controlled by Dillon, Read & Co., suggested to Dillon, Read & Co. that the investment trust be released from the fulfillment of this agreement?

Mr. TRACY. No.

Mr. PECORA. So, through the enforcement of the agreement and the fulfillment of its terms and obligations, whatever loss ensued between October 1929 and January 1930 fell on the investment trust.

Mr. TRACY. Of course. We fulfilled our agreement.

Senator GOLDSBOROUGH. Mr. Pecora, may I ask this question, that I may get the arithmetic of it straight? As I understand it, in the first investment trust there were $30,000,000. That trust had $26,000,000 losses, and that stock today, I understand, is worth $138. Is that correct?

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Mr. TRACY. It has an asset value today of approximately $138 for every share of first-preferred stock outstanding, and we have paid up all the dividends to date.

Senator GOLDSBOROUGH. Notwithstanding the original capital was $30,000,000 and the losses were $26,000,000, it still has a value of $138?

Mr. TRACY. Yes.

Mr. PECORA. But the market value is about 90, is it not?

Mr. TRACY. I will have to check that.

Senator GOLDSBOROUGH. That can only be accounted for by large profits in other directions.

Mr. TRACY. Yes, sir. We have made very large profits.

Mr. PECORA. Senator, I am reminded that it was the United States & International that had losses of $26,000,000, not the United States & Foreign.

Mr. TRACY. I would have to check that, to see the exact losses at the end of different years. It was a very substantial amount.

The CHAIRMAN. The losses of the two trusts were about $26,000,000, were they not?

Mr. PECORA. No; only the International.

The CHAIRMAN. What was the other loss?

Mr. TRACY. We still have the equivalent of over $90 a share in the United States & International, which was formed at about the peak of the market in 1928, which I think we should be proud of, and be pardoned for being proud of.

The CHAIRMAN. The International had a capital of $60,000,000?

Mr. TRACY. Yes, sir.

Mr. PECORA. And losses of $26,000,000?

Mr. TRACY. At one time.

Mr. PECORA. And still its stock has an asset value of $138?

Mr. TRACY. The United States & Foreign has an asset value of about $138. The United States & International today has about $90 out of $100.

Mr. PECORA. Did not the United States & International retire, through purchase in the open market, stock which had been sold to the public for about $20,000,000, but which was purchased in the open market by the United States & International for about $10,000,000?

Mr. TRACY. We purchased a substantial amount. I will have to check that figure for you.

Mr. PECORA. So that $10,000,000 of the asset value of the stock of the United States & International Corporation was created through the retirement of $20,000,000 of its stock, that is, stock which cost the public $20,000,000, and its retirement by purchase in the market for $10,000,000 by the corporation?

Mr. TRACY. We retired a great deal of stock. I will have to check those figures.

Mr. PECORA. You retired it at a loss to the original investing public.

Mr. TRACY. We bought it in the market and retired it.

Mr. PECORA. But you retired it at a loss to the original investing public.

Mr. TRACY. If a man sold it at a price below what he paid for it, he naturally took a loss on it.

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Mr. PECORA. That loss was a loss of about 50 percent, was it not?

Mr. TRACY. I do not know what the average was. I can get that for you if you would like to have it.

Mr. PECORA. For the last few years you have been functioning as president not only of these two investment trusts, but have also been a director of two other investment corporations. Did I understand you correctly to say that?

Mr. TRACY. I have been a direcor of the American & European; the Electrical Securities, Illuminating & Power, the Public Utility, and the Société Financière Franco Suisse. And I might add, Mr. Pecora, for the benefit of the committee here, that I, of course, have information and access to all the information that all the other directors have, and the benefit of their judgment and knowledge in making investments for those other companies.

Mr. PECORA. And you have rendered all these services without any compensation?

Mr. TRACY. I expect to get substantial compensation.

Mr. PECORA. But up to the present time you have not received a dollar of compensation.

Mr. TRACY. Except from my director's fees. But I expect to make a good deal out of it in the future.

The CHAIRMAN. What are the director's fees?

Mr. TRACY. At the present time they are $50 a meeting.

Mr. PECORA. Did you sell, or was there sold to either of these investment trusts, any of your personal holdings in the stock of the Louisiana Land & Exploration Co.?

Mr. TRACY. No, sir.

Mr. PECORA. Did you ever participate in any joint account with Dillon, Read & Co. in any of their operations?

Mr. TRACY. I may have purchased some stock personally at the same time they were buying some.

Senator COUZENS. Did you ever receive any salary from Dillon, Read & Co.?

Mr. TRACY. No, sir.

Mr. PECORA. I think that is all of this witness.

The CHAIRMAN. Is there any particular reason, Mr. Tracy, for having the officers of these trust companies in New Jersey?

Mr. TRACY. It is much more economical to operate over there. Mr. Chairman.

The CHAIRMAN. You save State income tax?

Mr. TRACY. Yes; chiefly you save taxes, and rent is cheaper. You can get much more space at a much lower rate of rental, and to carry on all the routine bookkeeping and accounting, and everything of that kind, it is much more convenient.

The CHAIRMAN. With reference to these reports which you tendered for the record this morning, the committee feels that to print those will unnecessarily encumber the record, but that if there are any extracts from them that are material, you might select those and we would be very glad to have those. To print those two reports would make quite a volume, and the committee thinks it would be unnecessary.

Mr. TRACY. Mr. Chairman, I believe Senator Couzens read them over. I do not know whether any of the other members have. If I

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may, I will go through those reports, and if there is anything I would like to suggest, may I do so in the morning?

The CHAIRMAN. Yes.

Mr. PECORA. As I recall it, Mr. Chairman, the testimony of this witness this morning showed that the principal investments of these two investment trusts in those railroad companies that are covered by those surveys or reports of Coverdale & Colpitts were made in July 1929, whereas these reports appear to have been sometime subsequent to that. So I do not think it could be fairly argued or contended that these reports influenced the directors in the making of these investments if the reports were made after the investments were made.

Mr. TRACY. We knew exactly what was going on all the time in those reports. We were getting advance reports from them before they were finally turned in. We had proofs of the reports and we knew about the principal findings long before that.

Senator COUZENS. Somebody had suggested that you knew what the report was going to be before they started.

Mr. TRACY. I have not much respect for anybody who would suggest that kind of thing, because Cloverdale & Colpitts do not make that kind of report, and I think that is entirely uncalled for.

Mr. PECORA. Why did you make the investments before their reports were completed?

Mr. TRACY. Because we knew what was going to be in the reports.

Mr. PECORA. I am satisfied to rest with that answer.

Senator COUZENS. That is just what I said.

Mr. TRACY. Let me make myself plain. We were in constant touch with the engineers and knew their findings in advance of the publication of the report. The final reports came in. We got the proofs of those reports and their primary findings as they went along. And you will find that the statistical services advised the purchase of those securities after we had made our purchases.

Mr. PECORA. I have before me, Mr. Tracy, printed copy of the report to the stockholders of the United States & Foreign Securities Corporation, as of December 31, 1932. In its balance sheet under the caption of "assets" on the last page I notice the investment of the United States & Foreign Securities Corporation in 93,700 shares of the second preferred stock and 1,987,653 shares of the common stock of the United States & International Securities Corporation is carried at a nominal value of $1.

Mr. TRACY. Yes, sir; that is right.

Mr. PECORA. That item represented an investment of approximately $10,000,000, did it not?

Mr. TRACY. That is correct. I told you before, where there was not an established market we put these things down as $1. At that time that second preferred stock had no asset value—at that particular time.

Mr. PECORA. Has it now?

Mr. TRACY. No, sir; it has not.

Mr. PECORA. That is all.

(Witness excused.)

Mr. PECORA. Mr. Chairman, Mr. Clarence Dillon has just submitted to me a typewritten statement with respect to the United

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States & Foreign Securities Corporation and the United States & International Securities Corporation, which he would like to submit for the record. I see no objection, and ask that it be put in evidence.

The CHAIRMAN. It may be admitted in evidence and spread upon the record.

(Statement presented by Mr. Clarence Dillon with reference to the United States & Foreign Securities Corporation and the United States & International Securities Corporation was received in evidence, marked "Committee Exhibit No. 20 of October 10, 1933", and is here printed in the record in full as follows:)

COMMITTEE EXHIBIT NO. 20, OCTOBER 10, 1933

As far as I know, United States & Foreign Securities Corporation was the first investment company of substantial size organized in the United States. At its formation in 1924 $25,000,000 of its 6 percent first preferred stock was sold publicly. There were also issued a million shares of common stock, of which one quarter went to the public with the first preferred stock. The sum of $5,100,000 was paid in by Dillon, Read & Co. and their associates for the second preferred stock and three quarters of the common stock. The allocation of this common stock was clearly set forth in the advertisement and in the circular.

In my opinion, the public bought this $25,000,000 of first preferred primarily for two reasons. First, because Dillon, Read Co. put their names and reputation back of this company and took full responsibility for organizing a board of directors which would manage these large funds competently. Secondly, because Dillon, Read & Co. put up $5,100,000 behind the public's money where it ran the risk of being entirely lost before the public would lose anything. This turned out in fact to be a real risk, for at the low point in 1932 the company's assets had shrunk to a point where this investment no longer represented any asset value whatsoever, though the first preferred stock then represented assets with a market value of approximately $90 a share.

This company and United States & International Securities Corporation are fundamentally different from any other investment companies which I know of, in that they are the only companies into which large sums of money have been paid by the organizers for the protection of the first preferred stocks. Certain of the individual members of Dillon, Read & Co. thought so well of the first preferred stock of United States & Foreign that they purchased for themselves and their families in the market as personal investments approximately 36,000 shares of his first preferred stock at an average cost of about $90 per share. These purchasers represented an additional investment of approximately $3,250,000. Dillon, Read & Co., certain of its individual members, and the members of the board of directors represent a total investment of over 96,000 shares in the first and second preferred stocks of the company, or approximately 37 percent of the company's present preferred capitalization.

For assuming the risk and responsibility referred to above Dillon, Read & Co. and their associates upon payment by them of $5,100,000 received the entire issue of second preferred stock and three quarters of the company's common stock. Dillon, Read & Co. has never had any management control with the company and the individual members of the firm who have served as officers or directors from time to time have received no salaries as officers and only the regular fees paid directors.

At the time the company was organized its entire common stock had an asset value of $900,000 less than nothing and it was by no means clear that it could ever be made valuable. By 1929, however, the company's original assets of $29,100,000 had increased to approximately $78,000,000, and this after full dividend payments on both classes of its preferred stock. The common stock thus came to represent an asset value of about $48,000,000, or $48 a share, and it sold in the open market as high as $72 a share. None of the common shares purchased by Dillon, Read & Co. have ever been sold except shares sold to directors. I have never sold any of the stock which I purchased at the formation of the company, but on the contrary, have actually added to these holdings from time to time.

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In this same year, more than four years after the formation of the company, some of the members of Dillon, Read & Co. sold a portion of their individual holdings. These sales aggregated about 16 percent of the total common shares originally acquired by Dillon, Read & Co. and their associates. The proceeds from these sales, which were made at around $56 per share, amounted to about $6,800,000. Had the first-preferred stockholders sold their 250,000 shares of common stock at the same price at which certain members of Dillon, Read & Co. sold some of their stock, they would have received about $14,000,000, all of which was potential profit. Members of Dillon, Read & Co. were entirely free to sell their individual holdings.

In the fall of 1928, the directors of United States & Foreign caused United States & International Securities Corporation to be formed; $50,000,000 of its 5 percent first preferred stock was sold publicly, one share of common going with each share of first preferred; $10,000,000 of its 5 percent second preferred stock, with 2,000,000 shares of its common stock, was bought by United States & Foreign for $10,000,000.

In the fall of 1928, the investment of Dillon, Read & Co. and their associates in the junior stocks of United States & Foreign had been profitable. It was anticipated then that a similar investment by United States & Foreign in the junior stocks of United States & International would also be profitable. This anticipation was apparently being realized up to the time of the stock market collapse in the fall of 1929, for in August of that year the assets of United States & International had a market value which indicated an appreciation of $3,700,000, or 37 percent on the $10,000,000 invested by United States & Foreign. Should there be only a partial restoration at some future date of the former level of security values, this expectation of a profitable investment by United States & Foreign in the junior stocks of United States & International may yet be realized.

Obviously Dillon, Read & Co. and its members on account of their large investment in the first and second preferred stocks of United States & Foreign, if for no other reason, would not have sanctioned any investment in United States & International or any other investment which they did not believe to be in the best interest of all classes of stock of United States & Foreign. Furthermore, the majority of the board of directors of each of these two companies has always been composed of men wholly unconnected with Dillon, Read & Co. These directors are men of standing and integrity. They passed on all purchases and sales made by these two companies and regularly attended meetings of the boards.

Considerable stress has been laid on the relations of these two companies with Dillon, Read & Co. The fact is, however, that the companies figures show that up to December 31, 1932, these two companies had made purchases of about $393,000,000 of which approximately 7.8 percent, or $30,600,000 were issues sponsored by Dillon, Read & Co. and purchased from them. The total net profits of these two companies up to that date from sales of securities and from participations in syndicates and trading accounts, after deducting realized losses, amounted to $11,800,000, of which 10½ percent, or $1,370,000 arose from purchases from Dillon, Read & Co. of issues sponsored by them and from participations in syndicates managed by them. For the purpose of this calculation unrealized losses on issues sponsored by Dillon, Read & Co. and purchased from them have been taken into account as actual losses.

The best way to understand the investment records of these two companies is to look at these records as a whole. At the organization of United States & Foreign in 1924 there was approximately $116 in assets back of each share of first preferred stock. Since that time approximately $13,120,000 in cash has been paid out in dividends on the preferred stocks, and on August 31, 1933, there was approximately $138 in assets back of each share of first preferred stock. In the case of United States & International, which received its money between 1928 and 1930, there still remains almost $90 in assets back of each share of stock for which the investor paid $100. In view of the unparalleled decline in security values in the past few years and in comparison with the average prices of securities expressed in the Dow-Jones and Standard Statistics averages this seems a creditable performance.

From December 31, 1927, at which time United States and Foreign had received all amounts due on the subscriptions to first preferred stock, $100 invested as United States & Foreign invested its assets would have declined to approximately $72 on June 30, 1933, while $100 invested in the stocks com-

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prising the Dow-Jones Industrial Average would have shrunk to about $49; the record of the United State & Foreign being better by 47 percent.

Similarly, $100 invested in the securities comprising the Standard Statistics Bank Stock Average would have declined to $39, United States & Foreign's record being better by 85 percent.

Similarly, $100 invested in the securities comprising the Dow-Jones Railroad Average would have declined to $35, United States & Foreign's record being better by 106 percent.

The record of United States & International is equally impressive. From December 31, 1930, at which time the full amounts due on subscriptions to its first preferred stock became payable, to June 30, 1933, $100 invested as United States & International invested its assets would have declined to approximately $86. During the same period $100 invested in the securities comprising the Dow-Jones Industrial and Railroad Averages and the Standard Statistical Bank Stock Averages would have shrunk to about $52, United States & International's record being better by 65 percent.

These records speak for themselves and show a real service rendered by these carefully managed investment companies to their stockholders.

The CHAIRMAN. The committee will stand adjourned until 10 o'clock tomorrow morning.

(Thereupon at 4:15 p.m. Tuesday, Oct. 10, 1933, an adjournment was taken until 10 a.m. the next day, Wednesday, Oct. 11, 1933.)

COMMITTEE EXHIBIT No. 18, OCTOBER 10, 1933

Agreement made this 27th day of December, 1928, between United States & International Securities Corporation, a Maryland corporation (hereinafter referred to as the company), party of the first part, and Ernest B. Tracy, party of the second part, witnesseth:

Ernest B. Tracy is the president of the company, and the company desires to provide that Tracy shall have an option to purchase, as herein provided, 5,000 shares of the common stock of United States & Foreign Securities Corporation, now in the treasury of the company (which corporation now owns 80 percent of the common stock of the company);

Now, therefore, in consideration of the sum of ten dollars ($10) to it paid by said Tracy, and of other good and valuable considerations, receipt whereof is hereby acknowledged, the company agrees to and with said Tracy as follows:

1. For the purpose of the option herein provided for the company has set aside and deposited with its treasurer 5,000 shares of the common stock of United States & Foreign Securities Corporation (hereinafter referred to as the corporation) and hereby grants to Tracy the option to purchase such stock from time to time, at the price specified below, as follows and only as follows: On or before March 1, 1929, Tracy may purchase amounts of such stock aggregating not more than 1,000 shares and on or before each successive March 1 thereafter, to and including March 1, 1933, Tracy may purchase additional amounts of stock aggregating not more than 1,000 shares for any year of this option, plus such number of shares as Tracy shall theretofore have had the right to purchase and shall not have purchased, so that the aggregate of the purchases under said option shall be at the rate of not exceeding 1,000 shares a year for each year of the continuance of this option (treating the period up to March 1, 1929, as a full year). The option price shall be $25 a share up to and including March 1, 1929, but in the case of any and every exercise of the option after that date the option price shall be $25 a share plus an additional sum equivalent to interest on $25 a share at the rate of 6 percent per annum from March 1, 1929, to the date of the exercise of the option, and less an amount equivalent to the sum of all cash dividends which shall be paid on the shares purchased on or after March 1, 1929, and before the date of purchase. The option price for each share of stock purchased hereunder shall in the case of each such purchase be paid to the company in New York funds against delivery of the shares.

Every exercise of the option hereby given shall be by notice in writing delivered to the treasurer of the company not less than 24 hours before the time set in the notice for the purchase of stock hereunder, and all deliveries of stock and payments therefor shall be made at the office of the treasurer of the company.

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2. Tracy shall not be entitled to make any exercise of the option hereby granted unless at the time of such exercise he shall either (1) be president of the company, and shall not then be physically incapacitated from continuing to perform the duties of such office, or (2) shall have been ready and willing to accept that office at the annual meeting of the directors preceding the date of such exercise and shall have failed of such election: *Provided, however*, That if said Tracy shall voluntarily cease to be president of the company before the termination of this agreement, or shall die, he or his executors or administrators may at any time, or from time to time, within 4 months thereafter, exercise the option with respect to such number of shares of stock as said Tracy shall have had the right to purchase up to the time of ceasing to be president, or death, and shall not have theretofore purchased.

3. No change in the name or capitalization of the corporation shall affect or annul this option. In case any dividend payable in stock shall have been declared or paid upon the common stock of the corporation, before any particular exercise of the option, Tracy shall be entitled to receive with each share purchased at the price herein specified, without additional cost to him, a number of additional shares corresponding to the dividend stock in respect to the number of shares purchased, and the company shall provide and similarly deposit with its treasurer such additional stock with respect to the stock deposited by the company for the purposes of the option. In case the shares of common stock of the corporation shall be reclassified, the shares into which said deposited common shares of the corporation shall be reclassified shall replace the common shares deposited hereunder. In case of any reorganization or merger, shares in any corporation shall be distributed by the corporation in respect of the deposited shares without the surrender of such shares, shares so distributed in respect of the common shares deposited with the treasurer shall be held on deposit in addition to the deposited shares, and whenever said Tracy shall make purchase of any deposited shares he shall with the shares purchased, without payment other than as hereinabove specified, receive with each share of the corporation purchased the share or shares so distributed by the corporation in respect thereto. In case of any reorganization or merger of the corporation, shares and/or other securities issued or exchanged for the common shares of the corporation deposited hereunder shall replace such shares, and thereafter the term "share" as used in this agreement shall be deemed to refer to the share or shares and/or other securities issued or exchanged for a share of common stock of the corporation in connection with such reorganization or merger, and all the provisions of this agreement shall apply to the share or shares and/or other securities so issued or exchanged. Tracy shall have no interest in any dividends in cash distributed on any shares of the deposited stock.

4. Except as hereinabove expressly provided, this agreement shall continue in full force and effect until March 2, 1933, unless earlier terminated by mutual agreement of Tracy and the company, or by the death of Tracy.

In witness whereof, United States & International Securities Corporation has caused this agreement to be executed in its name and behalf by its treasurer, thereunto duly authorized, and said Ernest B. Tracy has hereunto set his hand and seal, on the day and year first above written.

UNITED STATES & INTERNATIONAL SECURITIES CORPORATION,
By R. A. NELLIS, *Treasurer.*
ERNEST B. TRACY. [SEAL]

COMMITTEE EXHIBIT No. 19, OCTOBER 10, 1933

Agreement made this 26th day of December 1928, between United States & Foreign Securities Corporation, a Maryland corporation (hereinafter referred to as the company), party of the first part, and Ernest B. Tracy, party of the second part, witnesseth:

Ernest B. Tracy is the president of the company. The company through its board of directors agreed in April 1928 to grant to him an option to purchase common stock of the company and this agreement is to express such option.

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Now, therefore, in consideration of the foregoing and of other good and valuable considerations, receipt whereof is hereby acknowledged, the parties agree as follows:

1. For the purposes of the option herein provided for the company has set aside and deposited with its treasurer 15,000 shares of common stock of the company, heretofore purchased by it, and hereby grants to Tracy the option to purchase such shares from time to time, at the price specified below, as follows, and only as follows: On or before March 1, 1929, Tracy may purchase amounts of such stock aggregating not more than 3,000 shares and on or before each successive March 1 thereafter, to and including March 1, 1933, Tracy may purchase additional amounts of stock aggregating not more than 3,000 shares for any year of this option, plus such number of shares as Tracy shall theretofore have had the right to purchase and shall not have purchased, so that the aggregate of the purchases under said option shall be at the rate of not exceeding 3,000 shares a year for each year of the continuance of this option (treating the period up to March 1, 1929, as a full year). The option price shall be $25 a share up to an including March 1, 1929, but in the case of any and every exercise of the option after that date the option price shall be $25 a share plus an additional sum equivalent to interest on $25 a share at the rate of 6 percent per annum from March 1, 1929, to the date of the exercise of the option, and less an amount equivalent to any cash dividends which would have been payable to said Tracy after March 1, 1929, had he been the owner of such share from that date to the date of the exercise of the option. The option price for each share of stock purchased hereunder shall in the case of each such purchase be paid to the company in New York funds against delivery of the shares.

Every exercise of the option hereby given shall be by notice in writing delivered to the treasurer of the company not less than 24 hours before the time set in the notice for the purchase of stock hereunder, and all deliveries of stock and payments therefor shall be made at the office of the treasurer of the company.

2. Tracy shall not be entitled to make any exercise of the option hereby granted unless at the time of such exercise he shall either (1) be president of the company and shall not then be physically incapacitated from continuing to perform the duties of such office, or (2) shall have been ready and willing to accept that office at the annual meeting of the directors preceding the date of such exercise and shall have failed of such election: *Provided, however*, That if said Tracy shall voluntarily cease to be president of the company before the termination of this agreement, or shall die, he or his executors or administrators may at any time, or from time to time, within 4 months thereafter, exercise the option with respect to such number of shares of stock as said Tracy shall have had the right to purchase up to the time of ceasing to be president, or death, and shall not have theretofore purchased.

3. No change in the name or capitalization of the company shall affect or annul this option. In case any dividend payable in stock shall have been declared or paid upon the common stock of the company, before any particular exercise of the option, Tracy shall be entitled to receive with each share purchased at the price herein specified, without additional cost to him, a number of additional shares corresponding to the dividend stock in respect to the number of shares purchased, and the company shall provide and similarly deposit with its treasurer such additional stock with respect to the stock provided by it for the purposes of the option. In case the shares of common stock of the company shall be reclassified, the shares into which said deposited common shares of the company shall be reclassified shall replace the common shares deposited hereunder. In case upon any reorganization or merger shares in any corporation shall be distributed by the company in respect of the deposited shares without the surrender of such shares, shares so distributed in respect of the common shares deposited with the treasurer shall be held on deposit in addition to the deposited shares, and whenever said Tracy shall make purchase of any deposited shares he shall with the shares purchased, without payment other than as hereinabove specified, receive with each share of the company purchased the share or shares so distributed by the company in respect thereto. In case of any reorganization or merger of the company, shares and/or other securities issued or exchanged for the common shares of the company deposited hereunder shall replace such shares, and thereafter the term "share" as used

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in this agreement shall be deemed to refer to the share or shares and/or other securities issued or exchanged for a share of common stock of the company in connection with such reorganization or merger, and all the provisions of this agreement shall apply to the share or shares and/or other securities so issued or exchanged. Tracy shall have no interest in any dividends in cash distributed on any shares of the deposited stock.

4. Except as hereinabove expressly provided, this agreement shall continue in full force and effect until March 2, 1933, unless earlier terminated by mutual agreement of Tracy and the company, or by the death of Tracy.

In witness whereof, United States & Foreign Securities Corporation has caused this agreement to be executed in its name and behalf by its treasurer, thereunto duly authorized, and said Ernest B. Tracy has hereunto set his hand and seal, on the day and year first above written.

UNITED STATES & FOREIGN SECURITIES CORPORATION,
By R. A. NELLIS, *Treasurer.*
ERNEST B. TRACY. [SEAL.]

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STOCK EXCHANGE PRACTICES

WEDNESDAY, OCTOBER 11, 1933

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

The subcommittee met, pursuant to adjournment on yesterday, at 10 a.m. in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Norbeck, Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; George S. Franklin, Wallace P. Zachry, Warren Leslie, Walter G. Dunnington, Clifton Murphy, John T. Cahill, and Bernhard Knollenberg, counsel for Dillon, Read & Co.; Root, Clark, Buckner & Ballantine, George H. Murphy of counsel, counsel for United States & Foreign Securities Corporation and United States & International Corporation.

The CHAIRMAN. The subcommittee will come to order. Mr. Dillon, Mr. Pecora desires to ask you some questions.

TESTIMONY OF CLARENCE DILLON, OF DILLON, READ & CO.—Resumed

Mr. PECORA. Mr. Dillon——

Mr. DILLON (interposing). Mr. Pecora, may I, before you start your examination, say that you asked on yesterday for us to prepare a list of some companies in the portfolio, which Mr. Tracy could not give offhand. You asked us to prepare a list of corporations whose securities were held on December 31, 1932 in the portfolio of United States & Foreign Securities Corporation and on whose boards there were no representatives from either the directors, officers, or employees of United States & Foreign Securities Corporation, United States & International Securities Corporation, the Keswick Corporation, or Dillon, Read & Co.; and, furthermore, where Dillon, Read & Co. had not acted as bankers. Mr. Tracy replied that he could not name these companies offhand, without checking. You asked us to prepare such a list. We did it last night hurriedly and we find in the portfolio of United States & Foreign Securities Corporation some 51 companies on whose boards there are no such representatives and no such banking connection. These companies are American Can Co., American Chicle Co., American Home Products Corporation, American Radiator & Standard

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Sanitary Corporation, American Smelting & Refining Co., American Sugar Refining Co., American Telephone & Telegraph Co., American Tobacco Co., Axton-Fisher Tobacco Co., Inc., Baltimore & Ohio Railroad, Beatrice Creamery Co., Best & Co., Inc., Central Aguirre Associates, Chesapeake & Ohio Railway, Citizens & Southern National Bank, Savannah—but do you care for me to read off this entire list?

Mr. PECORA. No. We will put the whole list in evidence, Mr. Dillon.

Mr. DILLON. All right.

Mr. PECORA. I now offer in evidence the document produced by the witness, purporting to give the names of companies whose securities were purchased from time to time for the portfolio of United States & Foreign Securities Corporation——

Mr. DILLON (interposing). May I correct that——

Mr. PECORA (continuing). And in connection with which companies no director of the investment trust nor any member of the firm of Dillon, Read & Co., nor any agent or representative of such firm, had any affiliation as officer, director, or otherwise.

Mr. DILLON. And for which we were not bankers.

Mr. PECORA. Yes.

Mr. DILLON. And that was not as to purchases from time to time. We thought your statement was that we should furnish——

Mr. PECORA (interposing). Securities in the portfolio.

Mr. DILLON. Yes, on December 31, 1932.

Mr. PECORA. Well, I offer this statement in evidence and ask that it may be spread on the record of the hearings of the subcommittee.

The CHAIRMAN. Let it be so received and made a part of the hearings.

(The statement referred to was marked "Committee Exhibit No. 21, October 11, 1933", see p. 1937.)

Mr. PECORA. Mr. Dillon, would you say that a majority, or the greater part in amount, of the funds of United States & International Securities Corporation which were used in the purchase of securities for its portfolio, were used in the purchase of securities issued by corporations other than those in which any director of United States & International or any member of Dillon, Read & Co. had any affiliation as officer, director, banker, or otherwise?

Mr. DILLON. You are speaking now of United States & International Securities Corporation?

Mr. PECORA. Yes.

Mr. DILLON. You asked on yesterday for United States & Foreign Securities Corporation?

Mr. PECORA. Yes.

Mr. DILLON. I should say, without having those figures before me that the greater part were not that, but I haven't checked those figures.

Mr. PECORA. That is, you believe that the greater part of the funds invested by the United States & International Securities Corporation were invested in the purchase of securities issued by corporations with which some one or more of directors or officers of United States & International Securities Corporation, or one or more members of Dillon, Read & Co. had some affiliation?

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Mr. DILLON. Well, that was true in the case of the United States & Foreign Securities Corporation figures. In the case of United States & International Securities Corporation figures it may not be true on account of the fact of Mr. Hayden being on the board of the Rock Island Railroad, and Mr. Ecker being on the board of the Frisco [consulting an associate]. They say here that I haven't your question correctly.

Mr. PECORA. I think you did twist it around.

Mr. DILLON. May I have it read to me?

Mr. PECORA. I will put it in another way: Referring now only to investments made by the United States & International Securities Corporation for its portfolio, is it your opinion or belief, based upon your best recollection of the facts, that the greater part of those investments were made in securities issued by corporations with which an officer or director of the United States & International Securities Corporation, or a member of the firm of Dillon, Read & Co., had some corporate connection?

Mr. DILLON. It would be very difficult for me to answer that question without checking, because that fact would never have entered into consideration when buying the security. So it is not impressed on my mind.

Mr. PECORA. I so understand, but I wondered if you could give the subcommittee your best recollection or belief about that. Of course, I take into account the fact that you have made no research for the purpose of ascertaining the specific fact.

Mr. DILLON. When purchases were made that specific fact was never brought up, because it was not of particular interest or concern to anyone. So it would be the wildest kind of guess if I should make it now. We have no figures prepared like that. My guess would be that it would be in about the same proportion in the case of the two securities companies.

Mr. PECORA. Would you make a similar answer to a similar question as applied to investments on behalf of United States & Foreign Securities Corporation?

Mr. DILLON. I would have to make the same answer, certainly.

Mr. PECORA. Now, you heard the testimony of Mr. Tracy during the time when he was on the stand, last Friday, and again on yesterday, didn't you, Mr. Dillon?

Mr. DILLON. I heard most of it. Some of it I could not get.

Mr. PECORA. Do you recall the testimony he gave with respect to the joint railroad stock trading account that was entered into in July of 1929 by the United States & International Securities Corporation with Dillon, Read & Co.?

Mr. DILLON. I think I heard most of it.

Mr. PECORA. Are you familiar with that joint trading account, Mr. Dillon?

Mr. DILLON. In a general way, yes.

Mr. PECORA. Will you tell the subcommittee in a general way and without traversing any ground that Mr. Tracy went over, the circumstances that surrounded the creation and formation of this joint trading account?

Mr. DILLON. I am afraid——

Mr. PECORA (continuing). As I understand it, and possibly to shorten your answer, the joint trading account was entered into on

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July 13, 1929, the terms and provisions under which the account was to be operated being set forth in written form in the shape of a letter which has been received in evidence here, and those terms and provisions, in effect, were that there was to be equal participation by Dillon, Read & Co. on the one hand and United States & International Securities Corporation on the other hand. That confirms your recollection, does it not?

Mr. DILLON. Yes, sir.

Mr. PECORA. Now, who proposed originally that such joint trading account be created?

Mr. DILLON. I cannot say because I would not know. That matter was discussed over a period of a good many weeks—that is, the matter of buying railroad securities. It was discussed probably for a longer time, in meetings of the Board, and by Dillon, Read & Co. We also discussed the matter of railroad securities, and they looked attractive to us at the time. But just how they should be purchased, and how to the trading account was to be set up and so on, and who discussed it, I don't know.

Mr. PECORA. Mr. Tracy said that, among other things, the purpose of the account or its operation was simply to acquire railroad company stocks, not to trade in them as that term is ordinarily understood. Does that conform to your recollection?

Mr. DILLON. My recollection was that we bought. But I do not recall that that meant to enter into trading, buying, and selling from day to day. I think it was simply accumulating stocks.

Mr. PECORA. That was Mr. Tracy's testimony. But the account itself is headed, and the references to it in the minute book of United States & International Securities Corporation describe it as a joint railroad stock trading account. And the letter indicating the terms under which the account was created and was to be operated, gave authority to the managers of the account not only to buy but to sell and resell and to sell short. You recall that, don't you?

Mr. DILLON. May I look at the letter?

Mr. PECORA. Yes.

Mr. DILLON. The letter does not call it a trading account. It says "Joint Account."

Mr. PECORA. I said references in the minute book to the account stated——

Mr. DILLON (interposing). Oh.

Mr. PECORA (continuing). Are to the term "Joint Railroad Stock Trading Account."

Mr. DILLON. And in this letter I do not see anything about selling short.

Mr. PECORA. Perhaps I can point it out to you.

Mr. DILLON. All right. It might very well be put that way as it might use the ordinary phrase, but I do not see it in that letter. That letter does not say it, but it might probably have been overlooked.

Mr. PECORA. Well, I call attention to the first paragraph of this letter of July 13, 1929, which reads as follows, it being addressed by the United States & International Securities Corporation to Dillon, Read & Co.:

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"DEAR SIRS: Referring to the above account which is being formed to buy and/or sell and/or trade in the common and/or preferred stocks and/or bonds of various railroads, subject to the condition that the account shall never be committed at any one time in a net amount exceeding $30,000,000, long or short, we beg to confirm the participation of the $15,000,000 allotted you in this account."

Mr. DILLON. That is simply ordinary phraseology. It means nothing because we did not trade and we did not sell short, and did not sell any stocks, and never intended to.

Mr. PECORA. Regardless of what was actually done in connection with this account, the fact is that the letter agreement gave the managers of the account the right to sell short. Now, you want to emphasize the fact, I presume, that while the managers had that power yet they did not exercise it in the operation of this account. Is that right?

Mr. DILLON. Yes. And why that phraseology is used I do not know, other than it is just the general way of writing a letter of that kind, to cover every possible thing, simply to protect the managers of the account in anything that they might do.

Mr. PECORA. The operations in this account, or the transactions that were had for the benefit of this account, were principally, so far as the amounts involved were concerned, in the stocks of two railroad companies, namely, the Chicago, Rock Island & Pacific and the St. Louis & San Francisco, weren't they?

Mr. DILLON. I think that is not correct. I think they bought a series of stocks.

Mr. PECORA. I know that they bought other railroad stocks, but the principal trades or the principal acquisitions in amount of money involved was in the stock of those two companies.

Mr. DILLON. In the Rock Island it was, in round numbers, $2,700,000, and in the Pennsylvania Railroad about one million dollars, and in the Frisco Railroad about four million dollars, and in the Southern Pacific about one and one-half million dollars, and in the Southern Railway about two million dollars or perhaps two and one-half million dollars, and in the Seaboard Air Line about one million dollars. That is, roughly, the account, but the principal items were those two.

Mr. PECORA. So that the largest individual amounts invested were in the stocks of the two railroad companies that I mentioned?

Mr. DILLON. That is correct.

Mr. PECORA. At that time and during the operation of this trading account, or this joint account rather—the reason I use the term "trading account"——

Mr. DILLON (interposing). I have no objection to "trading account."

Mr. PECORA (continuing). Is because it is styled even in that letter, if you see the caption of it, as a "joint trading account", isn't it?

Mr. DILLON (handing document to Mr. Pecora). No, it is not so styled; but I am perfectly willing to call it a trading account. I have no objection to it.

Mr. PECORA. No; it is "railroad securities joint account." I beg your pardon.

Mr. DILLON. Yes.

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Mr. PECORA. I got the term "trading" from the minute book. During the time of the existence and operation of this joint account there were certain gentlemen who were directors of the United States & International Securities Corporation who were connected with those two railroad companies in some capacity or other, were they not?

Mr. DILLON. That is correct.

Mr. PECORA. And who were those men?

Mr. DILLON. I must correct my statement. There was no one on the board of United States & International that was connected with the Frisco. Mr. Hayden is on the board of United States & International and he is chairman, or was chairman, of the Rock Island Railroad. I think what has confused you, Mr. Ecker, who is on the United States & Foreign board, was a director of the Frisco, but he was not on the United States & International.

Mr. PECORA. Mr. Ecker as a director of the United States & Foreign Securities Corporation was in a position where his judgment was available to the board of the United States & International, was he not?

Mr. DILLON. Well, he was available to Mr. Tracy as president of the Foreign, who was also president of International.

Mr. PECORA. And also available to Mr. Tracy and members of the board of United States & International, because the United States & Foreign, on the board of which Mr. Ecker sat, had control through ownership of common stock of the United States & International?

Mr. DILLON. That is correct.

Mr. PECORA. Do you recall, Mr. Dillon, whether the advice, judgment, or opinion of Mr. Hayden and Mr. Ecker, or either of them, was specifically sought before this joint account invested so much money in the common stock of those two railroad companies?

Mr. DILLON. Well, I heard Mr. Tracy's testimony where he said he telephoned to all the directors that were available. I can remember myself, in the meetings preceding this, the general discussion of buying railroad stocks and the formation of an account to buy them. Whether those two men were specifically consulted I do not remember myself.

Mr. PECORA. Well, apparently Mr. Tracy did not remember either, because he was unable to testify specifically, as I remember his testimony here, as to whether or not he had any conversations with any particular director or directors. He merely told us of his general custom in telephoning people and conferring with them by that means.

Mr. DILLON. I think we filed with you the other day a list of all the meetings of the board and the men that attended in both companies. If just preceding these 6 weeks or so immediately preceding the account those men were present as directors, I should feel sure that it was discussed with them, because the matter was discussed at that time.

Mr. PECORA. Did you have anything to do with the investments that were made for this joint account?

Mr. DILLON. In what way do you mean?

Mr. PECORA. Advising or counseling the kind of investments to be made or the market operations by which the investments were made.

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Mr. DILLON. Undoubtedly I discussed the different stocks we were buying, railroad stocks, whether we were going to buy Rock Island or Frisco or some other stock, Southern Pacific or Southern Railway. Undoubtedly I discussed that, in the board and with Mr. Tracy.

Mr. PECORA. The agreement dated July 13, 1929, which created this railroad securities joint account provided specifically that the account was to terminate on October 13, 1929, unless sooner dissolved by mutual agreement, and that it may be extended by mutual consent. Was it, as a matter of fact, terminated on October 13, 1929?

Mr. DILLON. It was terminated on November 9.

Mr. PECORA. Apparently then the life of this account was extended by mutual consent?

Mr. DILLON. That is correct.

Mr. PECORA. Up to and including November 9; is that right?

Mr. DILLON. I have a letter to that effect.

Mr. PECORA. I was just going to ask you if there was any written evidence of such extension.

Mr. DILLON. Yes; there is a letter here of October 14, extending it.

Mr. PECORA. I offer in evidence the document produced by the witness, purporting to be a copy of a letter addressed by the United States & International Securities Corporation to Dillon, Read & Co., dated October 14, 1929. I will read it into the record—it is very short—and I will give it to the reporter to mark.

The CHAIRMAN. The letter may go in the record.

(Letter and confirmation dated October 14, 1929, from United States & International Securities Corporation to Dillon, Read & Co. was thereupon designated "Committee Exhibit 22, October 11, 1933.")

Mr. PECORA (reading):

DILLON, READ & CO.,
Nassau and Cedar Streets, New York, N.Y.

$30,000,000 RAILROAD SECURITIES JOINT ACCOUNT

GENTLEMEN: Referring to our letter to you of July 13, 1929, with reference to the above account, this will confirm our understanding that the account is to be extended to December 15, 1929, unless sooner dissolved by mutual consent, and that it may be further extended by mutual consent. Kindly acknowledge receipt of this letter by signing the attached copy and returning to us.

Very truly yours,

UNITED STATES & INTERNATIONAL SECURITIES CORPORATION.

Accepted: Dillon, Read & Co.
October 14, 1929.

Mr. DILLON. Mr. Pecora, a moment ago you asked the companies whose securities were held in the portfolio of International and with which no representation on the board and for which we were not bankers. I didn't know we had it. We have it if you care for it. There are some 29. [Handing document to Mr. Pecora.]

Mr. PECORA. Now, after the extension of the life of this account from October 15 to December 15, were market operations continued for the account in the acquisition of railroad company stocks?

Mr. DILLON. As well as I can remember, we stopped buying stocks about the end of August, I should think it was, or the 1st of September. The security company, United States & Foreign, as I remember, was selling stocks from that point on, and from the 1st of September until about the 1st of November they had sold some 13

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million dollars worth of securities other than railroads. They were keeping their railroad securities because they were a most attractive investment, in our judgment, but other things looked high and they were being liquidated in the hope of investing later on when the market should come down, if it did come down.

So that when we came to the 1st of November the United States & Foreign had some 13 million dollars odd in cash ready to invest on breaks in the market if they should come after that.

During that period the account was not buying stock. When I say "not", maybe a few odd shares, but it was not active. I will find that out for sure. That is just my memory.

Mr. PECORA. Surely.

Mr. DILLON (after conferring). I think that is substantially correct.

Mr. PECORA. What was deemed to be the necessity for extending the life of this joint account from October 15 to December 15?

Mr. DILLON. Why, I think we were just marking time to decide whether we wanted to buy more stock or not.

The CHAIRMAN. Did you invest the entire 30 million in railroad certificates?

Mr. DILLON. No, Senator; I think we only invested about 14 million in that account.

Mr. PECORA. Between 14 and 15 million. Mr. Tracy gave the specific figure. It was nearer 15 million than 14 million.

Mr. DILLON. I think I saw it here.

Mr. PECORA. Fourteen million seven hundred thousand?

Mr. DILLON. Fourteen million two hundred sixty-one thousand and odd.

Mr. PECORA. About fourteen and a quarter?

Mr. DILLON. Yes.

Mr. PECORA. Now, the account was actually terminated on November 9, at which time the stocks had been acquired and distributed in equal proportions between the two participants in the joint account, namely, Dillon, Read & Co. and the United States & International?

Mr. DILLON. That is correct.

Mr. PECORA. And at that time it became necessary for Dillon, Read & Co. to pay to the United States & International for one half of the securities that had been acquired for the benefit of this joint account and which had been distributed and turned over to Dillon, Read & Co. upon termination of the account?

Mr. DILLON. That is correct.

Mr. PECORA. Now, how was that payment made, if you can tell us?

Mr. DILLON. I heard yesterday that it was just credited on the books.

Mr. PECORA. Mr. Tracy gave some information about that, but I wondered if you could give us more definite information.

Mr. DILLON (after conferring with associates). I am informed that Dillon, Read & Co. made that payment of seven million one hundred and thirty-one thousand and odd dollars by crediting United States & International's accounts on Dillon, Read & Co.'s books with that amount. On the same day on order from United States & International Securities Corporation Dillon, Read & Co. paid to the Chase

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National Bank for the credit of the United States & International $3,300,000 and paid to the Central Hanover Bank & Trust Co. for the account of the United States & Foreign $3,350,000.

Mr. PECORA. Why should payment have been made to the Central Hanover Bank for the account of the United States & Foreign by way of liquidating the indebtedness which Dillon, Read & Co. owed to the United States & International on account of this railroad stock joint account?

Mr. DILLON. Dillon, Read & Co. credited the whole $7,000,000 to United States & International and then paid it out on order of United States & International. United States & International instructed Dillon, Read & Co. to pay $3,300,000 to the Chase bank and to pay $3,350,000 to Central Hanover for the credit of the United States & Foreign. We simply followed the instructions of the depositor.

Mr. PECORA. You were director of both of these investment trusts, weren't you?

Mr. DILLON. Yes; and active in both.

Mr. PECORA. Yes. Can you tell us, Mr. Dillon, what was the nature of the account then existing between the Chase National Bank and the United States & International?

Mr. DILLON. May I inquire? [After conferring with associates.] I think, as I am informed here, that the United States & International simply transferred that to their account in the Chase, where they had an active bank deposit.

Mr. PECORA. It was credited to their deposit account—is that what you mean to tell us?

Mr. DILLON. We are not sure, but we assume that.

Mr. PECORA. And do you know the nature of the account then existing between the United States & Foreign Securities Corporation and the Central Hanover Bank?

Mr. DILLON. United States & Foreign?

Mr. PECORA. Yes.

Mr. DILLON. They kept their active checking account, their active banking account, with the Central Hanover Bank & Trust Co.

Mr. PECORA. What obligation at that time did the United States & International owe to the United States & Foreign which it liquidated either in whole or in part by means of the payment made by your firm?

Mr. DILLON. I should think it would either be for the purchase of securities or the payment of a loan or the making of a loan. I can find out which. [After conferring.] United States & International owed United States & Foreign money which they had borrowed.

Mr. PECORA. When this joint account was terminated on November 9, 1929——

Mr. DILLON (interposing). That borrowing, Mr. Pecora, was in anticipation of the subscriptions for the stock of United States & International, I am informed. That was paid in in installments, and they invested in anticipation of those installments and borrowed against it, sometimes from the bank. At this time United States & Foreign had money to loan, and they loaned it to International.

Mr. PECORA. When this joint railroad securities account was terminated on November 9 your firm received its half of the railroad stocks that had been accumulated through the account and paid in

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the manner that you have just indicated for those securities an aggregate sum of something like $7,100,000, and then the stock was delivered to your firm?

Mr. DILLON. Well, I assume it was delivered. Yes; that is correct.

Mr. PECORA. Two days later, according to the testimony of Mr. Tracy, those shares of railroad company stock which your firm received upon the termination of this joint account, which consisted of the shares of the Chicago, Rock Island & Pacific Railway and of the St. Louis & San Francisco Railway, were sold by your firm to the investment trust?

Mr. DILLON. The investment trust bought those shares from us.

Mr. PECORA. At the then market?

Mr. DILLON. Yes; that was the United States & Foreign Securities Corporation bought them.

Mr. PECORA. Yes.

Mr. DILLON. At the then market?

Mr. PECORA. At the then market. Up to that time did you think that the acquisition of railroad stock was a good thing for the portfolio of either of these investment trusts?

Mr. DILLON. I did.

Mr. PECORA. Did you still think so on November 11, 1929?

Mr. DILLON. I did, decidedly.

Mr. PECORA. If they were a good investment for the investment trusts' portfolios, weren't they equally as good an investment for Dillon, Read & Co.?

Mr. DILLON. Had Dillon, Read & Co. been desirous of making investments at that time; yes.

Mr. PECORA. Well, your judgment that the acquisition of railroad stocks for the portfolio of either or both of these investment trusts was a good thing, was your judgment as a director of the investment trusts?

Mr. DILLON. That is correct.

Mr. PECORA. And it was actually your opinion and judgment at the time, irrespective of any relationship you bore to anybody?

Mr. DILLON. Exactly.

Mr. PECORA. And hence it was your opinion as a member of the firm of Dillon, Read & Co., wasn't it? I mean, whatever opinion you have is your individual opinion?

Mr. DILLON. That is correct.

Mr. PECORA. You may express it and you may render it and you may act upon it in any other capacity than for your own individual benefit, but it still remains your opinion—that is a constant thing?

Mr. DILLON. That is correct.

Mr. PECORA. Yes.

Mr. DILLON. And if I had money, for example, that I was not using, I would say to buy Rock Island at that time was a good thing to do. I would advise some other person differently if it meant something different to him, I would say, "Don't you buy."

Mr. PECORA. Dillon, Read & Co. had entered into this joint account with the United States & International to buy railroad stocks, and acquired an equal interest in the joint account with the investment trust, because they thought that such investments were sound and valuable at that time.

Mr. DILLON. That is correct.

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Mr. PECORA. That being the case, what persuaded Dillon, Read & Co., on November 11, 1929, to sell at the then market to the United States & Foreign Securities Corporation the shares of these two railroad companies that I have already mentioned, and which had been acquired through the medium of this joint account?

Mr. DILLON. Dillon, Read & Co. went into this joint account to accumulate this stock in the expectation and in the belief that the stocks being so cheap and so attractive, would rise in price, and could later be sold at a profit. Dillon, Read & Co. are interested only in short-term investments. They do not make long-term investments. When it came to the termination of this account, it looked as though to hold them profitably would mean a long-term investment, which is not of interest to Dillon, Read & Co. Security companies, on the other hand, are interested in long-term investments.

Mr. PECORA. As well as short term?

Mr. DILLON. As well as short term. Those stocks were attractive, and Dillon, Read & Co. made a poor sale when they sold them to the security companies, because, had they held them a little longer, they could have obtained better prices for them.

Mr. PECORA. Had they held them for a period of about 2 months. The market went up somewhat from the price at which Dillon, Read & Co. sold to the United States & Foreign, as I recall.

Mr. DILLON. The sale to the United States & Foreign was made on November 11, 1929. The price paid by United States & Foreign for Frisco stock was 111¾; for Rock Island 114¼.

In every week thereafter to and including April 18, 1930—a period of 5 months—Rock Island sold on the New York Stock Exchange for a price higher than that paid by United States & Foreign, and only at times during 5 weeks of this 5 months' period did it sell for as low a price as that paid by United States & Foreign. During the 5 months' period it sold up to 125, and in 13 weeks of the 5 months' period it sold for a price of 120 or better.

In the case of the Frisco stock, this stock sold on the New York Stock Exchange in each of 15 weeks of the 5 months' period following the purchase by United States & Foreign at a price in excess of that paid by United States & Foreign, reaching a high during the 5 months' period of 119. In only 7 weeks during the 5 months' period did it fail to sell for as high a price as that paid by United States & Foreign, and even during this 6 weeks' period the low price at which it sold was less than 6 points below the price paid by United States & Foreign.

Mr. PECORA. I recall, on that point, the testimony of Mr. Tracy to the effect that between November 11, 1929, and December 31, 1929, the market value of these railroad securities in question had depreciated to a point where, on December 31, 1929, the United States & Foreign found it to its advantage to transfer the stocks to the United States & International at the lower prices in order to offset the consequent loss against their taxable profits for the year 1929. You recall that testimony of Mr. Tracy?

Mr. DILLON. Yes; I do. It might have been, on that particular day, of that particular week, they were selling below the November 11, 1929, price, but that in no way contradicts the statements I have just made.

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Mr. PECORA. While we are on that particular point, Mr. Dillon, could you tell this committee, out of the fullness of your experience and knowledge of these things, whether or not a custom has developed in past years under which numerous transfers of securities are made at about the end of the tax year in order to reduce taxable profits made during the year, for income-tax purposes?

Mr. DILLON. My general knowledge and impression is that that is the case, that at the end of the year companies and people do sell stocks in which they have losses, in order to ascertain their net profit on which they should pay the income tax. I think that is a general practice.

Mr. PECORA. Does not that kind of a selling movement have the natural effect of temporarily depreciating the market value of securities, Mr. Dillon?

Mr. DILLON. I should think, if it were general at that time, it would.

Mr. PECORA. And you believe that it has been quite general, do you not?

Mr. DILLON. I think the practice has been general.

Mr. PECORA. So that the values established in the market for securities by means of these sales made for the purposes that you have indicated are really artificial to a certain extent?

Mr. DILLON. They might be very well, but that would mean that the volume would have to far exceed the normal trading on the Exchange. If it were a big market, it would affect it, naturally, very much less. If it were a dull market, it might affect it very much more.

Mr. PECORA. Mr. Dillon, the Seaboard Air Line Railway Co. is a company that your firm became bankers for some years ago?

Mr. DILLON. That is correct; jointly with Ladenburg, Thalman & Co.

Mr. PECORA. When did your firm and the banking firm of Ladenburg, Thalman & Co. undertake those banking relations to that railroad?

Mr. DILLON. 1924, they tell me.

Mr. PECORA. And sometime thereafter the bankers undertook a financial readjustment or reorganization of the railroad company, did they not?

Mr. DILLON. That is correct.

Mr. PECORA. When did they do that?

Mr. DILLON (after conferring with an associate). That was at the beginning of 1929.

Mr. PECORA. At the beginning, you say, of 1929?

Mr. DILLON. That is what I am told.

The CHAIRMAN. Was Mr. Warfield alive then?

Mr. DILLON. No; Mr. Warfield was not alive at that time.

The CHAIRMAN. I thought it was a reorganization begun during his lifetime.

Mr. DILLON. Mr. Warfield was the president of the railroad when it first came into our office, and he was very much interested in the development and extension of it through the South, particularly in Florida. Mr. Warfield had great confidence in Florida and the development of the State and the future traffic to come out of the

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State, and we did finance the Seaboard for building those extensions in Florida, but Mr. Warfield had died before this time. He died in 1927.

Mr. PECORA. At the time of the undertaking of this reorganization did your firm or your associates, Ladenburg, Thalman & Co., make or cause to be made, a survey of the railroad company with a view of ascertaining its value as a property and a going concern?

Mr. DILLON. At the time these discussions were going on the Seaboard Railroad itself had that report made, which was completed, I am informed, in 1928.

Mr. PECORA. Who made that report for the railroad company?

Mr. DILLON. Coverdale & Colpitts.

Mr. PECORA. Had you, at any time since you became identified, or your firm became identified with the Seaboard Air Line Railway Co. as its bankers, made a study of that railroad company's history, properties, and so forth?

Mr. DILLON. May I just hear the opening part of your question?

(The reporter read the pending question.)

Mr. DILLON. Shortly after Mr. Warfield came in, in 1924, to discuss the Seaboard situation with us, a Mr. Hooper, who was a railroad expert in our office, went down and went over the property, and made his report, and thereafter we relied on Coverdale & Colpitts for our information.

Mr. PECORA. When did Hooper make his report?

Mr. DILLON (after conferring with an associate). I am told probably in 1925.

Mr. PECORA. Was there much difference in general conclusions regarding the value of the company's property, between Hooper in his report and Coverdale & Colpitts in their report?

Mr. DILLON. I am told that Mr. Hooper thought it was a fine property with great prospects, if put in good financial condition.

Senator COUZENS. Have you conveniently Mr. Hooper's report, and Coverdale & Colpitts' report.

Mr. DILLON. We do not have them here.

Mr. PECORA. Did you personally read or analyze those two reports?

Mr. DILLON. No.

Mr. PECORA. Were you aware of the fact that the Interstate Commerce Commission had caused a very complete survey and analysis to be made of the Seaboard Air Line Railway Co., and had made its findings public?

Mr. DILLON. Was I personally aware of that? No; I do not think I was [after conferring with an associate]. I am told that we did know that the United States Treasury loaned the Seaboard Railroad $17,000,000 with the approval of the Interstate Commerce Commission.

Mr. PECORA. That was during the war, or after the war?

Mr. DILLON. No; it was afterwards, when the Government turned the properties back.

Mr. PECORA. When was that loan made, Mr. Dillon?

Mr. DILLON. 1920 or 1921, some such time.

Mr. PECORA. That was shortly after the Government returned the management and operation of the railroads of this country, which the Government had taken over during the World War, was it not?

Mr. DILLON. I think that is correct.

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Mr. PECORA. By the way, was that loan of $17,000,000 ever repaid to the Government?

Mr. DILLON. No. They tell me it was repaid in part.

Mr. PECORA. Do you know to what extent it was repaid?

Mr. DILLON. No. We have not those figures.

Mr. PECORA. The proportion of repayment was very small, was it not?

Mr. DILLON. I do not know, but I think that is a fair assumption.

Senator ADAMS. Loans which the Government itself makes are not often repaid.

Mr. PECORA. Did you know that the Interstate Commerce Commission, in its survey and analysis of the road, had reported publicly that as of the end of 1918 the road had outstanding a total par value of $190,938,527.20 in stocks and long-term obligations, of which $37,019,400 represented common stock, $23,931,400 preferred stock, $129,884,166.60 funded debt unmatured, and $103,560.54 non-negotiable debt to an affiliated company; and that as of the same time the cost of reproduction new of the railroad company as a physical property was $125,468,154, and that its cost of reproduction at that time, less depreciation, was $99,214,147, or something like $100,000,000 less than the securities it had outstanding?

Mr. DILLON. I do not recall knowledge of that report. I may have known it at the time. I do not recall the report at all.

Mr. PECORA. I am assuming that the figures of the Interstate Commerce Commission are quite accurate.

Mr. DILLON. What is the date of the report, Mr. Pecora?

Mr. PECORA. 1931. That is, the data that I have read are contained in a report or pamphlet issued by the Interstate Commerce Commission in 1931, but this report and its findings had been furnished to the railroad company at the time they were made, and as they were being made, which was long prior to 1931.

Mr. DILLON. I misunderstood you in the beginning. I thought that was some old report back in those years.

Mr. PECORA. The data embodied in this report were in the files of the railroad company, which had received them from the Interstate Commerce Commission long prior to 1931. Now, if it be——

The CHAIRMAN. Was not that along about 1918?

Mr. PECORA. The date as of which these figures are ascertained was sometime in 1918.

Senator COUZENS. Have you any information as to when the railroad got that report?

Mr. PECORA. I understand it is the practice and custom for the Interstate Commerce Commission to furnish railroad companies with its reports and findings as they are made. This pamphlet of 1931, which I now have before me, Senator, and from which I have read the figures which I have embodied in the question to the witness, was not published until 1931, but it is merely a compilation made in 1931 and embodied in this pamphlet of facts and figures which had been ascertained long before, and copies of which it had given to the railroad company.

Senator COUZENS. I was interested to know when the copies were given to the railroad. I do not presume you have that information.

Mr. PECORA. No. I can get that by inquiry at the Interstate Commerce Commission office. We will try to get that this afternoon.

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As a matter of fact, as I understand it, these figures were arrived at from data furnished by the railroad company.

Mr. DILLON. Are those pre-war cost figures?

Mr. PECORA. These are the actual figures representing cost.

Mr. DILLON. At the time the road was built?

Mr. PECORA. Less depreciation.

Mr. DILLON. That is probably pre-war, that is, when the road was built. But that printed report was not available until after 1931, as I understand it.

Mr. PECORA. But the information embodied in this report was available long before that. Much of this information was taken out of the records of the railroad company itself, furnished to the Interstate Commerce Commission.

Have you any report in your possession, or did you ever have a report made, which indicated at any time, up to the time that you became bankers for the road, or up to the time subsequently when you undertook, as bankers, a reorganization of the finances of the road, the outstanding obligations of the company, and also showed the physical valuation of the company?

Mr. DILLON. We have a very complete report along those lines made by Coverdale & Colpitts.

Mr. PECORA. Do you recall whether that very complete report of Coverdale & Colpitts included the data embodied in this pamphlet taken from the records of the railroad company as furnished to the Interstate Commerce Commission?

Mr. DILLON. Those figures were prepared as of 1928 or 1927, and probably they would not be the same as in 1918, although they may have similar data. We go further than just the physical property in determining the value of a railroad. We take its earning power into consideration and its future prospects. In the case of the Seaboard we had great hopes and faith in its future earnings, because we had faith in the territory that it was opening up.

In speaking of this report of the Interstate Commerce Commission, of course you are aware that the Interstate Commerce Commission approved and passed on all the financing that we did for the Seaboard Air Line Railway. It was all done with their approval.

Mr. PECORA. I know that. I was just wondering what persuaded your judgment as a banker to have something like $2,000,000 in funds in either one or both of these two investment trusts to put into securities, both stock and bonds, of this railroad company subsequent to 1928 and 1929.

Mr. DILLON. As I said, we had faith in the future prospects of that railroad. We had great faith in the territory that was opening up. Mr. Warfield had a vision of developing the Southland, particularly the State of Florida.

He built these lines, which we financed, into the State, and we had great hope of traffic from there; and I still think that that railroad will be a valuable property and a prosperous railroad, because we still have faith in that territory which it taps.

Mr. PECORA. Do you know how many other banking firms had studied this railroad and its prospects besides yourselves? Do you know that other banking firms had?

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Mr. DILLON. Ladenburg, Thalman & Co. did, because they went into it with us——

Mr. PECORA. Besides yourselves?

Mr. DILLON. I am informed that Ladenburg, Thalman & Co. had been bankers for this road for many years before we came in.

Mr. PECORA. When you undertook the reorganization of the road in 1929—or was it 1928?

Mr. DILLON. 1929.

Mr. PECORA (continuing). There was not much equity value in the stock, was there?

Mr. DILLON. In the common stock?

Mr. PECORA. Yes.

Mr. DILLON. The common stock, at the time that the plan was made effective—I think that is a correct statement—was selling around $16 a share; and the main part of that plan at that time was to put more into the common stock and make the senior securities better, and we agreed to furnish $20,000,000 for common stock. Common stock was offered to the stockholders and we underwrote the offer.

Mr. PECORA. How much of that $20,000,000 was subscribed for by these stockholders, as a matter of fact?

Mr. DILLON. I do not know whether any was. [After conferring with associates:] Yes; some was, about 300,000 shares out of about 2,000,000 shares. We underwrote that offer.

Mr. PECORA. That is about one seventh?

Mr. DILLON. I am surprised it is that much. Under the rules of the Interstate Commerce Commission we had to wait—I think it was 30 days or so—for their approval, and then beyond that there was another 30 days for the stockholders to come in and say what they would take. During that 60 days market conditions changed very much, and we were very disappointed in the results, and we as underwriters had to take it up. When, as a matter of fact, when we underwrote it for a small commission. It totaled $1 a share. We assumed it would be taken by the stockholders and that it would be a profitable underwriting.

Mr. PECORA. You encountered a very severe disappointment in the reaction by the stockholders to this reorganization insofar——

Mr. DILLON. No.

Mr. PECORA. Wait a minute—insofar as that was evidenced by their failure to subscribe for more than one seventh of the new issue?

Mr. DILLON. No; that is not a correct statement.

Mr. PECORA. Did you not expect the stockholders would take up a much larger proportion?

Mr. DILLON. Oh, we thought they would take it all; and they would have done so if general conditions in the stock market had not changed. That is why they did not take it.

Mr. PECORA. And when they took only about one seventh, you were disappointed?

Mr. DILLON. We were disappointed in the stock market and the general financial condition of the country that developed in those 60 days.

Mr. PECORA. But your firm, meanwhile, anticipating perhaps some disappointment at the results that would be obtained in offering

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this stock to the stockholders, had organized a syndicate to take over on some underwriting basis those shares of new issues which were not subscribed for by the existing stockholders?

Mr. DILLON. No. When we agreed to underwrite the stock offering we offered interests in the underwriting to friends. We thought it would be profitable and that we were doing them a favor. We kept a substantial portion of it for ourselves.

Mr. PECORA. But you did organize such an underwriting syndicate?

Mr. DILLON. That is correct.

Mr. PECORA. And the Pennroad Corporation was one of the participants in that syndicate, was it not?

Mr. DILLON (after conferring with associates). Well, in effect it was. I am told that its participation in that syndicate was in the nature of a commitment to buy 25 percent of the stock that was not subscribed for by the stockholders. So the Pennroad Corporation was in the syndicate in that way.

Mr. PECORA. The United States & International Securities Corporation was also a member of that syndicate, was it not?

Mr. DILLON. I think it was. Yes; that is correct.

Mr. PECORA. That reorganization at that time of this railroad company was largely in the nature of a business gamble, was it not?

Mr. DILLON. I do not know what you mean by "business gamble", unless everything is that.

Mr. PECORA. Here was a road that up to that time had a very weak history——

Mr. DILLON. That is correct; but those roads, as a rule——

Mr. PECORA (continuing). And it was your object as bankers for the road to undertake a reorganization which was designed, to use the vernacular, to "put it on its feet"?

Mr. DILLON. Those have always been, in the history of this country, I think, the most profitable investments in railroads.

Mr. PECORA. That is, where they turn out successfully?

Mr. DILLON. Yes.

Mr. PECORA. And they have been the most expensive and costly where they have turned out unsuccessfully?

Mr. DILLON. No; I should not say so.

Mr. PECORA. They have been pretty expensive, have they not, where they turned out unsuccessfully?

Mr. DILLON. I was thinking of an investment we have just been discussing, where we bought a very prosperous railroad stock.

Mr. PECORA. I am talking about the Seaboard Air Line Railway investment. Is it doing violence to the situation to characterize the reorganization that you attempted back in 1929 as involving more or less of a business gamble?

Mr. DILLON. You might so characterize it. I would call it just an ordinary business transaction—the underwriting of stock.

Mr. PECORA. But the road was in poor shape. Its earnings did not justify according any substantial equity value to the stock. It needed, in your opinion, some 20,000,000 dollars' worth of new capital to help you to rehabilitate it; and to the extent that that $20,000,000 might not serve the purpose that you intended for it to serve, it was a gamble, was it not?

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Mr. DILLON. No. We thought this road had a great future.

Mr. PECORA. That is why I call it a gamble. You thought it had a great future. There was nothing in the past up to that time which gave any certainty to the reorganization. It was more or less of a gamble, was it not?

Mr. DILLON. We thought it was an attractive investment to put money into the junior position of that railroad, because we thought that the future development of that railroad would make the investment exceedingly profitable; and the buying of that stock, Mr. Pecora, was not an investment. We were underwriting it and offering it to stockholders, and if we had not had the disturbance in the general security market, the stockholders would have taken that stock, and we would have been paid a commission as underwriters. The reason we took the stock up was that general conditions were such that the stockholders did not take the stock.

Senator COUZENS. Was the Interstate Commerce Commission's decision unanimous on this refinancing plan?

Mr. DILLON. May I find that out? I always assume Government bodies to be unanimous.

Senator COUZENS. Oh, no.

Mr. DILLON (after conferring with associates). We have no information or knowledge that that decision was other than unanimous.

Mr. PECORA. I will get that information from the Interstate Commerce Commission's office.

Senator COUZENS. I wish you would, because if it is unanimous we ought to investigate the Interstate Commerce Commission.

Mr. DILLON. In regard to that report of 1931 which you have just read, Mr. Pecora, I think the valuations you will find there were for rate-making purposes, and that they were based on the 1914 costs less depreciation.

Senator COUZENS. Plus additions, and so on?

Mr. DILLON. Yes, sir.

Mr. PECORA. They were based on the 1918 estimates of cost of reproduction.

Mr. DILLON. I think if you will read it you will probably find something like this, that the Interstate Commerce Commission's valuations were made for the purpose of determining comparative rates. The figures given out by the Interstate Commerce Commission were not actual costs, but costs of reproduction new, using for all roads the same price basis; that is, pre-war, 1914 prices.

Mr. PECORA. In the statement that was put into the record at the very end of the hearing yesterday afternoon, and which, I take it, was prepared by you or at your request——

Mr. DILLON. Yes.

Mr. PECORA (continuing). And a copy of which I have before me, you set forth that the United States & Foreign Securities Corporation was the first investment company of substantial size organized in the United States. Now, Mr. Dillon, was it your belief that investment trusts were intended to furnish capital to new enterprises or reorganizations of old enterprises, or was it your belief that investment trusts were primarily designed to find investments or to make investments of its funds in securities of established value and with an established income-producing power?

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Mr. DILLON. My own conception of that is that they were organized for the profitable investments of the funds that had been entrusted to the securities company to invest. I should not feel that these companies were compelled to stay out of any profitable field. I personally would have advocated going into any field that seemed profitable. The prospectus stated the purpose, that it has been formed to buy, sell, underwrite, offer, and generally deal in corporation, government, and other securities, both American and foreign, and when desirable to take part in the organization and operation of corporations. So the purposes of the corporation were very broad.

Mr. PECORA. I know the prospectus sets that forth, but I was merely seeking to get your judgment or opinion as to whether or not investment trusts were organized for the purpose of investing the public's money in new enterprises or in reorganization or rehabilitation of old enterprises, rather than in the making of investments in securities that had an established value and an established income-producing power.

Mr. DILLON. My own judgment would be—which, I suppose, is what you want—to go into any field that is profitable, and I would diversify investments in all those fields. I would do all the things you have talked about. I would buy some seasoned securities, and I think the record of those companies is that they have been in the different fields. The United States & Foreign Securities Corporation made a profit by participation in syndicates, after taking losses, of over three and a half million dollars. So that is a profitable field. The corporation is not limited simply to the investments in interest-bearing securities. My feeling, Mr. Pecora, on that is that the corporation should go into any field that seems profitable, for a group of experienced men should try to handle the investment of those funds in the interest of the stockholders, to the best of their judgment, without being restricted. We have laws restricting investments of trust funds and other things.

Mr. PECORA. But those laws do not apply to the investment of moneys belonging to an investment trust.

Mr. DILLON. This is not a trust at all; it is a corporation. You call it an investment trust, but it is simply a corporation, a business corporation. The law governing the investment of trust funds, I was just going to say, does specify established earnings, and so forth. Those securities, I think you will find over the past decade, have suffered probably worse than any form of investment.

The CHAIRMAN. What proportion of the money going into these investment trusts came from the public?

Mr. DILLON. In the case of the United States & Foreign Securities Corporation—by the public you mean, I suppose, the stock offered to the public?

The CHAIRMAN. Yes.

Mr. DILLON. The first preferred stock?

The CHAIRMAN. Yes.

Mr. DILLON. There was originally 25 millions. There are now, I think, 21 millions and odd outstanding. And that stock is what you mean, Senator Fletcher?

The CHAIRMAN. Yes.

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Mr. DILLON. That, of course, would mean the public. Some of us, ourselves, are the largest stockholders.

The CHAIRMAN. That is what I was trying to separate; what proportion came from the public and what proportion was put in by those who organized it.

Mr. DILLON. Those who organized it put in $5,100,000 for the second preferred and a part of the common. The first preferred was $25,000,000.

Mr. PECORA. That is what the public subscribed?

Mr. DILLON. If you call me the public, I own 25,000 shares of that for my family as an investment.

Mr. PECORA. You bought that——

Mr. DILLON. In the open market.

Mr. PECORA. I am talking about the original flotation of issues of the $25,000,000 worth of first preferred stock. That was offered and sold to the public?

Mr. DILLON. That is correct, Mr. Pecora.

Senator ADAMS. Mr. Dillon——

The CHAIRMAN. Let us go on with the other.

Senator ADAMS. May I just follow with one more question?

The CHAIRMAN. Yes.

Senator ADAMS. You made the statement a moment ago, which interested me, to the effect that the conservative investor had suffered more heavily than the investor in the less conservative lines.

Mr. DILLON. When I say "more heavily", maybe that is not exactly right; but he suffered very heavily. I do think it is more heavily, but I would want to check that.

Senator ADAMS. Would you deduce from that that the investor should avoid conservative investments?

Mr. DILLON. No. I think that investing to conserve money is a most difficult thing. I know of nothing that is so difficult or uncertain as investments. I am not sure that the phrase "security" is not a misnomer.

Senator ADAMS. Some of them might be called "insecurities"?

Mr. DILLON. Well, you should call them investments, because if you take the investments which we all considered to be the highest grade—and I do not want to particularize—but take such investments as you would have bought for trust funds, unfortunately you would have suffered more if you had bought them than if you had bought certain common stocks. It is very difficult to take over a period of years any specific class of security and just tie to that blindly. I think you have got to keep changing and rearranging your portfolio constantly and almost from day to day. It is very difficult to look into the future with respect to investments.

Senator ADAMS. It would not be very difficult now, with the information which you now have, to reach back and make safe investments in 1928?

Mr. DILLON. Yes. Looking backward we should have done a lot of things that we did not do.

Mr. PECORA. Mr. Dillon, another virtue claimed for investment trusts—and by that I mean investment corporations like the United States & Foreign and the United States & International—was that the investor in the stock of such companies was enabled to obtain a diversification?

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Mr. DILLON. That is correct. I think that is one of the essences of it.

Mr. PECORA. That is one of the important virtues claimed for these so-called "investment companies"?

Mr. DILLON. That is correct.

Mr. PECORA. Yes. When the United States & Foreign Securities Corporation on November 11, 1929, took over large blocks of the shares of the railroad stocks which had been accumulated through the medium of the joint account that we have already spoken about, what proportion did the moneys that the United States & Foreign Securities Corporation paid for those railroad stocks bear to the then available cash resources of the United States & Foreign?

Mr. DILLON. Well, the then available cash resources—all were available resources really of a company like the United States & Foreign Securities Corporation.

Mr. PECORA. To the total resources.

Mr. DILLON. Yes; to the total resources. Just a second; if I can get the portfolio at that time. [After consulting same:] Less than 7 percent. About 6 percent plus.

Mr. PECORA. But subsequently that investment company had put in over 11 million dollars, had it not, in the stock of the Chicago, Rock Island & Pacific and of the St. Louis & San Francisco roads?

Mr. DILLON. Mr. Pecora, I think you are confusing the two security companies. The one that bought the stock from Dillon, Read & Co. was the United States & Foreign. The one that was in the joint account was the United States & International.

Mr. PECORA. It has appeared from the evidence heretofore submitted that one of these two investment trusts had in its portfolio stock of these two railroad companies that represented a total investment by the securities company of over 11 million dollars in the stock of those two railroad companies. I have that definitely in mind.

Mr. DILLON. I think that was in the International Corporation.

Mr. PECORA. All right.

Mr. DILLON. You are now speaking of the International?

Mr. PECORA. Yes; the International.

Mr. DILLON. I think that is correct.

Mr. PECORA. Was that not a very large investment to make in the stock of two railroad companies if diversification was one of the things sought for?

Mr. DILLON. That is about 9 percent, roughly, is it not, of the assets in each? Supposing that investment was equally divided between the two roads; say 5½ million in each; that would be roughly about 9 percent of the assets, assuming that the corporation had 60 million dollars, which, as I remember, is what it had.

Mr. PECORA. Eleven million dollars compared with a total of 60 million dollars is more than 9 percent.

Mr. DILLON. No; I say supposing that investment was equally divided between each of the two roads. Assuming that 11 million dollars is divided equally between the Rock Island and the Frisco.

Mr. PECORA. It would be 9 percent in each?

Mr. DILLON. That is right.

Mr. PECORA. Approximately 18 percent in both of them?

Mr. DILLON. Yes. I see no reason to couple those any more than any other investments in railroad securities.

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Mr. PECORA. Except that they were acquired as a part of the same transaction and apparently were jointly considered.

Mr. DILLON. But I go further. I think 9 percent in one thing is a large proportion.

Mr. PECORA. Too large a proportion for safety, is it not?

Mr. DILLON. No; I would not say that, because it would depend on the circumstances. In this case it was an unfortunate investment. It was a mistake that we did not sell it. There is a difference. I think that these were good stocks when they were bought. In fact the record that I have just introduced shows they were good purchases. The mistake that was made was that they were not sold subsequently, say in the spring of the following year, when they could have been sold.

Senator ADAMS. Probably the bonds of Carthage had a time when they were very good.

Mr. DILLON. I did not know that Carthage had any bonds, Senator.

Mr. PECORA. According to our analysis of the portfolio statements issued annually by the United States & International Securities Corporation, the first time that it appears in the portfolio reports that any substantial investment had been made in the stock of the Seaboard Air Line Railway was during the year 1930, because it appears in the portfolio report as of December 31, 1930, that 131,908 shares of the stock of the Seaboard Air Line was on that date in the portfolio of the United States & International Securities Corporation, and those shares represented a cost of $1,478,675. Do you know when those one hundred and thirty-one thousand and odd shares were acquired during the year 1930?

Mr. DILLON. I am told in January 1930.

Mr. PECORA. That was in connection with the participation of the United States & International in the syndicate agreement managed by Dillon, Read & Co. in connection with the refinancing and reorganization of the road that was commenced in 1929?

Mr. DILLON. Most of them were.

Mr. PECORA. Yes. When did the Seaboard Air Line Railway go into receivership?

Mr. DILLON. In December 1930, I am told.

Mr. PECORA. That is 11 months after?

Mr. DILLON. Eleven months after.

Mr. PECORA. Your firm was one of the two bankers for the road?

Mr. DILLON. Yes.

Mr. PECORA. And had been since 1924?

Mr. DILLON. Or thereabouts.

Mr. PECORA. Or thereabouts. And that gave your firm exceptional opportunities to follow the course of the road, its values, and so forth?

Mr. DILLON. Yes.

Mr. PECORA. And its business prospects, as well as the actual earnings of the company?

Mr. DILLON. I should think that was correct.

Mr. PECORA. Were you not cognizant of conditions in January 1930 which made it seem extremely probable that the reorganization plan which you had undertaken would fail, and that a receivership might be imminent?

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Mr. DILLON. Obviously not, because we would not have underwritten that common stock at $20,000,000 if we had any such feeling. Our feeling was that this would go through and that would be all that would be needed, and that the road would prosper.

Mr. PECORA. Railroad receiverships are not projected overnight, are they?

Mr. DILLON. Occasionally; yes.

Mr. PECORA. As a matter of fact the conditions that culminate in a receivership for a railroad company are conditions that accumulate over quite a long period of time before the receivership?

Mr. DILLON. Oh, yes. You mean that the road simply grows worse and worse?

Mr. PECORA. Yes.

Mr. DILLON. Yes; I should think that is generally a true statement.

Mr. PECORA. When for the first time were you able to observe as one of the bankers for the road that conditions were getting so bad that a receivership might be imminent within a year's time or thereabout?

Mr. DILLON. Oh, I do not think we foresaw it for a year, Mr. Pecora. We would not have underwritten that $20,000,000 of stock if we had.

Mr. PECORA. When did you first begin to feel that a receivership or other serious embarrassment was imminent?

Mr. DILLON. Right up to the time of the receivership we were hoping that it would not be necessary, so they inform me.

Mr. PECORA. Would you then say that this was one of those receiverships that developed overnight?

Mr. DILLON. They say that in 1930, just refreshing my mind, the business in the country disappeared very quickly, and from the middle of 1930 on the railroad traffic was disappearing very fast, and this receivership came on very quickly.

Mr. PECORA. And you saw the clouds gathering in the financial skies along about the middle of 1930?

Mr. DILLON. I do not think it was financial skies. I think they were talking about actual traffic on the railroad disappearing.

Mr. PECORA. Well, those conditions are reflected in the financial skies, are they not?

Mr. DILLON. Yes; I should think they would be.

Mr. PECORA. Yes. Was anything done by the investment trust or the people who operated it, so far as you know, to lessen the possible loss to this investment trust through its holdings of the Seaboard Air Line Co. stock by disposing of them before the crash came—the crash signalized by the receivership in December 1930?

Mr. DILLON. No; because we felt that to hold them was the best thing to do. That we would get more money by keeping them rather than by selling them. That was a mistake. Our judgment is not infallible, Mr. Pecora. I wish it were.

Mr. PECORA. And in the light of those conditions you still think that funds of investment corporations, so-called "investment trusts", should be used as a matter of brains or as a matter of sound business judgment in operations of this sort?

Mr. DILLON. Yes, I think that they should be so used, and I think probably we would do the same thing again. Possibly——

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Mr. PECORA. You would still take a gamble on the improvement of a railroad company with funds of the public that had been put into an investment trust on the claimed virtues of diversification and the making of sound investments by experts of trained minds?

Mr. DILLON. But, Mr. Pecora, your assumption is not one in which I concur.

Mr. PECORA. Do you mean by that that you do not concur in my assumption that investments of investment trusts are made by persons of sound minds and trained judgment, expert judgment?

Mr. DILLON. I think if you will look at the record as a whole we may be excused pardonable pride when we think our minds were sound. But if you take some specific things such as we are talking about now—in those we may have made mistakes. But I think taking our record as a whole I doubt if there are any banks in the country—certainly not many—which can show a record in the balance sheet like these security companies show today.

Senator COUZENS. As a matter of fact if you had sold them the person who would have bought them would have been of unsound mind, would he not?

Mr. DILLON. Possibly. We sold some. We were not right in everything.

Mr. PECORA. I understand that the liquidating value of the first preferred stock of the United States & International is around $60 a share at the present time, according to its assets?

Mr. DILLON. I am told it is around $90 a share.

Mr. PECORA. Of the United States & International Securities Corporation?

Mr. DILLON. Yes.

Senator COUZENS. That is what was testified to yesterday.

Mr. PECORA. As of what date?

Mr. DILLON. September 30.

Mr. PECORA. Of this year?

Mr. DILLON. Yes. Just now.

Mr. PECORA. We were basing our estimates upon an analysis of the annual report as of December 31, 1932.

Mr. DILLON. There has been a decided appreciation since then.

Mr. PECORA. Because of the increase in value of the securities?

Mr. DILLON. Yes.

Mr. PECORA. On December 31, 1932, the liquidating or asset value of the first preferred stock was around $60 a share, was it not?

Mr. DILLON. That I do not know. It is $90 now. Do you want me to look back and see what it was?

Mr. PECORA. Yes.

Mr. DILLON. We do not have that.

Mr. PECORA. Is it not a fact that prior to December 31, 1932, United States & International Securities Corporation retired about 200,000 shares of the first preferred stock?

Mr. DILLON. I am not sure of the amount. They bought in the market a considerable amount.

Mr. PECORA. They bought in the market a large amount?

Mr. DILLON. Yes.

Mr. PECORA. Which I understand is about 200,000 shares?

Mr. DILLON. That I do not know, but I am willing to assume that it was a substantial amount.

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Mr. PECORA. I also understand—and you can affirm or correct it, if you wish—that the United States & International Securities Corporation retired that stock by buying it in the open market at a cost of about one half what that stock had originally been sold for to the public.

Mr. DILLON. I do not know if that was the average price, but I assume it was. But of course we cannot assume we were buying it from the original purchasers. We do not know from whom we were buying it.

Mr. PECORA. The company was able to improve or enhance the liquidating value of the stock to the extent of about $10,000,000 by buying in and retiring these 200,000 shares—that is an approximation—of the first preferred stock, at a cost of about $10,000,000 less than the sum which the company received from the original subscribers for that stock?

Mr. DILLON. I am not sure that is a correct statement. The correct statement, I think, would be—and they may coincide—that you increase your liquidating value by the difference in your cost and your asset value, not the par value.

Mr. PECORA. I understand that that represented an improvement in the company's asset position or liquidating value of the stock of about 10 million dollars?

Mr. DILLON. If your assumption—and I am taking your assumption—is correct that the liquidating value was only $60, and your assumption is correct that our purchase price was $50, then we only improved the asset price by $10 a share; not by $50.

Mr. PECORA. I said by $10 a share.

Mr. DILLON. Yes; that is right.

Mr. PECORA. In other words, you improved the liquidating value from $50 a share to $60 a share, representing an improvement of about 10 million dollars?

Mr. DILLON. That would only be true if you bought 50 percent of the stock.

Mr. PECORA. Yes; at about half the price which the company received from the public upon its original issuance.

Mr. DILLON. Take our present asset value of stock, say, of $90. Suppose we buy stock at $80. We are adding $10 to asset value. If your asset value in 1932—and I am accepting your figure at that time—was $60, and you bought it at $50 a share, you are adding $10 to your asset value on each share that you buy; not on the shares that are left.

Mr. PECORA. You reduced the outstanding shares held by the public by means of the retirement of the shares we have referred to through the purchase in the open market by the company, did you not?

Mr. DILLON. That is true. But you took $50 a share out of your assets in order to do that. So you have only improved your asset value by $10 a share.

Mr. PECORA. One or two more questions, Mr. Dillon, and I will be through with you.

The CHAIRMAN. One moment, Mr. Pecora.

Mr. PECORA. Certainly, Mr. Chairman.

The CHAIRMAN. What I am most concerned about, or am more particularly concerned about, is how the investor came out. He is

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the chap I am interested in. How about the man who put his money into these investment trusts? How did he come out by reason of this transaction?

Mr. DILLON. We will take the first trust first, Mr. Chairman—and I take it you do not want my experience, because it has not been a very good one. My investment has not paid as well as those who bought the senior securities. You want the preferred stock, do you?

Mr. PECORA. The first preferred.

Mr. DILLON. The man who bought that received one share of first preferred and one share of common and paid $100. With the money that was paid in for the second preferred stock the corporation showed a value back of his preferred stock of about $116 a share. Now, he has gone through this period of depression, and he has received in dividends $6 a year. The company has paid the total sum of about $13,000,000 through dividends.

The CHAIRMAN. Six percent?

Mr. DILLON. Yes. And the investor has an asset value back of his first preferred stock. Today the asset value back of his preferred stock—and when I say today I mean at the time of our last calculation—is about $138 a share. Or, in other words, the asset value of the stock is considerably more than when he started. In the meantime he has received 6 percent per annum dividends. Does that answer your question? I am assuming he did nothing with his common stock but held it. He fared one way or the other according to what he did. But I am assuming that he did not sell it, and that——

The CHAIRMAN (interposing). Then notwithstanding the losses suffered by the investment trust, the investor really has not lost anything yet?

Mr. DILLON. Oh, no. You are talking about losses in particular terms. If you are looking at our operations as a whole they are not losses but profits. We are here just going into some unfortunate things that we did, where our judgment was not so good as in others. But if you take our operations as a whole over the period of time, they have been profitable. Does that answer your question, Senator Fletcher?

The CHAIRMAN. Yes.

Mr. PECORA. Mr. Dillon, is it fair to say that the most of the losses that were incurred by the investment trusts were by reason of investments made in securities of corporations with which members of the board have been affiliated in some capacity or other, or associates of Dillon, Read & Co. had likewise been so associated?

Mr. DILLON. I think when you put the question in that way I must answer yes. But in making such answer I should like to qualify it.

Mr. PECORA. Go ahead.

Mr. DILLON. The fact that we bought Rock Island or Frisco stock or Seaboard stock, or other things where we have had losses, wasn't because Mr. Hayden and Mr. Ecker, or someone else, happened to be on those boards, but simply because we thought those were good investments.

Mr. PECORA. When you say "we" you mean directors who included Mr. Hayden and Mr. Ecker?

Mr. DILLON. That is true.

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Mr. PECORA. That brings me to a point I want to question you about briefly. You heard me read into the record on yesterday, didn't you, the text of paragraph 8 of the charter of United States & Foreign Securities Corporation?

Mr. DILLON. Yes. May I look at that? [After looking at the paper.] Yes; I did.

Mr. PECORA. You know the contents of it, or the general substance of it, do you not?

Mr. DILLON. I know the general substance of it.

Mr. PECORA. What was the reason for including or inserting that provision in this charter?

Mr. DILLON. I assume that that was done by the lawyers as a general practice. Provisions similar to that are, I think, not unusual. It is done in order to give protection to directors against, well, we will say, unfair claims that might be made against them. It is to protect them against that.

Mr. PECORA. It also goes further than that, and gives those directors protection against claims that might be fair because based upon the exercise of judgment by directors where that judgment was not exercised by them in good faith.

Mr. DILLON. If that were true, I think a clause like that should not be placed in any certificate of incorporation, because I think a director should be fully responsible, fully liable for the exercise of good faith in all things.

Senator ADAMS. Then I gather if there is any fault any place it is to be put upon the lawyers; that if anybody is to be made the scapegoat it is the lawyers.

Mr. DILLON. If that is put in, or any other provision is put in a charter, which would excuse a director for the exercise of bad faith, then I certainly think it is their fault. I do not think any company should do that.

Senator ADAMS. Don't most lawyers do what their clients ask them to do? I am simply trying to present the lawyer's standpoint a little bit. [Laughter.]

Mr. DILLON. I haven't found that to be so, because we do not ask lawyers to do things. We ask them to tell us how things should be done or shouldn't be done, and they draw the documents. But we do not ask them——

Mr. PECORA (interposing). Did you ask the lawyers in this instance to tell you how directors could be rendered immune for liability for acts committed in bad faith and which might prove a loss to stockholders?

Mr. DILLON. No. This was simply put in by the lawyers themselves when they drew whatever this is.

Mr. PECORA. The charter?

Mr. DILLON. Yes; the charter.

The CHAIRMAN. That is, the amendment to the charter?

Mr. PECORA. That was amended on March 12, 1930. But I was talking about the original charter for the time being.

Mr. DILLON. It is the certificate of incorporation.

Mr. PECORA. Which is another term for charter.

Mr. DILLON. Yes; but as I read it, it does not excuse directors for bad faith or anything like that.

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Mr. PECORA. Well now, let me read it to you. Let us read the original provision prior to its amendment on July 12, 1930:

In case the corporation enters into contracts or transacts business with one or more of its directors, or with any firm of which one or more of its directors are members, or with any other corporation or association of which one or more of its directors are stockholders, directors, or officers, such contract or transaction shall not be invalidated or in any wise affected by the fact that such director or directors doing it may have interests therein which are or might be adverse to the interests of this corporation, even though the vote of the director or directors having such adverse interest shall have been necessary to obligate the corporation upon such contract or transaction. No such director or directors shall be liable to the corporation, or to any stockholder or creditor thereof, or to any other person, for any loss incurred by it under or by reason of such contract or transaction, nor shall such director or directors be accountable for any gain or profits realized thereon.

Mr. DILLON. Yes; but that does not excuse them for bad faith. I think this clause is too broad, myself.

Mr. PECORA. So do I; and that is why I think the text of it excuses them, the import of it is designed to exclude such director from any liability.

Mr. DILLON. But not for fraud.

Mr. PECORA. Well, I think our courts of equity might intervene there and not enforce this provision, but the presence or inclusion of this clause in the charter, if it was calculated to serve any purpose at all, was calculated to protect the directors even from the exercise of bad faith. Whether the courts would give effect to that purpose is another thing.

Mr. DILLON. No; I shouldn't think that at all, because that was simply put in by the lawyers in the drafting of the charter. It was nothing that we had any interest in or were consulted about, because the charter of the United States & International Securities Corporation hasn't that clause in it at all.

Mr. PECORA. I know that.

Mr. DILLON. And this has been amended since. But I think directors of any company should always be liable and responsible for the exercise of good faith.

Senator ADAMS. Do lawyers get the share of profits commensurate with the responsibility which they seem to bear? [Laughter.]

Senator COUZENS. Might I ask what brought about this amendment you refer to?

Mr. DILLON. I do not know. I suppose the lawyers suggested the amendment, that they brought it in and then the directors adopted it.

Senator COUZENS. So the lawyers corrected their previous act?

Mr. DILLON. I think that is probably true.

Mr. PECORA. Mr. Dillon, would you today approve in principle the inclusion of any such provision in the charter of a company whose securities are to be sold to the public?

Mr. DILLON. We have a real problem there and it is difficult to know how to handle it; not in this company, but I mean in general. I think directors should be responsible for their acts, for the exercise of care and diligence. They should be liable for any malfeasance or bad faith, of course. On the other hand, directors receive as compensation from $200 to probably $600 a year. You give some sort of protection to a man of character and standing if you want

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him to do a public service by serving on a public company, where he gets nothing out of it except the satisfaction of acting in the interests of the stockholders.

Senator ADAMS. Well, now, a director is supposed to be a man who is interested in the company. That is, he is there serving his own interest. He does not go on a board because of his little director's fee.

Mr. DILLON. He goes on the board to represent the stockholders.

Senator ADAMS. The law requires in some cases that he must be a stockholder himself.

Mr. DILLON. But that can be fulfilled by owning 1 share or 10 shares.

Senator ADAMS. I know, but you do not hire directors like you hire a manager.

Mr. DILLON. No; you try to get men to serve as directors who are not for hire.

Senator ADAMS. Yes; but don't you do that because of the knowledge and understanding that the members of boards of directors are really the principal owners of the business, and you hold out the board of directors as representing—well, take a list of bank directors and you draw the conclusion that they are the men who not only control but own the concern generally, don't you?

Mr. DILLON. In our companies that is the fact.

Senator ADAMS. And it ought to be the fact, ought it not?

Mr. DILLON. The directors here are largely the people that own the securities, that own the company so to speak. They own first preferred and second preferred and common stock. But I am speaking now on a broader plane.

Senator ADAMS. But you ought not to window dress a company with people as directors who are not substantially interested?

Mr. DILLON. No. You ought not to window dress anything.

Mr. PECORA. But that is frequently done, isn't it?

Mr. DILLON. I think it has been done.

Mr. PECORA. And it has been quite a common practice to your knowledge, has it not?

Mr. DILLON. Well, I have seen boards of directors that looked as though the directors were just there lending their names; yes.

Mr. PECORA. You know of many instances where persons serving on many corporations the securities of which are sold to the public, and where those corporations represent a great diversity or variety of business interests, so many in fact that the director has no adequate opportunity for really fulfilling the functions of a director as those functions should be fulfilled.

Mr. DILLON. I think that may be true; but there are men that serve on a great many boards, and you wouldn't think they would have the time to do anything about their own companies. As a matter of fact, some of those men are the most helpful directors. I personally do not serve on any boards at all except these security companies, and that takes all of my time. Other people probably have greater capacity than I have and can serve on more boards. But I think a director should take a real responsibility for the company and should be familiar with its management and operation.

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Mr. PECORA. Take a personality like one of the directors of United States & Foreign Securities Corporation, Mr. Ecker.

Mr. DILLON. Yes, sir.

Mr. PECORA. He is the president of a great life insurance company, with billions of dollars of resources. Now, as the president of that company, looking after the safety and the interests of policyholders and the resources of the company, running into the billions of dollars, isn't it fair to assume that all of his working time would be consumed by attention exclusively to the interests of his life insurance company?

Mr. DILLON. Well, he is one of our most valuable directors, because of his familiarity with his own investments, which run into very large figures. His advice and guidance are of great value to us. We appreciate that he does give us the time that he gives us.

Mr. PECORA. Do you know on how many boards Mr. Ecker has served?

Mr. DILLON. No.

Mr. PECORA. The largest number at any one time, I mean; can you give us that?

Mr. DILLON. No. But I should like to finish my statement in connection with your previous question. His service is more than just a help to us. His company as shown by the last statement of the Metropolitan Life Insurance Co., owns 10,000 shares of the first preferred stock of the United States & Foreign Securities Corporation, which is a very substantial investment, and probably Mr. Ecker serving on that board is following the investment of his own company, because his company is a large stockholder, being the owner of first preferred stock.

Mr. PECORA. Don't you think the interests and activities of his insurance company are so vast as to require and absorb all of his time without his sitting on the board of directors of perhaps a dozen other corporations?

Mr. DILLON. Well, Mr. Pecora, I do not like to discuss the capacity of a particular individual. But I know Mr. Ecker very well, and he is a man of very high character, and I am sure he would not take time away from his own company that is needed in the operation of his company. I agree in general with your observation that a man with varied outside interests probably does not have as much time for his particular job as he could give it if he did not have these other duties. But I do not think that applies to Mr. Ecker.

Mr. PECORA. You think, then, he is an exception to the rule?

Mr. DILLON. Yes. I think Mr. Ecker is a man of very unusual ability, and that he would not take a job outside if it took too much of his time away from his own company.

The CHAIRMAN. That brings us to this thought: Whether or not some supervision or regulation of these corporations, particularly corporations engaged in interstate commerce, in the use of the postal facilities, isn't the proper thing for Congress to look at. Some of these corporations are growing very enormously and are becoming very powerful. They are run by a handful of men without regard to the stockholders. That is, the stockholders do not get a look in on the operations, and they are getting to be very immense in their power and strength.

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Proper regulation of corporations and the practices and operations of such corporations, and securing the rights of stockholders and all that sort of thing, might reach all the way along the line of our inquiry here even to the extent of the stock exchanges; whether or not Congress should undertake something like that in connection with the legislation which we expect to bring out, some control or regulation of these corporations, to correct some of the evils that we have found to exist. What would be your thought about that?

Mr. DILLON. I think you will correct many of them by requiring detailed and frequent publicity statements regarding their operations.

Mr. PECORA. How frequently do you think they should be required?

Mr. DILLON. I think as frequently as practicable, quarterly, and maybe even monthly if the data would be made available. I think the more details that are given to the investor and the stockholder, to the man who owns a company, the better it is, because it helps him to form a better judgment of the value of his investment. And I think it would go a long way toward satisfying the investing public if they could have and did have regular information in great detail. I mean in such detail as would be sufficient for them to form a real judgment of the operations and the value of their company.

Senator ADAMS. Congress, largely through the activity of this committee, passed what is known as the Securities Act recently, in which they require detailed information when a new security is put out. Would you, Mr. Dillon, following your own statement made just now, feel that it would be appropriate to go beyond that, and not merely require publicity and information when securities are put out, but require such information to be given out periodically by companies now doing business, so as to make it available to security holders and to security purchasers?

Mr. DILLON. Senator Adams, not only do I feel it would be appropriate, but I think it would be highly desirable. I think the Securities Act does not go far enough on the question of information. But there are things in that act, registration of certificates, for instance, that you will want to change. There are some things that are not so valuable.

Senator ADAMS. Even a committee of the Congress, it follows, makes mistakes, just like investment houses, sometimes.

Mr. DILLON. But I hope they do not make as many. [Laughter.] I think that requirement should go farther and should require continuing information. If a man buys a security, no matter how much information he may have when he buys it, if a year or 2 years thereafter he only gets his information once a year, he can go through many uncertain months without knowing what is going on in his company. And I think it would be entirely proper and helpful if you should require more regular giving of information. Does that answer your question, Senator?

Senator ADAMS. Yes, sir.

The CHAIRMAN. I think that is a good idea myself.

Mr. PECORA. Mr. Dillon, would you favor, in the light of your experience as a financier and an investor too, the enactment of a law by Congress, assuming that Congress has jurisdiction, requiring

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that all corporations whose securities are listed on any public exchange file, say monthly, if it be feasible and practical, a kind of statement of financial condition that you have just been discussing, in order that the investing public might be kept currently posted through the medium of such monthly reports of the general course of a corporation's business, and thereby enable the investing public to acquire reliable information and data that would be useful to the investing public in determining the value of the securities that are listed on the public exchanges?

Mr. DILLON. I think anything like that would be helpful. Maybe monthly is too often to have the thing in complete detail, but I should think certainly we should have quarterly, semiannually, and then monthly what it is practical to give. Because I think one of the things that an investor feels—most certainly we do, with our investments—is the desire for current information, and when we have to wait for an annual report and sometimes we have to wait 6 and 8 months, it leaves you in a position where he really cannot judge as intelligently as he should be able to regarding the value of your particular investment.

Mr. PECORA. Have you on occasions in the past endeavored to obtain for the benefit of these two investment trusts information from corporations whose securities the investment trusts have purchased concerning those corporations, and if so, what has been the result of those efforts, as a rule?

Mr. DILLON. My impression is that there have been instances where the men from the security companies or from Keswick have gone to the offices of companies in which the security companies are substantial stockholders to get certain information, particularly concerning the details of their sales, gross sales, and things of that nature. The companies have not been willing in all cases to give us the information that we would have liked to have.

The CHAIRMAN. That is so as to stockholders as well?

Mr. DILLON. We are stockholders. I am not speaking as a banker. My remarks were, Mr. Pecora, from the standpoint of a stockholder. I think the situation is improving all the time. I think companies are giving more and more information. But there are exceptions. It is not every company that does it, and I think every company whose stock is publicly held should do so.

Mr. PECORA. Should be required to?

Mr. DILLON. Yes.

Mr. PECORA. Are there any other views or opinions with respect to the very broad subject matters of this investigation that you would like to express to this committee while you are on the stand, Mr. Dillon? If so, I am sure the committee would be glad to hear them from you.

Mr. DILLON. I am glad to discuss anything that anyone wants to ask me; but as to volunteering anything, the only thought I have at the moment goes back to our discussion of responsibility of directors and officers of corporations. The Securities Act puts a rather definite responsibility on directors and officers of companies for matters beyond their own knowledge or own ability to know. I think a director or an officer should be responsible for what he can properly know. I think an accountant should be responsible for what

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he can properly know; an engineer likewise, and so forth. But making directors responsible for an error of an accountant, I am afraid, is going to make it very difficult to keep as directors the men you would like to keep on boards of directors. It is impossible for a director to know whether an accountant, for example, has made an error somewhere in his statements. I think that probably could be clarified. Put full responsibility on everybody but for their own acts and for what is properly within the range of their own knowledge, but do not make it quite as all-embracing.

Senator ADAMS. What responsibility would you put upon some of those who bear more or less distinguished names who sort of market those names by going on boards of directors—and there are such in New York that you know—who accumulate a rather large list of directorships and some of them draw rather large salaries? What kind of responsibility would you put on them?

Mr. DILLON. I should think the same responsibility as on any other director, and that is responsibility for carrying out his proper functions in a proper fashion.

Senator ADAMS. Here is a purchaser of stock who relies upon a published statement that goes through official channels under the Securities Act. There is a very serious error in that. Either the investor must lose because of that error or somebody else must make good. Now where should the loss be put? The investor is not in anywise responsible for that.

Mr. DILLON. No.

Senator ADAMS. The director has put his name up there as a managing officer. Is it an unfair thing to say to the director that he must bear the responsibility? While he did not know about it, at least his name was there and he had a chance, as against the investor who had no chance and who relied upon the information.

Mr. DILLON. I think there are two sides to that. I think that is all right from the investor's point of view, but who is going to be a director? You are not going to have people fighting to be on boards. You are going to have people getting off boards, because a man cannot take the responsibility.

Now, take a banker, for example. I don't want to avoid any responsibility that properly comes to the banker. But we could not go before the public representing that we know by our own knowledge that all the statements of an accountant are correct, all the statements of an engineer are correct, because we cannot possibly know that. We can go before the public saying that we have chosen reliable accountants and we have made them comply with the requirements of the Securities Act that such and such things must be examined and reported on. We have accepted their reports. That is as far as we can go. We should be responsible for giving to the public everything that we know from those reports.

Senator ADAMS. But it is the question as to a loss that is to fall on a man who is wholly innocent or upon the other man who had a chance to correct it.

Mr. DILLON. But has a director a chance to go back, say over a period of 10 years, and correct the figures that an accountant makes up? He cannot possibly do it.

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Senator ADAMS. But should the investor stand the loss?

Mr. DILLON. The thing is——

Senator ADAMS (interposing). In all of these cases where there is a loss between two more or less innocent parties you always have that problem, both an ethical and a legal problem.

Mr. DILLON. Yes; and you have the problem of protecting the investor and making it possible for a man to serve as a director.

Senator ADAMS. And from the standpoint now of a man dealing in investments, would not in the long run the investment houses be better off if the investor had that assurance that he could rely absolutely upon the responsibility of responsible people for those statements?

Mr. DILLON. I think he ought to have that right, but that ought to be divided. I don't think you can have an accountant responsible for an engineer's mistake, for example.

The CHAIRMAN. On the other hand, Mr. Dillon, you must recognize that these issuing corporations select their own accountants, select their own engineers. They are agents of the corporation issuing the securities. Ought not that corporation be responsible for the acts of its agents?

Mr. DILLON. I think the corporation itself should be. I think that is all right, sir.

Mr. PECORA. Mr. Dillon, yesterday I asked Mr. Tracy to prepare a list of the corporations other than those in which a director or officer of either of these two investment trusts or of which a member of the firm of Dillon, Read & Co. was a director or officer whose securities were purchased for the portfolio of the United States & International Corporation. You have given me this list?

Mr. DILLON. Yes.

Mr. PECORA. Is that list in answer to that request that I made of Mr. Tracy?

Mr. DILLON. Yes.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be received and entered in the record.

(The list of corporations referred to was thereupon designated "Committee Exhibit 23, Oct. 11, 1933," and is as follows:)

COMMITTEE EXHIBIT NO. 23, OCTOBER 11, 1933

UNITED STATES & INTERNATIONAL SECURITIES CORPORATION

Companies in the fortfolio of United States & International Securities Corporation on whose boards there are no representatives from either the directors, officers, or employees of United States & International Securities Corporation, United States & Foreign Securities Corporation, Keswick Corporation, or Dillon, Read & Co.; furthermore, Dillon, Read & Co. has not acted as banker for any of these companies:

American Radiator & Standard Sanitary Corporation.
American Smelting & Refining Co.
American Tobacco Co.
Atchison, Topeka & Sante Fe Railway Co.
Banque de Paris et des Pays-Bas.
Chesapeake & Ohio Railway Co.
Chrysler Corporation.
Deutsche Bank und Disconto-Gesellschaft.
Drug Incorporated.
General Baking Co.

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Gillette Safety Razor Co.
Guardian Casualty Co.
Liggett & Myers Tobacco Co.
Lorillard, P., Co.
May Department Stores Co.
Mead, Johnson & Co.
Missouri Pacific Railroad Co.
National Sugar Refining Co. of New Jersey.
Pacific Gas & Electric Co.
Pacific Western Oil Co.
Pennsylvania Co. for Insurance on Lives and Granting Annuities.
Pennsylvania Railroad Co.
Public Service Corporation of New Jersey.
Reynolds, R. J., Tobacco Co.
Southern Pacific Co.
Southern Railway Co.
Standard Oil Co. of California.
Title Guarantee & Trust Co.
United States Steel Corporation.

Mr. PECORA. I am through with this witness unless there is something more. The next witness will be Mr. Hayward.

TESTIMONY OF ROBERT OTIS HAYWARD, A MEMBER OF THE FIRM OF DILLON, READ & CO., NEW YORK CITY

The CHAIRMAN. Mr. Hayward, do you solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee, so help you God?

Mr. HAYWARD. I do.

Mr. PECORA. Mr. Hayward, will you give your full name and address to the reporter for the record?

Mr. HAYWARD. Robert Otis Hayward. My post-office address is Bronxville, N.Y. My residence is physically situated in the city of Yonkers.

Mr. PECORA. And what is your business address?

Mr. HAYWARD. 28 Nassau Street.

Mr. PECORA. Are you a member of the firm known as Dillon, Read & Co.?

Mr. HAYWARD. Yes; I am.

Mr. PECORA. How long have you been a member of that firm?

Mr. HAYWARD. I became vice president in 1927—January.

Mr. PECORA. Was that your first connection with the firm in any capacity whatsoever?

Mr. HAYWARD. No. My first connection with the firm dates back to 1916. I have been continually associated with them since that time, with the exception of the period while the United States was in the war. I then received leave of absence and represented the State Department and the War Trade Board in Europe.

Mr. PECORA. The firm of Dillon, Read & Co., which is a joint-stock corporation, was organized some time in 1921?

Mr. HAYWARD. Yes.

Mr. PECORA. And were you connected with it from that time to the present time?

Mr. HAYWARD. Yes.

Mr. PECORA. You are now one of the vice presidents of it?

Mr. HAYWARD. Yes.

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Mr. PECORA. And have been since 1927?

Mr. HAYWARD. That is correct. 1922, I am told, the joint-stock corporation was organized.

Mr. PECORA. Now, Mr. Hayward, since you have been connected with the legal entity known as Dillon, Read & Co. have you had any special branch of activities or business of that company committed to your charge, or are your activities of a general character?

Mr. HAYWARD. We are not strictly departmentalized, but during all the time since 1916 I have devoted most of my time to our foreign interests. Of course, I could not always be personally familiar with all of those transactions, but so far as our organization exists today I am more familiar with those transactions than anyone else, and I am quite ready to assume full responsibility for all of them.

Mr. PECORA. Mr. Hayward, are you familiar with an issue of 8 percent sinking fund gold bonds made by the city of Rio de Janeiro in the Republic of Brazil, dated October 1, 1921, and maturing October 1, 1946?

Mr. HAYWARD. Yes, I am.

Mr. PECORA. Did Dillon, Read & Co. underwrite that issue?

Mr. HAYWARD. With associates, yes.

Mr. PECORA. With associates. Did you have anything to do personally with the transaction that led to the underwriting of these bonds by Dillon, Read & Co. and its associates?

Mr. HAYWARD. To answer that adequately I will have to ask you to look into that distant scene you so aptly referred to last week for a moment.

I was in Brazil in the summer of 1921. During my visit I became acquainted with the mayor of the city of Rio, who at that time was Dr. Carlos Sanpaio. Dr. Carlos Sanpaio had been for some time extremely anxious to carry on a program of municipal improvements, and I discussed the matter with them on a great many occasions. I met his subordinates in the Treasury Department. I looked over some of the improvements that he wanted to carry out, and as a result of some protracted negotiations I accepted on behalf of the firm an option from Dr. Carlos Sanpaio for this loan.

Mr. PECORA. What was the amount of it?

Mr. HAYWARD. The amount of the loan was $12,000,000. There was one complication, however, which had to be removed before we could proceed to a public offering. The reason was that the city of Rio de Janeiro had previously borrowed in the United States. In 1919 through the firm of Imbrie they had issued $10,000,000 of bonds maturing serially, the first maturity occurring I think in March 1922. In connection with that loan the city had given to Imbrie & Co. an irrevocable option on all future financing.

Unfortunately, by the time of my visit, the firm of Imbrie & Co. had fallen into difficult times, and I think a receiver had been appointed in the Federal courts in New York. That left the mayor of Rio de Janeiro, Dr. Sanpaio, in an extremely embarrassing position, because obviously he could not finance through any other banking house unless this option were removed. Therefore he appealed to me to help him out of this situation, and I put the option in my pocket and came back to New York. Senator McAdoo, a member of this committee, was our counsel at that time, and with his collaboration

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we took the matter up with the Federal court, and as the result of some discussions a sum was fixed which the court would be willing to allow the receivers to accept in cancelation of this tie.

Mr. PECORA. May I interrupt you just a moment there, Mr. Hayward? When you say Senator McAdoo was your counsel at the time, you mean that he was at that time a member of the law firm of McAdoo, Cotton & Franklin, and that law firm was general counsel for Dillon, Read & Co. at that time?

Mr. HAYWARD. That firm were counsel for us in all these early Brazilian issues.

Mr. PECORA. In your reference to Senator McAdoo, did you mean to imply that he personally rendered legal services that were rendered by counsel to your firm in connection with this particular issue?

Mr. HAYWARD. Oh, yes; in connection with this transaction, because he personally worked on that with me until the matter was cleared up. The matter of drawing the contract was in the hands of his firm. I believe the actual drafting of it was largely in the hands of Mr. Joseph P. Cotton.

Where was I? Will you please read the last part of my statement?

(The reporter read as requested.)

Senator COUZENS. What was that amount?

Mr. HAYWARD. $120,000 was the total sum to be paid to the bankrupt estate.

Senator COUZENS. For the waiving of the option?

Mr. HAYWARD. Yes.

Mr. PECORA. That $120,000 happened to be exactly 1 percent of the face amount of the loan.

Mr. HAYWARD. Yes; exactly.

Mr. PECORA. Was it fixed at that percentage rate advisedly?

Mr. HAYWARD. The Senator and I discussed it with the judge. I do not remember now just how that sum was arrived at, but it was felt by all concerned, including the receivers for the bankrupt estate, that that was a reasonable figure.

Mr. PECORA. You would not have sought to acquire the rights of Imbrie & Co. under their contract or agreement or understanding with the city of Rio de Janeiro unless you thought it was a profitable thing for your company to succeed to the position of Imbrie & Co. as the external financiers for the city?

Mr. HAYWARD. No; certainly not. That would have been charity.

Mr. PECORA. In other words, you paid this $120,000 for the privilege of doing business with the city of Rio de Janeiro with respect to the underwriting of its loans.

Mr. HAYWARD. That is correct. That $120,000 was to be paid if the public issue was made, as it was.

Senator ADAMS. Did you take over the same rights as this other firm had?

Mr. HAYWARD. No. We made a present of that to the mayor. I felt it was very unreasonable to tie the city up.

Senator ADAMS. You did not become the eternal and perpetual guides, as this other firm was?

Mr. HAYWARD. No. As a matter of fact, it may interest you to know that we brought out the loan of $12,000,000 for the city in 1921.

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The following year the city made a public offering in this country through another banking house, of $13,000,000 of bonds with which we were not associated. In 1927 or 1928 two more issues were made through still another banking house. In other words, this transaction we are now discussing was the only one in which we acted as issuers for the city.

Senator ADAMS. Is this type of arrangement which this bankrupt firm had a common transaction for a city or foreign government to make, an irrevocable and perpetual contract to give an exclusive right to handle financial adjustments?

Mr. HAYWARD. It is my opinion that that went a great deal further than the normal practice. It is occasionally done in the form of a limited option, perhaps an option for a period of a year or 6 months. Very frequently we ask a city to agree that they will not issue any other bonds for 6 or 12 months after our issue, the idea being to use it as somewhat of a brake on their future financing and protect the people who have bought these bonds, but an option in this form was quite unusual. I do not recall ever having seen one as drastic, and that was the reason which led us to make the mayor a present of it and tear it up.

Senator COUZENS. Are any of these bonds, either in principal or interest, in default?

Mr. HAYWARD. All the outstanding ones are in default, Senator. The issue has been reduced since 1921 from $12,000,000 to approximately $8,000,000 by the operation of the semiannual sinking fund. They failed to pay in 1931. They have been in default since then.

Senator COUZENS. Are all those other bonds which have been floated by the other houses also in default?

Mr. HAYWARD. That is correct. All the Brazilian municipalities and States are at the present time in suspense as to payments, with one or two exceptions, such as the coffee loan of Sao Paulo.

Mr. PECORA. By "suspension" you mean in default?

Mr. HAYWARD. Yes.

Senator ADAMS. It is the bondholder that is in suspense?

Mr. HAYWARD. They are all in suspense.

The CHAIRMAN. Your contract did not provide for limiting their issue in any way?

Mr. HAYWARD. No, Senator.

Mr. PECORA. By the way, do you know about the present market value of the bonds represented by this particular $12,000,000 issue that you are going to testify about?

Mr. HAYWARD. $160 per thousand dollar bond.

Mr. PECORA. Will you resume your narrative of the circumstances under which Dillon, Read & Co. underwrote this issue back in 1921?

Mr. HAYWARD. This obstacle then having been removed, the city was free to proceed with the issue, and a public offering was eventually made on the basis of that option, which was common with all these early issues. The contract was subsequently drawn up and signed, and the bonds were delivered to the purchasers.

Mr. PECORA. Did you personally handle the negotiations that led to the underwriting of this issue for the city by your firm?

Mr. HAYWARD. With the mayor?

Mr. PECORA. Yes.

Mr. HAYWARD. Yes, sir.

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Mr. PECORA. What was to be the purpose for which the loan was to be made? In other words, what uses were to be made of the proceeds of the loan by the municipality?

Mr. HAYWARD. The principal purpose was designated as municipal improvements. The outstanding purpose was an extremely interesting operation which the city of Rio de Janeiro had had in mind for a number of years. I think if I show the committee this map it will make it a little clearer to you [exhibiting a map]. This [indicating] is the business section of the city of Rio de Janeiro. Rio de Janeiro clusters around high mountains, extremely sharp ones in some cases, so that in one instance, particularly, you will find only one street between the ocean and the mountain range. The principal business street of the city runs across from here to here [indicating] and at this point [indicating] was a large hill, called the Morro do Castello.

Mr. PECORA. A free translation of that name into English would be "Castle Hill"; isn't that right?

Mr. HAYWARD. That is right.

Mr. PECORA. You may refer to it as "Castle Hill."

Mr. HAYWARD. Very well. I will try to use as few Portuguese names as possible.

The CHAIRMAN. The high mountains you speak of are only about 2,000 feet.

Mr. HAYWARD. That is pretty high for an Easterner.

Senator ADAMS. It is pretty high for a fellow from Florida.

The CHAIRMAN. But not very high for a fellow from Colorado. [Laughter.]

Mr. HAYWARD. There are approximately 5,000 people living on the top of this hill, and it was the slums of that section of the city. On the other hand, the property all around it was the most valuable business property that the city has, and for a good many years the succeeding mayors of Rio had had in mind to make it their monument to tear down this hill. It is a very common thing in the case of Latin American officials to select some item of public works which they can tackle during their term of office, and leave to posterity something with which their name can be attached.

Mr. PECORA. Is that weakness exclusive to Latin American countries?

Mr. HAYWARD. I have heard of it in our own municipalities. I understand now, however, we are discussing only foreign countries. So that they have been extremely anxious to demolish this hill. When I arrived in Rio that summer, the mayor took me over the location, and I found that a local contractor had been at work on it for some time. I do not recall exactly how long, but they were doing it in such a manner that it would have taken certainly the next 20 years to remove the hill. In other words, it was a pick-and-shovel job.

There were small donkey carts, and they would draw up in a row and the dirt would be put into the cart and they would go down the street. As they went down the street a red flag was placed in the driver's seat and he would be checked off and the contractor would be credited with removing so much dirt. Being of a somewhat curious temperament, I walked around the block one day and observed that it was quite the common practice for the drivers to

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conceal the red flag after they had gone by the checking station, and thus they got credit twice for the amount of dirt they had removed.

Mr. PECORA. Is that practice peculiar only to South America? [Laughter.]

Mr. HAYWARD. It displays an ingenuity which perhaps is general.

Mr. PECORA. What Senator Steiwer might call an old Spanish custom? [Laughter.]

Mr. HAYWARD. The mayor appreciated that this was wasting money, and he also felt that there was no chance of the mountain being demolished during the term of his office, and therefore he would not get much credit for it. He was anxious for us to suggest some competent American engineers who would do the job quickly and in an efficient manner and use the latest approved methods. That was really the basis for this loan.

Mr. PECORA. In other words, the proceeds of the loan were to be used principally for the removal of this Castle Hill?

Mr. HAYWARD. That is correct.

Mr. PECORA. Was it also designed, in connection with this public improvement, for the municipality to sell the leveled land that would remain, the area, rather after the hill had been removed.

Mr. HAYWARD. That is correct.

Mr. PECORA. In other words, they were going to reclaim what was a hill into level land, and sell the lots.

Mr. HAYWARD. What they did was this. They asked us to suggest some one to them who was an expert in sluicing, the idea being to put flumes across this roadway and, in effect, wash the mountain into the bay. So that if you go down there today you will find this land entirely flat, and out here [indicating] there is a sea wall which takes about that space [indicating], and this mountain has been filled into the bay, thus producing about twice as much in area as there was before. That land, as you have seen by the prospectus, was the most valuable land in the city of Rio de Janeiro, and as part of the security for this loan, it was agreed that as and when the municipality could dispose of those lots, they would remit the proceeds of such sales to us in New York to be used in retiring the bonds of this issue. They did reserve, as I recall it, the right to use part of the land for municipal purposes if they so desired, or for the purposes of the federal government, but that was the spirit of the agreement. It was at that time, I believe, estimated that the land in that neighborhood was worth approximately $11 per square foot. If such a price could have been realized it would, of course, have been enough to pay off almost all the funded debt of the city.

Mr. PECORA. Which was what, at that time?

Mr. HAYWARD. That would be in the circular. I do not recall. [After consulting an associate:] $49,000,000.

Mr. PECORA. Of which about one half was external?

Mr. HAYWARD. Yes.

Mr. PECORA. All right. Proceed.

The CHAIRMAN. What was accomplished? The land was leveled, you say, and that area reclaimed?

Mr. HAYWARD. The hill was, in effect, washed into the bay.

The CHAIRMAN. Did they sell the lots?

Mr. HAYWARD. The sale of the lots is another story.

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Mr. PECORA. I was coming to that.

Mr. HAYWARD. I suspected so.

Mr. PECORA. I was going to come there step by step, and not take in the distant scene at one glance.

Mr. HAYWARD. I was sorry to see a Washington paper quote you as looking at the "distant sea." He evidently is not a good Episcopalian.

Mr. PECORA. I do not know where that came from. I do not recall having given out any such interview.

Mr. HAYWARD. You were talking about the distant scene last week. The reporter said you spoke of the "distant sea."

Mr. PECORA. He might have had reference to the Atlantic, which I crossed a great many years ago.

Mr. HAYWARD. Senator, the history of the sale of lots is this. This work was begun in 1922, under the supervision of the American contracting firm which was designated.

Senator COUZENS. What was the name of that firm?

Mr. HAYWARD. Kennedy & Co. It proved to be a long job. The hill was not finally removed and the land was not finally made available for sale until sometime in the middle of 1929. If you could go down there and see this property, you would appreciate that the sale of any lots would be quite impossible until the whole improvement had been completed. In other words, a person would not buy a piece of property and settle on it or build a house with a steam shovel working in his back yard, and although that area looks quite large, it is only a matter of a few city blocks. After that was completed, the land had to be leveled, sewers had to be laid, it had to be paved, and all those processes took a considerable amount of time, so that I believe it was not until about the middle of 1929 that sales would be possible.

Mr. PECORA. In the course of your conversations with the mayor of Rio de Janeiro with respect to the proceeds of this loan, was anything said about the time when the improvement you were referring to, the leveling off of this hill, and so forth, would be completed?

Mr. HAYWARD. He foresaw that it would take a period of years.

Mr. PECORA. Did he so tell you?

Mr. HAYWARD. I do not think he needed to tell me. That would be obvious.

Mr. PECORA. You foresaw that yourself?

Mr. HAYWARD. Certainly. That would be obvious. It was impossible for anyone to estimate exactly the length of time that would be required. As I recall it, when the core of the hill was reached, it was found that a good deal of it consisted of hard rock that had to be blasted and removed in freight cars, and it took the city some time to find a place where they could put that material. One reason or another made it a long job.

The CHAIRMAN. Did that go into the bay?

Mr. HAYWARD. They filled to a certain extent, and after that there was surplus material, and that had to be taken off in another part of the city.

The CHAIRMAN. They built the wall.

Mr. HAYWARD. Yes; they built the wall. Rio de Janeiro has five or six bays like this, with the city around each one.

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The CHAIRMAN. Where is the Monroe Monument?

Mr. HAYWARD. Right here at the end of the street, Senator. That has been used until recently as the meeting place of the Brazilian legislature.

We are now in the middle of 1929. By that time the conditions for the sale of real estate were not particularly favorable. They have become progressively less favorable since.

The city started, in early 1930, to boom the sale of lots, and they advertised auctions and put up pieces of property for sale just to test out the market. The response, however, was quite limited, and, to make a long story short, at the present time a very small number of lots have been disposed of.

Mr. PECORA. To an aggregate value of how much?

Mr. HAYWARD. Well, they have on deposit in Brazil at the present time the equivalent of a quarter of a million dollars at the present rates of exchange, representing the part of the proceeds of sales which has been paid in. In order to effect these sales they had to arrange for payment on the installment plan, and so the payments for lots sold have not all come in, but at the present time they have approximately a quarter of a million dollars, I am advised, awaiting shipment to New York when exchange makes it possible. That, of course, is a very small product for such a length of time, but the security is still there. I think it is good security. I cannot think of anything better.

Mr. PECORA. Are you referring to the land value?

Mr. HAYWARD. The land. After all, your security cannot be removed short of an earthquake or the drastic retrogression of the shore line.

Senator COUZENS. You say this land is security for these bonds?

Mr. HAYWARD. That is correct. The proceeds from the sale of land which is not used by the Federal Government or the city government.

Senator COUZENS. Is it an obligation of the whole community?

Mr. HAYWARD. Yes, indeed.

Senator COUZENS. It is not an obligation of this contractor?

Mr. HAYWARD. No; it is an obligation of the city.

The CHAIRMAN. Are they selling the reclaimed lots?

Mr. HAYWARD. The city can retain some of the property if it wishes.

The CHAIRMAN. I mean the reclaimed land.

Mr. HAYWARD. It is all part of one piece.

The CHAIRMAN. They are dividing that into lots?

Mr. HAYWARD. Yes. I would rather have this as security for a bond than I would, for instance, the bonds of a neighboring government which are secured by the droppings of birds on a desert island. I would be rather afraid that my security might be dropped in the wrong country which did not recognize the right of recapture.

Mr. PECORA. The general result of your conversations with the mayor was that they wanted to borrow $12,000,000 through the sale of bonds, and that the proceeds of that issue were to be used primarily for the leveling of this Castle Hill, the reclamation of the superficial area occupied by the hill, and the sale of lots in that superficial area to the public?

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Mr. HAYWARD. That is correct.

Mr. PECORA. Was there not another purpose also discussed between you and the mayor to which the proceeds of the loan were to be applied?

Mr. HAYWARD. Yes. I have mentioned simply the most striking purpose. Another purpose was the construction of a municipal slaughterhouse.

Mr. PECORA. Were those improvements regarded as revenue-producing improvements?

Mr. HAYWARD. No; I should say not.

Mr. PECORA. The reason I asked you that is because in the circular that was issued by your firm and its associates in the underwriting of these bonds the following statement is made concerning the uses to which the proceeds of this loan would be applied:

The proceeds of this loan are to be chiefly employed for permanent and revenue-producing municipal improvements, including the removal of Castle Hill and the construction of a municipal slaughterhouse.

Mr. HAYWARD. That is correct, Mr. Pecora. I was speaking simply in the case of the hill——

Mr. PECORA. The removal of the hill was to absorb by far the major portion of the proceeds of this loan?

Mr. HAYWARD. That is right. This is a capital asset.

Mr. PECORA. Not a revenue-producing one, but a capital asset?

Mr. HAYWARD. If you sold lots, in a sense that is revenue, but not an annual revenue, not a recurring, regular sum.

Mr. PECORA. After paying this $120,000 for the rights, your firm entered into a loan agreement or contract with the municipality with respect to this loan, did it not?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. Have you a copy of it here?

Mr. HAYWARD. I think your assistants have one.

Mr. PECORA. Mr. Hayward, will you kindly look at the printed documents that I will now hand you and tell us if they constitute a true and correct copy of the contract or loan agreement entered into by Dillon, Read & Co. with the city of Rio de Janeiro dated as of October 1, 1921, with respect to this loan, and also of a supplemental agreement between the same parties dated as of October 1, 1921, covering the same loan?

Mr. HAYWARD. Yes. That seems to be identical with ours.

Mr. PECORA. I offer it in evidence.

(The contract referred to, dated as of Oct. 1, 1921, was marked "Committee Exhibit No. 24", see p. 1938.)

I observe that the contract just offered in evidence, with respect to the date thereof, reads as follows:

"Contract dated as of October 1, 1921, made by" so-and-so and so-and-so. Does that language mean that the contract itself was not signed or executed on October 1, 1921?

Mr. HAYWARD. That is what I take it to mean.

Mr. PECORA. When was it actually executed in this instance?

Mr. HAYWARD (after consulting with associates). I am told it was actually executed about October 31.

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Mr. PECORA. And when was the supplementary contract which is annexed to this main contract, as offered in evidence, actually executed?

Mr. HAYWARD. At the same time.

Mr. PECORA. And that also is dated as of October 1, 1921?

Mr. HAYWARD. That is correct.

Mr. PECORA. I suggest, Mr. Chairman, that we take a recess at this time.

The CHAIRMAN. We will have that contract admitted in evidence and placed on the record.

Mr. PECORA. It has already been offered in evidence.

Mr. HAYWARD. You will find that in all these early contracts, Mr. Pecora, they are all dated " as of " some date.

Mr. PECORA. I am coming to that this afternoon.

The CHAIRMAN. The committee will take a recess until 2 o'clock.

(Whereupon, at 1 p.m., a recess was taken until 2 p.m.)

AFTERNOON SESSION

The hearing was resumed at 2 p.m., Wednesday, October 11, 1933, at the expiration of the noon recess.

The CHAIRMAN. The committee will come to order. You may proceed, Mr. Pecora.

TESTIMONY OF ROBERT OTIS HAYWARD, A MEMBER OF THE FIRM OF DILLON, READ & CO., NEW YORK CITY—Resumed

Mr. PECORA. Mr. Hayward, you testified this forenoon that the loan contract into which your firm entered with the city of Rio de Janeiro, and which has been marked in evidence as " Committee's Exhibit No. 24 " of this date, although dated textually as of October 1, 1921, was not actually executed until the 31st of October 1921.

Mr. HAYWARD. That is my best recollection.

Mr. PECORA. And you testified also that the same is true of the supplementary contract?

Mr. HAYWARD. That is correct.

Mr. PECORA. When did your firm actually issue and offer to the American investing public the bonds representing this loan? When did you make a public offering of this issue of bonds?

Mr. HAYWARD. October 7.

Mr. PECORA. 1921?

Mr. HAYWARD. 1921.

Mr. PECORA. Why was the offering made to the American public before the terms of the loan contract had been actually embodied in an agreement?

Mr. HAYWARD. The terms of the loan contract were contained in the option which I received from the mayor at a previous date. The definitive contract simply embodied those terms in the usual legal phraseology.

Mr. PECORA. Have you a copy of that option with you?

Mr. HAYWARD. Yes. I think you have it too, Mr. Pecora.

The CHAIRMAN. Do you remember the date of the option, Mr. Hayward?

Mr. HAYWARD. The option was dated September the 3d.

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Mr. PECORA. May I look at your copy of the option agreement?

Mr. HAYWARD. Certainly. [Handing same to Mr. Pecora.]

Senator COUZENS. While you are looking that up let me ask this question: What price did you pay for the loan?

Mr. HAYWARD. Ninety-one.

Senator COUZENS. You paid 91?

Mr. HAYWARD. Eighty-nine and interest.

Senator COUZENS. Eighty-nine and interest. And what did you offer it at?

Mr. HAYWARD. Ninety-seven and three fourths.

Senator COUZENS. What maturities were they?

Mr. HAYWARD. Twenty-five years.

Senator COUZENS. And what did that net the investor?

Mr. PECORA. Supposed to net about 8⅕ percent.

Mr. HAYWARD. 8.20.

Senator COUZENS. Did you market them through your own selling agency, and if so, what portion of them?

Mr. HAYWARD. Well, Senator, at that time our retail interests would take some small percentage of the issue. The greater part, however, would be sold to other dealers. What you might call the wholesale part was far more important than the retail was.

Senator COUZENS. How many points between the wholesale and retail prices?

Mr. HAYWARD. What you might call the originating profit was from 89 to 91. There was then a banking group which brought it from 91 to 93¾. The syndicate received four points. That is the difference between 93¾ and 97¾.

Senator COUZENS. Was that not a rather unusual spread?

Mr. HAYWARD. Oh I do not think so, Senator, for this type of business. No.

Senator COUZENS. I remember the Senate Finance Committee held extensive hearings on Senator Johnson's resolution in respect to selling of foreign securities, and it seemed to me that there were hardly any spreads that great.

Mr. HAYWARD. Well, they may not have been gone into in detail. Of course, at that time we filed a complete table of all of our foreign issues giving the various steps. And looking back to 1921 I should say that this was quite normal. And, of course, out of our part of the originating profit we had to contribute toward this amount we spoke of this morning that we paid to Imbrie & Co. We paid part of that and part of that was paid by the banking group, and part I believe by the syndicate. It was divided among three groups.

Mr. PECORA. Mr. Hayward, I have hurriedly read the text of the so-called "option" which you have shown me, and unless I have overlooked something in it I fail to find any commitment in this option as to the purposes for which the proceeds of this loan were to be used. That is an important detail, is it not?

Mr. HAYWARD. Well now, Mr. Pecora, I think that is a question.

Mr. PECORA. What do you think about it?

Mr. HAYWARD. I should regard it myself as perhaps the least important of the details.

Mr. PECORA. Is it one of the least important details for an underwriter who proposes to sell to the investing public an issue of bonds to

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know what use is going to be made of the proceeds of those bonds by the borrower?

Mr. HAYWARD. Well, certainly an underwriter would as part of his examination of the issue—that is before he reaches the point where he has decided to buy the issue—want to know in connection with his study of the borrower's general characteristics and his financial position, about what the money was to be used for.

Mr. PECORA. You do not call such a negotiation one of the minor details, do you?

Mr. HAYWARD. When I said minor details I was getting a step further than that, that is, when it comes to the public offering. My impression is that in the offering of governmental and municipal bonds the purpose of issue is of comparatively minor importance. So much so that in our municipal financing in this country it is frequently the case that issues are offered for sale without any reference whatever to the purpose for which the money is to be devoted.

Senator COUZENS. Will you give us some example of that. My observations are in disagreement with that conclusion.

Mr. HAYWARD. Well, I can look some up. I happened to see the other day an advertisement, Senator, of the city of New Haven, Conn., offering an issue of municipal bonds where there was nothing in the advertisement except a description of the bond itself. There was not even a reference to the financial condition of the municipality.

Senator COUZENS. Is it not a fact with most of these municipal bonds that it is usually stated that they are issued for school purposes, or for refunding, or for city hall, or for sewers, or for water works, or for something of that sort?

Mr. HAYWARD. Well, it is and it is not. I do not know that you can lay down a strict rule about that.

Mr. PECORA. Well, is that not the general rule? It may not be followed in every case, but is not that the prevailing rule, in your experience?

Senator COUZENS. It is my experience.

Mr. HAYWARD. Certainly it would be true in the legal authorizations for the loan. But I know that certainly there are a good many instances when that is not stated in the prospectus.

Mr. PECORA. Where, for instance, a municipality is seeking to obtain a loan for public-improvement purposes and it indicates that the public improvements that are to be constructed with the proceeds of the loan are not of a revenue-producing character, a self-liquidating character, is not that an important circumstance that is considered by a prospective lender or underwriter?

Mr. HAYWARD. More by the underwriter than by the ultimate purchaser, I should think.

Mr. PECORA. Well, the ultimate purchaser buys usually without any detailed knowledge of the loan agreement, does he not?

Mr. HAYWARD. Yes.

Mr. PECORA. So that the underwriter who proposes to pass on the bonds that he underwrites to the investing public virtually assumes and accepts there a responsibility to the investing public, does he not?

Mr. HAYWARD. Well, I think that is a legal question.

Mr. PECORA. That is inherent in the situation, is it not?

Mr. HAYWARD. That is a legal question.

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Mr. PECORA. No; I am not talking about it as a legal question but as a moral question.

Mr. HAYWARD. No; I should think not.

Mr. PECORA. As a matter of fact, Mr. Hayward, when you negotiated this loan with the city of Rio de Janeiro on behalf of your firm you knew, did you not, that it was the purpose and intention of your firm to sell these bonds in the American market?

Mr. HAYWARD. Yes.

Mr. PECORA. And to sell them at a price that would reap a satisfactory profit to your firm?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. Your firm undertook it partly as a business proposition?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. In view of the fact that your firm through its representative right on the ground, consisting of yourself, was in a position to inform itself fully of all the purposes for which the proceeds of the loan were to be applied, and in view of the fact that you knew at the time that your firm intended to pass these bonds on to the American investing public, and that the American investing public would not have any opportunity comparable to yours to inquire into the credit of the municipality that was negotiating this loan with you, did you not think it was up to you to exercise all the caution, judgment and care and circumspection you possibly could to make sure that these bonds would be a sound investment for the American public?

Mr. HAYWARD. I did, certainly.

Mr. PECORA. You did?

Mr. HAYWARD. We were discussing just before, I thought, a general theoretical point.

Mr. PECORA. In determining the soundness of such an investment do you not pay more than mere passing attention to the question of what is to be done with the proceeds of the loan by the municipality?

Mr. HAYWARD. Well, it would be very important first of all in making up your own mind as to whether the borrower was what you might call a profligate spender or was careful in placing loans and spending money. The point I had in mind was this, that it is my impression when the public buys a bond that bond is purchased for the sake of the particular features of maturity, interest, and sinking fund rather than what is going to be done with the money after the borrower takes it down.

Mr. PECORA. And do you think that the ultimate buyer, which is the investing public, does not take into account at all the factors that go to determine the credit of the borrower and the ability and capacity of the borrower to meet his obligations under the bond?

Mr. HAYWARD. Well, we are talking now of bonds of sovereign governments. I think that the average member of the public in buying the security would rely chiefly on his belief in the integrity and goodwill of that sovereign. Not so much on what it was going to do with the money.

Mr. PECORA. Well, do you not think that the buyer in the American market as a matter of fact relies a good deal upon the standing,

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prestige, and integrity of the issuing house, of the underwriting house?

Mr. HAYWARD. Certainly; to quite an extent.

Mr. PECORA. Yes. And because of that fact do you not think that the underwriter bears a relationship of a fiduciary character to the investor who buys in reliance upon the prestige and standing and judgment of the underwriter?

Mr. HAYWARD. Well, I do not know about the fiduciary character. That is a pretty broad term.

Mr. PECORA. I am using it in the broad sense.

Mr. HAYWARD. Yes.

Mr. PECORA. Not in the narrow, legal sense.

Mr. HAYWARD. Certainly they rely on the issuing house doing its utmost to know all about what it is offering.

Mr. PECORA. Where a municipality, particularly in a foreign land, borrows money and issues its bonds as evidence of the loan, and those bonds are underwritten by an American banking house with a view to ultimately selling it to the American investing public, would not knowledge of the purposes for which the proceeds of the loan are to be applied be of value to the underwriter in determining the soundness of the security or the soundness of the loan?

Mr. HAYWARD. Oh, I think it might, and it might not. I think it depends entirely on the individual circumstances.

Mr. PECORA. Would it not always contribute materially to the judgment of the underwriter as to the soundness of the loan?

Mr. HAYWARD. I think it might and it might not. I do not want to waste time in bandying words with you, but I think it depends on the individual circumstances, it seems to me.

Mr. PECORA. In the study that you made of various loan negotiations with foreign jurisdictions in behalf of Dillon, Read & Co. did you approach the question of determining the soundness of the loan in the manner that you have indicated?

Mr. HAYWARD. We always tried to; yes, sir.

Mr. PECORA. I mean the matter of the disposing of the proceeds by the borrowing municipality or country was of slight consequence to you in aiding you to form a judgment as to the soundness of the loan?

Mr. HAYWARD. It certainly was of some consequence.

Mr. PECORA. Well, was it of material consequence, or slight, or minor consequence?

Mr. HAYWARD. I should say of minor consequence. What we rely on is the integrity of the borrower in the case of a foreign governmental body, and that is all you can rely on, it seems to me.

Mr. PECORA. Well, where the proceeds of a loan are to be used for the construction of revenue-producing and self-liquidating improvements, isn't there, in that circumstance of a loan, a greater security back of the bonds?

Mr. HAYWARD. May I have that question read?

Mr. PECORA. Yes; the committee reporter will repeat it for you. [Which was done.]

Mr. HAYWARD. Well, there might and there might not be. The breakdown at the present time in Latin America is due, of course, to circumstances which at that time no one could foresee. Chiefly

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there is a breakdown in the exchange relationship between those countries and other countries. Now, in all of these loans which your assistants have been examining you have a concrete illustration of where you have a security which under almost any circumstances would be valuable but which under the present emergencies of today cannot be realized upon.

Mr. PECORA. What was said in the option to which you have referred concerning the purpose or purposes to which the proceeds of this loan were to be applied?

Mr. HAYWARD. The letter of September 3 of itself doesn't go into the details of the use of the proceeds. You will find, Mr. Pecora, that that is covered in the letter of October 4, or the cable of October 4, which——

Mr. PECORA (interposing). You will recall that a few minutes ago when I asked you to explain to the subcommittee the reason for your firm on October 7, 1921, offering these bonds to the American investing public in advance of the actual execution of the loan agreement, which execution was had on October 31, 1921, you replied, in substance, that because you had this option of September 3, 1921, you knew what the loan agreement was to be.

Mr. HAYWARD. Yes, sir.

Mr. PECORA. Now, I looked at that option agreement, and like yourself, I was unable to find anything there that committed the municipality to the application of the proceeds of this loan to any definite thing or usage.

Mr. HAYWARD. Their general expression of intent as to how they would use the proceeds.

Mr. PECORA. And what was it as to date?

Mr. HAYWARD. It was contained in this cable.

Mr. PECORA. Well, now, the cable is something that came more than a month after that option, isn't it?

Mr. HAYWARD. Oh, no.

Mr. PECORA. Well, what is the date of the cable?

Mr. HAYWARD. It is 1 month afterwards.

Mr. PECORA. What is the date of the cable?

Mr. HAYWARD. October 4.

Mr. PECORA. And the date of the option is September 3?

Mr. HAYWARD. Yes, sir. That was previous to the date of the public offering, though.

Mr. PECORA. What is there contained in the cable concerning the application to be made of the proceeds of the loan by the municipality?

Mr. HAYWARD. Let me see. [Looking at paper.]

Senator COUZENS. Who is the cable from and to?

Mr. HAYWARD. The cable is from our representative in Brazil, Sir Alexander MacKenzie, to us in New York, and is based on a signed statement he had received the previous day from the mayor of the city.

Senator COUZENS. What does the cable say?

Mr. HAYWARD. It says:

We accept loan of 12 million dollars on conditions your proposal September 3, with the following changes and additions——

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Shall I read the whole thing?

Mr. PECORA. No. Just read that portion that indicates the purpose to which the proceeds of the loan were to be applied.

Mr. HAYWARD. It says:

First. $1,500,000 will remain on deposit to be applied in purchase of municipal bonds which we will indicate.

Mr. PECORA. In other words 1½ million dollars were to be first applied toward the retirement or redemption of some floating indebtedness?

Mr. HAYWARD. Some municipal bonds.

Mr. PECORA. All right. Go ahead.

Mr. HAYWARD. And it says:

Second. Minimum (?) required for slaughter house is $1,500,000.

Third. $5,000,000 to be deposited in bank here to be approved by us, for Morro and connected works, as mentioned by Alexander MacKenzie's telegram to you, No. 20——

Mr. PECORA (interposing). That refers to the leveling of Castle Hill?

Mr. HAYWARD. Yes. It goes on:

No. 20, October 2, including some mention Clause no. 2 of said telegram.

I think that is all that covers this point.

Mr. PECORA. How much was to be applied to Castle Hill?

Mr. HAYWARD. Five million dollars, to be put in bank.

Mr. PECORA. Does it appear from any cable you had, or any communication you had at that time from any other source, how much this Castle Hill improvement was to cost?

Mr. HAYWARD. Of course, I discussed that at great length with the mayor when there.

Mr. PECORA. And what was that cost?

Mr. HAYWARD. He felt, having 5 million dollars in this fund, that any contractor coming down there to do that specific part of the work should be amply covered.

Mr. PECORA. Did he have any estimates from any reliable engineers on the cost of that work at that time?

Mr. HAYWARD. I do not know whether they did or not. It is very hard to determine how much that kind of work would cost, depending on the time it would take to take the hill down and the composition of the hill itself.

Mr. PECORA. Well, an engineering contractor could determine that fairly accurately in an approximate way, couldn't he?

Mr. HAYWARD. Not necessarily.

Mr. PECORA. Isn't that always done in the letting of contracts for public improvements? Those contracts are let upon proposals made by the contractor and which are subsequently embodied in the contract?

Mr. HAYWARD. It is very frequently done in that way. But I mean in this particular case the situation——

Mr. PECORA (interposing). There is no inherent difficulty about a contractor estimating within a fair approximation the cost of an improvement, is there?

Mr. HAYWARD. It depends upon the kind of improvement.

Mr. PECORA. Well, any kind of improvement.

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Mr. HAYWARD. The composition of this bill was such that it was rather difficult at the start to estimate exactly how much it would cost. In fact, it ended up by costing considerably more than they thought it would.

Senator COUZENS. Who selected the contractors—Kennedy & Co.?

Mr. HAYWARD. The mayor asked us to nominate somebody, an American firm, whom we would rely on and who could, in our opinion, do the job satisfactorily, and at some time, after a number of discussions, this firm was mentioned and their name was put in the contract.

Senator COUZENS. Kennedy & Co.?

Mr. HAYWARD. Yes, sir.

Senator COUZENS. Who owns Kennedy & Co.?

Mr. HAYWARD. Well, I could not answer that question, Senator Couzens. I don't know.

Senator COUZENS. Have your associates sitting there got any information as to who owned Kennedy & Co.?

Mr. HAYWARD. I do not believe we have. [After consulting an associate.] No; I haven't got that information.

Mr. PECORA. Now, did you know at any time that any member of your firm had any substantial interest in Kennedy & Co.? Did you ever know that?

Mr. HAYWARD. No.

Mr. PECORA. Did you ever know that any member of your firm ever had any substantial interest in Kennedy & Co.?

Mr. HAYWARD. No, sir.

Senator COUZENS. Were Kennedy & Co. an incorporated concern?

Mr. HAYWARD. I believe it is incorporated. It is an American company. Yes, sir.

Senator COUZENS. Did they bid on this work or just take it without bidding?

Mr. HAYWARD. They got the contract because we insisted that someone in whom we had confidence should be designated to do it. And the mayor of the city insisted that it should be done in that way. It was not done through public tenders.

Senator COUZENS. It was not done through public bidding?

Mr. HAYWARD. No, sir.

Senator COUZENS. Was any figure set by Kennedy & Co. to do the job?

Mr. HAYWARD. It was a cost-plus contract.

Senator COUZENS. Those are quite famous contracts.

Mr. HAYWARD. That was the only way they felt it could be done.

Mr. PECORA. Who recommended Kennedy & Co. as contractors for this Castle Hill removal?

Mr. HAYWARD. I did.

Mr. PECORA. What did you know about them at that time?

Mr. HAYWARD. Well, Mr. Pecora, I had been brought up with Mr. Kennedy. We were classmates at college. I had known him since 1905. I had known about his organization. I knew that he had the available men who had done this kind of work in Seattle; that he had other men who were dirt movers in connection with iron operations out in the Mesaba Range. There were at that time very few American contracting firms operating in South America, so

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the choice was limited. I felt he was the best person I knew of to carry out the job in the way it was intended.

Senator COUZENS. And you didn't know who his partners were when you arrived at that conclusion?

Mr. HAYWARD. I knew who some of them were; yes, sir.

Senator COUZENS. Who did you know his partners to be?

Mr. HAYWARD. The most valuable asset he had in addition to his own capacity at that time was the organization of Mr. Schlesinger, who was president of the Steel & Tube Co. of America, and he had a large number of men who could be drawn on for this work, and that is what actually happened. Men were selected from that organization and sent down there.

Senator COUZENS. But I was particularly interested in knowing who his financial associates were.

Mr. HAYWARD. I am not familiar with that.

Senator COUZENS. Do you know any of his financial associates?

Mr. HAYWARD. His financial associates?

Senator COUZENS. Yes, who was interested in either holding stock of the company or the profits of the concern?

Mr. HAYWARD. Well, Mr. Schlesinger had an interest. Mr. E. G. Wilmer had an interest. Through a family corporation of some of Mr. Dillon's family, they had an interest. I do not know of any others.

Mr. PECORA. How big was the interest of Mr. Dillon's family?

Mr. HAYWARD. I do not know. I could not say.

Mr. PECORA. It was 45 percent, wasn't it?

Mr. HAYWARD. Well——

Mr. PECORA (interposing). Did I have to remind you of that before you could think of it?

Mr. HAYWARD. Well, I am testifying under oath and want to be sure I am saying what I know.

Mr. PECORA. Did you actually need a reminder from me to enable you to recall that that was the extent of that interest?

Mr. HAYWARD. No.

Mr. PECORA. Why didn't you tell that in answer to Senator Couzens' question?

Mr. HAYWARD. Well, I have no way of knowing from my own knowledge, without having seen the books of the company.

Senator COUZENS. How was this 5 million dollars put in, and I suppose it was put in escrow?

Mr. HAYWARD. It was deposited in the Bank of Brazil at Rio, and the arrangement was that as the contractor progressed vouchers would be drawn on that fund by the local authorities and countersigned, and signed by the contractors, and they would go to the bank and get their money.

Senator COUZENS. How much in excess of the 5 million dollars was needed before the job was completed?

Mr. HAYWARD. Well, it is difficult for me to say that definitely. I know that in 1927 Mr. Kennedy's organization completed the part of the work that they were to undertake and withdrew. At that time there was still a small end of the mountain which had not been taken down, and the work of paving and laying sewers and all that sort of thing had not been completed. And the city subsequently borrowed in New York an additional sum to finish it.

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Senator COUZENS. In other words, the $5,000,000 was used up and then how much more of the $12,000,000 was used for that purpose?

Mr. HAYWARD. I could not say exactly.

Mr. PECORA. How much information, if any, did you have at the time this loan contract was entered into, concerning the general credit of the municipality known as the city of Rio de Janeiro?

Mr. HAYWARD. Well, we had all the information that was available to the public.

Mr. PECORA. What was the substance of it?

Mr. HAYWARD. As I recall it the substance was that the credit of the city was good, that they had met their obligations, that they were not in default at the time. They had gone through the European war and had continued to pay the interest on their bonds when even the Federal Government of Brazil had suspended payment. I should say that generally it had very good credit.

Mr. PECORA. Did you know, for instance, what its then indebtedness was that was outstanding?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. Did you know what its revenues were annually?

Mr. HAYWARD. All of that information was supplied to us by the city.

Mr. PECORA. Did you have it at that time?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. Did you also have information as to the expenditures of the municipality?

Mr. HAYWARD. I presume so.

Mr. PECORA. Did they show consistently a history of the revenues exceeding the expenditures?

Mr. HAYWARD. No; probably not.

Mr. PECORA. Did you have any specific data, consisting of statistical information, that was given to you or which was gathered by you while you were down in the city of Rio de Janeiro?

Mr. HAYWARD. Yes.

Mr. PECORA. And is that in your files today?

Mr. HAYWARD. We gave that to your assistants.

Mr. PECORA. Did you give us all the material that you had on that?

Mr. HAYWARD. I think I showed your assistants all that we had.

Mr. PECORA. I think you did, too.

Mr. HAYWARD. A lot of it was in the form of books and papers in Portuguese.

Mr. PECORA. Will you consult your own files on that and see what you find therein concerning the possession by you at that time of this kind of information we have been alluding to, and see what your own files show on that?

Mr. HAYWARD. Mr. Pecora, I could not have brought all the library that we have. What we have here are simply copies of what Mr. Ross took. That shows, I think, among other things, an official memorandum from the city covering the years 1918, 1919, and 1920.

Senator COUZENS. Have you any information there as to the relation of the municipality's debt to its assessed valuation?

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Mr. HAYWARD. Well, they don't figure those things as we do, Senator Couzens, in foreign countries. I don't think that would have any value.

Senator COUZENS. Do you mean that the size of the debt as it may have related to the assessed valuation of a community would be of no interest?

Mr. HAYWARD. Oh, no. I mean that they do not figure it exactly on the same basis as we do in this country. They have some taxes that are different. Their tax systems vary, so that I could not give you any figure that you could compare with, for instance, Detroit or any other American city.

Senator COUZENS. Have you any information as to the total debt of the municipality?

Mr. HAYWARD. Surely.

Senator COUZENS. What was its total debt?

Mr. HAYWARD. That was set out on the circular.

Mr. PECORA. The total debt on December 31, 1921, was $49,423,300, of which $24,332,700 was external.

Mr. HAYWARD. That is right. And that was a city as of that time of 1,200,000 people.

Mr. PECORA. Who prepared the circular that accompanied the offer of these bonds by your firm and associates to the public?

Mr. HAYWARD. What individual?

Mr. PECORA. Yes.

Mr. HAYWARD. I am afraid I could not tell you that. That was 12½ years ago and I don't remember.

Mr. PECORA. Did you have anything to do with the preparation of it?

Mr. HAYWARD. I do not write circulars myself.

Mr. PECORA. Did you supply the information from which this circular was prepared?

Mr. HAYWARD. No; the Government supplied it. I collected some and brought it back with me, and it was obtained from governmental sources.

Mr. PECORA. Was the contract actually let for the Castle Hill improvement by the municipality to Kennedy & Co. after this loan was made?

Mr. HAYWARD. Yes.

Mr. PECORA. And under the terms of the contract when was the improvement to be completed?

Mr. HAYWARD. That I could not tell you. I do not know that I ever saw the contract.

Mr. PECORA. Did you ever have any information as to what the contract provisions were for the completion of the Castle Hill improvement?

Mr. HAYWARD. Well, the date?

Mr. PECORA. Yes.

Mr. HAYWARD. No; I don't believe any date was specified.

Mr. PECORA. The loan agreement that has been put in evidence here, among other things, provides, as you probably know, that the land to be reclaimed by the municipality by means of the leveling of Castle Hill and its collateral work was to be sold by the municipality to anyone that wished to buy, and that the proceeds from the

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sale of those lots was to be set aside in trust for the retirement of these bonds.

Mr. HAYWARD. That is correct.

Mr. PECORA. That is correct, isn't it?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. Was it of no consequence to you in determining the soundness of this loan and the soundness of the bonds as an investment for the American public, to know about when the public improvement to be constructed out of the proceeds of this loan was to be completed, so that you might also know what funds would be available or might be available for the redemption of the bonds?

Mr. HAYWARD. Well, we knew that whenever the hill was completed we could expect or hope then that the sales of lots would be begun. But I mean as to any specific date when it was all to be done, I have never heard that any date was ever set. As I testified this morning, it was actually the middle of 1929 before they were ready to dispose of lots.

Mr. PECORA. By the way, Mr. Hayward, from your own recollection as well as any records of your office, can you tell this subcommittee whether or not Dillon, Read & Co., or any of its agents or representatives, sought to keep currently posted as to the progress of this public improvement that was to be paid for out of the proceeds of this loan?

Mr. HAYWARD. Yes; decidedly so.

Mr. PECORA. What efforts did you make, and what results did you get?

Mr. HAYWARD. This loan was discussed in the summer of 1921, as I testified this morning. The bonds were issued in October. I went back to Brazil within a few months after that offering date; and I was there during the time when the contractors were beginning their preliminary preparations to start the job. That was the beginning of 1922. I was in Rio again in the middle of 1922. I went down to Rio in 1923. I was there again in 1924. And I was there in 1927. Now, on each of those occasions I observed the work of Mr. Kennedy's organization. I naturally was very much interested in the work. It was a picturesque and interesting job. I spent a great deal of time going over the thing physically and seeing how the work was progressing. I discussed it with the municipal officials, and occasionally was able to help in smoothing over minor difficulties. In fact, there was nothing going on in Brazil that interested me personally more than to see how this hill was coming down. So that I have always maintained the closest contact. And during my absence our representatives maintained the closest contact with the contractors on that work.

Mr. PECORA. Originally, when you undertook the negotiations for this loan in Rio, in 1921, it was expected by you that these improvements, particularly the Castle Hill improvement, would be completed in about 5 years, wasn't it?

Mr. HAYWARD. I should say yes; about that.

Mr. PECORA. After 5 years had elapsed, in fact before 5 years had elapsed, you had opportunities by reason of your visits to the city of Rio de Janeiro on the various occasions that you have just told

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us about, to observe the course of the progress of the improvements down there, didn't you?

Mr. HAYWARD. Yes.

Mr. PECORA. Well, you were surprised to see that the progress was not nearly so rapid as was expected in 1921, weren't you?

Mr. HAYWARD. Well, no; I cannot say that I was, Mr. Pecora. You have got to realize that you are in a semitropical climate. The conditions are difficult, and things do not move as rapidly as they do here in our country.

Mr. PECORA. How much of the proceeds of this loan actually was put into public improvements by the municipality?

Mr. HAYWARD. I could not tell you that exactly.

Mr. PECORA. Did you ever know?

Mr. HAYWARD. No.

Mr. PECORA. Wasn't that something that you considered it your duty to inform yourself about?

Mr. HAYWARD. Oh, we were dealing with the Goverment here, Mr. Pecora.

Mr. PECORA. You were also dealing with the investment public here in America to which you sold these bonds.

Mr. HAYWARD. That is quite true.

Mr. PECORA. Dealing with an investment public which was relying upon your standing, prestige, and judgment.

Mr. HAYWARD. That is quite correct, but as to how they spent each dollar of the loan, or how any government spends each dollar of any loan, I wasn't in a position to determine.

Mr. PECORA. Did you ever know how much of the moneys were actually put into public improvements?

Mr. HAYWARD. No, sir.

Mr. PECORA. Did you ever take the trouble to find out?

Mr. HAYWARD. In a general way, yes.

Mr. PECORA. And what did you find out even in a general way?

Mr. HAYWARD. My impression was that they were chiefly employed in public works.

Mr. PECORA. How much of this $12,000,000 went into public works?

Mr. HAYWARD. Well, if you take out the banker's discount, the permanent deposit fund that was left with us, and the provision for sums to purchase bonds, so far as I know in a general way the balance was expended for municipal improvements. But I could not testify to that from my own knowledge, because I never have examined the books of the city of Rio.

Mr. PECORA. Well, without examining the books can you testify to that from any information you made it your business to obtain from the municipality or from any other source, about that?

Mr. HAYWARD. Merely by deduction.

Mr. PECORA. Does that mean that you made no inquiries?

Mr. HAYWARD. I made no request for an accounting, if that is what you mean.

Mr. PECORA. Does that mean that you made no inquiries?

Mr. HAYWARD. Not necessarily.

Mr. PECORA. I said nothing about an accounting.

Mr. HAYWARD. Oh, I made inquiries. I discussed the question with the mayor in office at the time and his successors.

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Mr. PECORA. As a result of your inquiries how much did you learn had actually been put out of the proceeds of this loan into public improvements by the municipality?

Mr. HAYWARD. I have knowledge of their having expended on other than public improvements nothing save the points just mentioned.

The CHAIRMAN. Did they pay Kennedy & Co.?

Mr. HAYWARD. I assume so.

The CHAIRMAN. You do not know how much?

Mr. HAYWARD. No.

Mr. PECORA. Now, in the circular that was issued when these bonds were offered to the public here in 1921, I find the following statement, referring to the Castle Hill improvement:

> The removal of this hill, which is already under way, will make available approximately 4,840,000 square feet of land. All of this land, other than that required for governmental purposes, will be offered for sale by the city, and all the proceeds from said sale, up to an amount sufficient to retire by purchase or call this entire issue, will be deposited in trust for that purpose.

Do you find that statement in your copy of the circular?

Mr. HAYWARD. That is correct.

Mr. PECORA. Now, what, if anything, did you or anyone connected with your organization do after this loan was floated to inform yourselves as to whether or not the municipality was doing the things that this circular, or that portion thereof which I have just read to you, said it was going to do?

Mr. HAYWARD. Well, we have watched ourselves and through our local representatives the progress of the attempts made to sell this land. As I explained this morning, the public offering of these lots began early in 1930. They had during the year a series of auction sales, which were advertised in the press, and they tried, naturally, to create as much interest as possible so as to get a good price. They were not very successful because of the drop in values in Rio at that time. They did, however, dispose of a number of lots, and they have reported to us the manner in which those sales lots were sold and the proceeds received. A good many of those are on a partial-payment basis, and the money is not all in yet. During the year——

Mr. PECORA (interposing). Do you know whether those moneys have been set aside in trust for the purpose of the purchase or retirement of these bonds?

Mr. HAYWARD. We are advised by the city that that money is in a bank at Rio.

Mr. PECORA. When did you get those advices?

Mr. HAYWARD. Last week.

Mr. PECORA. When did you first begin to make inquiries about that?

Mr. HAYWARD. We have made inquiries constantly. We showed your representatives a report on the sales covering the year 1930.

Mr. PECORA. Which you received when, in 1930?

Mr. HAYWARD. Early in 1931. In 1931 and in 1932 there were no sales. In 1933, I am recently informed, there have been two sales only. My feeling about this land, Mr. Pecora, is this: It is an extremely valuable asset. There is no question about that. Now,

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under the circumstances of the depression in Brazil, as everywhere else, with the drop in real estate values, certainly the city is using the better part of judgment in not sacrificing that land. They have a funded debt which was, of course, larger than this loan, and certainly they are entitled to sell the land at the best available prices at the best times. I do not feel that we have any right to insist that they throw it away. It would not be in the interest of the bondholders. The bondholders have purchased a 25-year bond, and they have a long time yet to run. I have complete confidence that sooner or later these $8,000,000 of bonds will be paid off in this way, but they cannot do it immediately. You have got also to appreciate that once they sold the lots they get local currency. Now, the local currency has got to be converted into dollars, and with milreis selling at a low point they would sacrifice a great part of the price received for the lots in buying dollars to remit to us.

Senator COUZENS. How much have you got deposited over there now on this contract?

Mr. HAYWARD. They have in Brazil approximately a quarter of a million dollars, representing the amount already paid in on those lots. That is in Brazilian currency. Under the exchange situation at the moment they will only be able to remit that to us under a special arrangement with the Brazilian Government, and I am hopeful that they will eventually arrange to transfer that to New York.

Mr. PECORA. Have these funds been set up in trust for the purchase or redemption of these bonds?

Mr. HAYWARD. We are advised they are in the special account for that purpose. Now you will appreciate that under Latin American law their trust provisions are not exactly the same as ours are, so I cannot say just what form that deposit takes, but it is a special deposit, we are informed.

The CHAIRMAN. You sold the bonds to the public for 97¾ and they are now worth 16?

Mr. HAYWARD. That is right, sir. That is what they are selling at. I should say they are worth a great deal more intrinsically.

The CHAIRMAN. That is the market price?

Mr. HAYWARD. That is the market price; yes.

Mr. PECORA. Now your circular further states as follows:

> The receipts from the vehicles tax, the sanitary tax, and the Imposto de Laudemios (a realty tax), and the equity in the licenses tax, cattle tax, and property transmission tax will be allocated to the service of this loan.

The municipality obligated itself in the loan agreement to your firm to do these things, didn't it?

Mr. HAYWARD. That is correct.

Mr. PECORA. Has it lived up to those obligations?

Mr. HAYWARD. So far as I know.

Mr. PECORA. Have you taken steps to inform yourself as to whether or not the municipality has currently, since the making of this loan, lived up to these obligations?

Mr. HAYWARD. Mr. Pecora, for 10 years after these bonds were issued the municipality paid the service on the loans. Therefore the question of allocation of revenues did not come up.

Mr. PECORA. Wasn't the question of allocation of revenues always present, in view of the obligation in the loan contract that the municipality make this allocation of these loans?

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Mr. HAYWARD. If you distinguish "allocation" from "segregation", I should say yes. There was never any requirement that they be put in a special place for the service of these bonds during the time they were paying the interest. But they always have been earmarked for the service.

Mr. PECORA. What did you mean when you informed the investing public here in this circular offering the bonds to them that these receipts from these various taxes will be "allocated to the service of this loan"? What did you intend to convey to the investing public here by that statement?

Mr. HAYWARD. The Government intended to convey that it would allocate these revenues to the specific service of this particular loan.

Mr. PECORA. Well, do you consider it a part of your duty as the underwriter or banker which underwrote the issue and then sold it to the American public to find out and to keep currently informed as to the fulfillment by the municipality of its obligations under this loan?

Mr. HAYWARD. Yes, indeed. We have done everything we can to that end.

Mr. PECORA. What efforts did you make if any to ascertain since 1921 and up to the time of the default on these bonds whether or not these revenues were being allocated for the service of these bonds?

Mr. HAYWARD. Well, the contract provides they are allocated, so they must have been.

Mr. PECORA. You say "they must have been." You are merely assuming now that the other party to the contract lived up to all its obligations, are you not?

Mr. HAYWARD. I have no reason to think they did not.

Mr. PECORA. Did you consider it any part of your duty to see to it currently that the other party to the contract, in this case the municipality, lived up to all of its obligations?

Mr. HAYWARD. Why, whether we had a duty or not, we have done it.

Mr. PECORA. Do you know up to the present minute whether or not the revenues from these special taxes enumerated in your circular have been allocated to the service of these bonds?

Mr. HAYWARD. It is perfectly evident that certainly some of them have been, because in later years the city issued other loans secured by other revenues and having in some cases a subordinate charge on the same revenues, and in each case they recognized the prior position of these bonds.

Mr. PECORA. Well, they may have recognized the existence of the obligation by so doing, but what I am seeking to find out from you is what efforts if any you or your firm made currently to ascertain whether or not the municipality was living up to its current obligations under the loan agreement?

Mr. HAYWARD. Yes; we made every effort.

Mr. PECORA. And what did you learn concerning the allocation of these taxes to the retirement or service of these bonds? What specifically have you learned about that, Mr. Hayward?

Mr. HAYWARD. The situation is just this, Mr. Pecora: Until 1931 they paid the interest and paid the sinking fund. At that time they went into default. Shortly thereafter the mayor started making

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monthly deposits in the bank in Brazil of funds which would be applicable toward the service of this loan. Those deposits went on for some months, and then they ceased. We made representations to find out why they had stopped. The reasons given by the city were this, that——

Mr. PECORA (interposing). Mr. Hayward, this is all interesting, but I first want to get an answer to my question. You are talking about what was learned, apparently, after the default occurred in 1931.

Mr. HAYWARD. Yes.

Mr. PECORA. My question calls for a statement from you as to what efforts, if any, you or your firm made from the time of the making of the loan in October 1921, up to the present time to see to it that the municipality currently lived up to all of its obligations under the loan agreement, especially with regard to the allocation of these revenues to the service of these bonds.

Mr. HAYWARD. Well, we were continually in touch with the situation. Now they were not required to segregate those revenues.

Mr. PECORA. Oh, they were. I beg your pardon. Look at your loan contract, page 4. I haven't got the page in mind now probably, but in that loan contract you will find certain provisions to the effect that the receipts from certain taxes would be allocated in the service of this loan. You know that those provisions are in the contract, don't you?

Mr. HAYWARD. I would like to read that section if I may. This is on page 4, section 4, of the main contract:

Without intending to limit or lessen the obligations assumed by the obligor under the bonds or elsewhere under this contract, the obligor covenants and agrees that its obligations hereunder and under the bonds shall at all times be and constitute a special and first charge on the revenues received by the obligor from the vehicles tax—

I will leave out the Portuguese words—

the sanitary tax, and the Imposto de Laudemios, as now existing or as in the future the same may exist, levied by the obligor or with its authority, and convenants and agrees that all the proceeds of said vehicles tax, sanitary tax, and Imposto de Laudemios, and all taxes and exactions levied in substitution for said taxes or any of them or amendment thereof, shall, so long as the obligor shall not have fulfilled all his obligations then due hereunder and under the bonds, be specifically set apart——

Mr. PECORA. "Specially set apart."

Mr. HAYWARD (continuing):

Specially set apart, and used for the fulfillment of the obligations of the obligor hereunder and under the bonds (pro rata and without discrimination as to any of the bonds issued hereunder), and shall not be used for or devoted to any other purpose.

I think that is enough.

Mr. PECORA. Suppose you continue.

Mr. HAYWARD. All right.

The obligor further covenants and agrees that in like manner the obligations hereunder and under the bonds issued hereunder shall be especially a charge on the license tax, cattle tax, and property transmission tax, as now existing or as in the future the same may exist, levied by the obligor or with its authority (though subject and subsidiary to all the charges now existing), and that the proceeds thereof shall in like manner be specially set apart and used for the

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fulfillment of the obligations of the obligor then due hereunder and under the bonds (pro rata and without discrimination as to any of the bonds issued hereunder), and shall not be devoted or used for any other purposes.

Mr. PECORA. Yes.

Mr. HAYWARD. As I understand it, Mr. Pecora, the requirement for segregation only comes into effect when the obligor is failing to meet his obligations.

Mr. PECORA. That is after default?

Mr. HAYWARD. That is right.

Mr. PECORA. Have you seen to it that the obligor, in this case the municipality, has set apart these revenues for the purposes of this loan?

Mr. HAYWARD. That is what I was starting to answer before.

Mr. PECORA. Well, go ahead.

Mr. HAYWARD. After default the municipality began a monthly deposit of an equivalent amount of funds in a local bank, the reason being that they could not obtain exchange to convert it into dollars to meet their obligations.

After a certain number of months those deposits stopped. When we found that they had stopped we took the question up and insisted that they should continue. We discussed the matter with the other bankers who had issued such large loans for the city of Rio and who were in the same position relatively that we were. We made joint representations to the city. We were advised by the mayor that he was working out a plan which he wished to submit to the bankers calling for some temporary suspension of debt service with an ultimate resumption.

After some months had passed the mayor advised us that he was sending a representative to New York to discuss that question with the bankers. That representative eventually arrived, and we all had a number of discussions in general regarding the financial difficulties of the city and as to what kind of a plan could be worked out, and the representative then had to leave for the London Economic Conference. He has just recently arrived back in Brazil.

I may say this, that I understand at the present time the Brazilian Government has in mind and is actually working on a plan calling for the partial, at least, resumption of payments of debt service on all state and municipal loans some time next year. That plan has not yet sufficiently developed so that it can be publicly announced in detail.

Now, the net result of all this is that technically today the municipality is obviously not making these deposits, but it is working on a scheme which will I think provide for at least partial resumption of service in the near future. When you realize that we are dealing with a sovereign government, which we cannot coerce, our greatest service to the bondholders is, it seems to me, first of all to know the situation to the bottom, to keep a friendly contact with these officials—they are honest people; they want to meet their obligations—and if possible to find out helpful means whereby they can be returned to a position of solvency. In my mind that is much more valuable in the interest of bondholders than the sending of an occasional cable or letter of protest.

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Mr. PECORA. You just said that when you deal with a sovereign power you cannot coerce them or force them into fulfillment of obligation, the obligations they assume when they obtain a loan. Did you take that into account in determining in the first instance whether bonds issued by a foreign sovereignty are a good and sound investment for the investing public here?

Mr. HAYWARD. Yes; I think that is an important element. There are unfortunately——

Mr. PECORA (interposing). Well, you know that a foreign sovereignty cannot be coerced into a fulfillment of its obligations?

Mr. HAYWARD. You have to depend entirely on their good faith and credit.

Mr. PECORA. That does not make the investment a sounder one because of that circumstance, does it?

Mr. HAYWARD. Oh, obviously not.

Mr. PECORA. It rather militates against the security and soundness?

Mr. HAYWARD. It certainly might.

Mr. PECORA. So the most careful circumspection should have been used by the American bankers in financing these foreign loans and selling the bonds here? Don't you think so?

Mr. HAYWARD. Oh, yes; certainly. There are, of course, today unfortunately governments in the world who are not fortunate enough to preserve this good faith and credit, and therefore could borrow nothing. I myself made a long trip through Russia and Siberia and China 3 years just studying the situation. There is a corner of the world which contains upwards of a third of the world's population, all good people in their way.

Mr. PECORA. One third of the world's population?

Mr. HAYWARD. Yes.

Mr. PECORA. In Russia?

Mr. HAYWARD. No; Russia, China, Siberia, all that section. Unfortunately, they have no credit of their own today which would enable them to float bond issues. If they obtain credit, it has to be governmental credit; and I understand both of those Governments have recently received advances from our Government. That is very helpful. It is not a basis, however, on which banking houses could issue securities.

Mr. PECORA. Now, you told us that from the sales of lots made available through this Castle Hill improvement during the year 1930 and the year 1931 the sum of approximately two hundred and thirty odd thousand dollars was realized. The terms of the loan contract provide that the proceeds of such sales of lots should be put in an account for the payment, and redemption, of these bonds. Is that right?

Mr. HAYWARD. That is right.

Mr. PECORA. Has that condition been fulfilled?

Mr. HAYWARD. To the best of my knowledge.

Mr. PECORA. With respect to that two hundred and thirty odd thousand dollars?

Mr. HAYWARD. To the best of my knowledge. In other words——

Mr. PECORA (interposing). As a matter of fact, Mr. Hayward, haven't the proceeds from the sale of these lots today, amounting to an aggregate of around $230,000, taken the form of municipal bonds and not of cash?

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Mr. HAYWARD. No; this is cash I am speaking of.

Mr. PECORA. Are you sure of that, Mr. Hayward?

Mr. HAYWARD. Well, I am just giving you the information received from the city.

Mr. PECORA. Received when?

Mr. HAYWARD. Last week, as I told you.

Mr. PECORA. We have not received that.

Mr. HAYWARD. Mr. Ross saw a report as of 1931 which showed at that time a substantial amount of city municipal bonds and a very small amount of cash. I think it was three or four thousand dollars at that time.

Mr. PECORA. $300, wasn't it?

Mr. HAYWARD. $300, was it?

Mr. PECORA. $300.

Mr. HAYWARD. Cash. Since that time they have made some conversions into cash, and the city now shows that they have deposited in the bank 3,000,000 milreis.

Mr. PECORA. Which is equivalent to how much in America?

Mr. HAYWARD. That is about $240,000. That will be in due course, I anticipate, sent up to us.

Mr. PECORA. When you said in your circular that the revenues will be allocated to the service of this loan—and I am using the precise words employed in the circular—what did you mean by the term "allocated?"

Mr. HAYWARD. It means allocated, and to put it in a different way, I should think it is a marshaling of debts.

Mr. PECORA. A marshaling, a setting aside or setting apart of these funds?

Mr. HAYWARD. No; it is just simply a mark of identification in case of future difficulties.

Senator COUZENS. Is there any obligation on the city not to repeal those taxes in any manner?

Mr. HAYWARD. If they repeal them, Senator, they have to substitute something else of equal value.

Senator COUZENS. I read something about that.

Mr. HAYWARD. Perhaps I was too quick. That is a frequent provision.

Senator COUZENS. So, in effect, the city could have repealed those taxes any time and you would not have had any money that you could allocate?

Mr. HAYWARD (after conferring). Any substituted tax would likewise be allocated.

Senator COUZENS. No obligation though to substitute any tax, as I read it.

Mr. HAYWARD. Well, it certainly implies that. We would have to see to it that they did.

Senator COUZENS. You would have a fine time compelling a municipality to apply a tax.

Mr. PECORA. They might move across the river. [Laughter.]

Now you spoke before of the application of about $1,500,000 out of the proceeds of this loan for the construction of municipal slaughterhouses. Was that ever done?

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Mr. HAYWARD. After the loan had been arranged the mayor found that he could make a more advantageous arrangement for the city by making a contract with other people for the improvement and development of the slaughterhouse, and he suggested that he would prefer to do that and to add the amount of the slaughterhouse money to Castle Hill money, and that eventually was done.

Mr. PECORA. Did you agree to that departure from the specific terms of the loan contract?

Mr. HAYWARD. We were not called upon to agree, but we were advised of the fact. We submitted it to our counsel. We received an opinion from Mr. Joseph P. Cotton that we had no right to object to that, and it was done. The result so far as the bondholder is concerned certainly is an advantage, because, for whatever it may be worth, he has pledged for his loan the receipts from the slaughterhouse, and the mountain was just so much more demolished.

Senator COUZENS. So this million and a half went to Kennedy & Co. instead of going to the slaughterhouse?

Mr. HAYWARD. No, Senator; it was added to the Castle Hill fund.

Senator COUZENS. I thought they were the ones engaged in moving the hill.

Mr. HAYWARD. Well, Senator, the work that Kennedy & Co. did was only part of the general program. How much was covered I don't exactly know, but a large amount of money was spent, for instance, in ex-appropriating the land. The city had to buy it before they could move the people out and tear the mountain down.

Mr. PECORA. You also told us that another sum of a million dollars and a half approximately was to be used from the proceeds of this loan, toward the redemption or retiring of existing indebtedness of the municipality to that amount.

Mr. HAYWARD. The supplemental contract provides for the leaving of a million and a half dollars on deposit with us to be used in purchasing bonds of the city which the mayor might designate.

Mr. PECORA. Was that million and a half used for such a purpose?

Mr. HAYWARD. No; it was not. Only a small part of it.

Mr. PECORA. What was done with that money, that million and a half that was left in your hands as a deposit out of the proceeds of this loan?

Mr. HAYWARD. The mayor finally instructed us to keep a million dollars instead of a million and a half. He thereupon designated as the bonds he wished us to purchase the series of the 1919 Imbrie loan, which matured in 1922. That would be $1,000,000. We attempted to buy all that we could of that issue. We found, however, that by reason of the fact that it was then a short-time obligation having only a few months to run, that it was held in large blocks by a few individuals who did not wish to sell. We were finally able to buy only, I think, $20,000 par value of those bonds.

The mayor thereupon, and shortly before this maturity, instructed us to turn over those bonds and the balance of the million dollars to the Equitable Trust Co., who were the trustee under the Imbrie loan. That was done, and I understand that that money was used to pay that maturity when it came due.

Mr. PECORA. Was there anything said in the circular that accompanied the offering of these bonds to the investing public to the effect

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that any part of the proceeds of this loan was to be used for the retirement, payment, or redemption of existing bonds of the city?

Mr. HAYWARD. No, Mr. Pecora, it is not mentioned.

Mr. PECORA. Is there any reason why no mention was made of that in the circular?

Mr. HAYWARD. Yes.

Mr. PECORA. What was the reason?

Mr. HAYWARD. You will notice that this provision was in the supplemental indenture, which contains the purely administrative part of the agreement. When I discussed this loan with the mayor in Rio we first of all went into the subject of municipal improvements. That was his chief purpose and his greatest interest. During the course of our discussions he developed the thought that he might like to keep back part of the proceeds in New York and use it to reduce the debt of the city. He thought he might be able to pick up bonds at advantageous prices. I did not like that particularly. We were interested in a loan for municipal improvements and not a refunding operation. However, he want to use part of the money for that purpose, and there was no reason why we should object.

Mr. PECORA. Well, if you did not like to have the proceeds of the loan itself used for the retirement of other indebtedness, why shouldn't you have objected?

Mr. HAYWARD. We might have objected, but he was making the loan and he wanted to use part of it to retire his debt. That certainly would be an advantage to the holders of these bonds, because it would reduce the debt of the city, and it was the mayor's desire to do so. He was making the loan.

Mr. PECORA. But when you subscribed to this loan or underwrote it, it was with the knowledge on your part or the belief on your part that a million and a half proceeds of the loan were to be used for the redemption of this other indebtedness?

Mr. HAYWARD. We did not care one way or the other. The less he used for that purpose the better satisfied I was. Now for that reason——

Mr. PECORA (interposing). But at the time you underwrote this loan it was your knowledge and belief that a million and a half proceeds were to be used for the retirement of this other indebtedness?

Mr. HAYWARD. He expressed in the supplemental agreement a general intention to do that, but it all hinged on his designating bonds to be purchased.

Mr. PECORA. When did you learn or when were you told that approximately a million and a half was to be used for the redemption of existing indebtedness? You first were told that in either the option of September 3, 1921, or the cable of October 4, 1921, weren't you?

Mr. HAYWARD. Yes; in that he expressed his general purpose as to how he was going to use it.

Mr. PECORA. Exactly. And you knew then that a million and a half was to be used for the retirement of existing indebtedness?

Mr. HAYWARD. If he elected so to do, and he designated bonds and we were able to purchase them.

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Mr. PECORA. Yes. That being your knowledge, on October 4, 1921, why didn't you impart that to the investing public here in your circular?

Mr. HAYWARD. It did not seem to be a material part of the business. The loan was chiefly for municipal improvements.

Mr. PECORA. Where the loan is to be used for improvements, that is a circumstance that might make the bonds a more desirable investment than if they were to be used as a refunding or liquidation of existing indebtedness, isn't that true?

Mr. HAYWARD. It would depend on the way the man looked at it.

Mr. PECORA. Generally speaking, isn't that so?

Mr. HAYWARD. I think a refunding operation is quite a laudable one.

Mr. PECORA. The credit position of one who borrows from A in order to pay off an existing indebtedness to B is not improved by borrowing from A.

Mr. HAYWARD. He might get better terms than he had from his first creditor.

Mr. PECORA. His asset position is not improved, is it?

Mr. HAYWARD. Not necessarily; no.

Senator COUZENS. I do not understand about this $1,500,000. I do not understand what became of it all. I understand you bought $20,000?

Mr. HAYWARD. That is right. We had eventually $1,000,000 left with us.

Senator COUZENS. What became of the half million out of the $1,500,000?

Mr. HAYWARD. That was drawn down by the city, and went to Brazil.

Senator COUZENS. What became of the half million he drew down?

Mr. HAYWARD. It went into the city's general funds.

Senator COUZENS. You do not know how it was spent.

Mr. HAYWARD. I could not say.

Senator COUZENS. So that, after having made this loan, you did not follow it to find out how the money was spent.

Mr. HAYWARD. Not every dollar. You cannot do that with a city.

Senator COUZENS. The $1,500,000 was for refunding purposes, apparently, and he drew down half a million dollars for some purpose you knew nothing about?

Mr. HAYWARD. He elected to leave $1,500,000 to be used in buying bonds which he would designate.

Senator COUZENS. But he changed his mind and withdrew $500,000, and did not designate any bonds.

Mr. HAYWARD. I am reading from the circular [reading]:

> The proceeds of this loan are to be chiefly employed for permanent and revenue-producing municipal improvements.

Mr. PECORA. But there was no information given to the investing public here in your circular that any part of the proceeds of this loan was to be used for the retirement or refunding of any existing indebtedness.

Mr. HAYWARD. It was never considered to be a part of the security for the loan.

Mr. PECORA. Is that the reason it was not mentioned in your circular to the public?

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Mr. HAYWARD. I do not recall, 12½ years ago, what the reason was.

Mr. PECORA. Don't you purport to give to the public in general all the information you have concerning the uses to which the proceeds of a loan are to be applied, when you sell to the public the bonds that are the evidence of the indebtedness?

Mr. HAYWARD. I should say that that has been the general practice heretofore. Under the new securities bill it is provided that certain things should be stated in regard to the proceeds but a Government circular can be little more than a picture of the situation.

Mr. PECORA. Your circular is not a Government circular.

Mr. HAYWARD. It is a governmental body. This is an obligation of the Federal District of Brazil, which is the capital, and the mayor of the city is appointed by the President of Brazil.

Mr. PECORA. Mr. Hayward, you seem to draw a distinction of some kind based upon the fact that these bonds are bonds issued by a foreign municipality and not bonds issued by Dillon, Read & Co., and that the obligation is that of a foreign municipality. As a matter of fact, it was not the municipality which sold these bonds to the American public. It was your house and those associated with it in the underwriting; isn't that true?

Mr. HAYWARD. The investment banker is an intermediary between the person who is seeking credit and the public which has money to lend.

Mr. PECORA. As a matter of fact, the investment bankers in this case were the purchasers directly of these bonds from the municipality, were they not?

Mr. HAYWARD. Yes. We purchased them.

Mr. PECORA. Dillon, Read & Co. and whatever other banking houses were associated with it in this underwriting directly bought these bonds from the municipality, did they not?

Mr. HAYWARD. That is correct; yes.

Mr. PECORA. And, in turn, sold them to the investing public here?

Mr. HAYWARD. That is correct.

Mr. PECORA. So that the sale to the investing public here was not a sale by the municipality of its bonds but a sale by Dillon, Read & Co. and its associates of the municipality's bonds, which had been purchased by the bankers and were the property of the bankers; isn't that so?

Mr. HAYWARD. That is perfectly correct.

Mr. PECORA. So that it was the duty of the bankers, when they attempted to sell these bonds to the investing public, to inform the public generally and comprehensively concerning the bonds, the security back of them, and so forth?

Mr. HAYWARD. Certainly; and we have always attempted to do that.

Mr. PECORA. Let us assume that the purpose of this entire issue had been to refund existing indebtedness, and you had so stated to the public in a prospectus in which the bonds were offered for sale to the public. Do you think the public would have subscribed for those bonds as freely and readily as it would if the bonds were stated to be used, or if the proceeds of the loan represented by the bonds were stated to be used for public improvement and revenue-producing or self-liquidating purposes?

Mr. HAYWARD. Oh, yes, sir.

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Mr. PECORA. You do?

Mr. HAYWARD. We have sold millions of dollars of foreign government bonds which were specifically for the purpose of refunding.

Senator COUZENS. Who were your associates in the marketing of these securities?

Mr. HAYWARD. Of course there was the usual large list all over the country.

Mr. PECORA. The originating group?

Mr. HAYWARD. The originating group who appeared on the circular were ourselves, Lee Higginson & Co., and the Continental Commercial Trust & Savings Bank of Chicago.

Senator COUZENS. Those others relied upon your investigation and your representations in their participation?

Mr. HAYWARD. That is the usual practice.

Mr. PECORA. Mr. Hayward, I show you what purports to be a photostatic reproduction of the prospectus or circular issued by Dillon, Read & Co., Lee Higginson & Co., and the Continental Commercial Trust & Savings Bank in connection with the offering of these $12,000,000 par value of the city of Rio de Janeiro bonds. Will you please look at it and tell us if that is a true and correct copy of such circular or prospectus so issued [handing a paper to the witness]?

Mr. HAYWARD. Yes; with the exception of the pencil marks, of course.

Mr. PECORA. I offer that circular in evidence.

The CHAIRMAN. Let it be received and entered in the record.

(The document referred to, prospectus of Dillion, Read & Co., et al., in re $12,000,000 Rio de Janeiro bonds, was received in evidence, marked "Committee's Exhibit No. 25", see p. 1937.)

Mr. PECORA. Mr. Hayward, on or about May 23 last a witness by the name of J. P. Morgan testified before this committee and, among other things, stated this as his opinion of the duties of bankers who underwrite issues and then sell them to the investing public:

> If he [meaning the banker] makes a public sale and puts his own name at the foot of the prospectus, he has a continuing obligation of the strongest kind to see, so far as he can, that nothing is done which will interfere with the full carrying out by the obligor of the contract with the holder of the security.

Do you subscribe to that principle or declaration of Mr. Morgan's?

Mr. HAYWARD. It sounds very sensible to me.

Mr. PECORA. You subscribe to it?

Mr. HAYWARD. I think that is quite correct. I think it is the principle we have always tried to follow.

Mr. PECORA. Was that principle followed in the instance of this particular $12,000,000 issue, with respect to what was done with the $1,500,000 which the contract provided should remain in the hands of the bankers?

Mr. HAYWARD. Yes; certainly.

Mr. PECORA. What was done in that connection?

Mr. HAYWARD. The money did not belong to us, Mr. Pecora. We had to follow the instructions of the mayor. That whole provision hinges on the mayor eventually designating certain of the munici-

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pality's bonds to be purchased by us. If he did not designate such bonds we had no right to withhold the sum from him. He designated bonds that could not be purchased, except for $20,000 of them, and when that became evident, and he instructed us to pay the balance of the money to the trustee for his 1919 loan, I conceive that we had no choice whatever but to do that. It was not a part of the security for the loan.

Senator COUZENS. Do I understand that the mayor had the same right to use any of the other funds for any other purpose he chose?

Mr. HAYWARD. He generally stated that he was going to use the other funds chiefly for municipal improvements, and he went to the extent of saying, I believe, that——

Senator COUZENS. Yes; I remember that. But what I am trying to get at is this: Suppose the mayor changed his mind and wanted to use the $5,000,000 to increase salaries, and asked that it be drawn for that purpose. Would you be obligated to give it to him?

Mr. HAYWARD. I do not think we could have refused to draw down the money if he had instructed us to pay it.

Senator COUZENS. So, as a matter of fact, there is nothing binding in that circular about the purpose for which the money was to be used.

Mr. HAYWARD. Would you read that question again?

(The reporter read the pending question.)

Mr. HAYWARD. I see here, Senator, on page 3 of the agreement, section 7, it says:

> The obligor agrees that the bankers shall deposit $5,000,000 out of such proceeds with a bank in Rio de Janeiro to be mutually agreed upon by the bankers and the obligor, and such deposit shall be a trust fund to be disbursed only on requisition signed by the proper officers of the obligor and by a representative of Kennedy & Co. duly authorized for such purpose, and disbursed on order of the Perfecto (that is, the mayor).

It would seem to me that that was certainly a definite obligation, and he carried that out.

Senator COUZENS. But assuming the mayor changed his mind, and he could have got Kennedy & Co. to have joined with him. They could have used the money for any purpose.

Mr. HAYWARD. I should not think so, not with as definite language as that. That language differs entirely from the language in the supplemental agreement covering the $1,500,000.

Senator COUZENS. What language of the supplemental agreement?

Mr. PECORA. The language of the supplemental agreement is contained in section 5, page 2 of the supplemental agreement:

> The obligor agrees that the bankers shall retain $1,500,000 out of the payment to be made by them under article 3, section 2, of the main agreement, such amount to be used by them in the purchase of such foreign obligations of the obligor (other than bonds issued hereunder) as may be designted by the Perfecto of the obligor.

Mr. HAYWARD. That is very different from the other.

Mr. PECORA. Under the terms of section 5 of the supplemental loan agreement, $1,500,000 out of the proceeds from the sale of these bonds was to be retained by the bankers—in this case Dillon, Read & Co.—and that was to be used by the bankers in the purchase of other obligations of an external character, of the municipality.

Mr. HAYWARD. If the mayor designated them.

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Mr. PECORA. It does not say "if the mayor designated them." It says, "as may be designated by the prefect"; that is, the kind of obligations to be retired or redeemed out of this fund of $1,500,000, was to be designated by the mayor. That is, as I read this contract.

Senator COUZENS. That is the way I understood it, and therefore you surrendered this money in violation of the agreement.

Mr. HAYWARD. No; not at all, Senator. There was no requirement on us to keep that money here except for the purpose of buying bonds which the mayor might designate. Suppose he had not designated any bonds.

Senator COUZENS. I do not admit that you had any right to surrender it, because that $1,500,000 would reduce the liabilities of the municipality, as you stated awhile ago, and therefore improve the credit on these bonds, so that if he elected to use this $1,500,000 for any other purpose than retiring the obligations of the municipality he was not doing what he agreed with you to do.

Mr. HAYWARD. He did actually reduce them by $1,000,000 that was paid to the trustee on these other bonds and they were redeemed?

Mr. PECORA. But you were to retain, as collateral, or as further security for the indebtedness represented by this loan, any bonds so purchased out of this fund of $1,500,000, were you not? Does not the contract so provide? Let me refer you specifically on that to section 6 of the main contract, page 5 thereof, which reads as follows:

> The obligor covenants and agrees that such bonds or other evidences of indebtedness issued by the obligor (but not including the bonds issued hereunder), as are purchased or acquired by the use of any part of the proceeds of this loan, shall be delivered to and deposited with the bankers, to be held by the bankers as security for the fulfillment by the obligor of its obligations hereunder, and under the bonds issued hereunder.

Mr. HAYWARD. Suppose, for the sake of argument, the mayor designated some London issue. As a matter of fact, that is what he had in mind, earlier sterling bonds of the city, which matured after our loan. There might have been some use, perhaps, in our holding those in the box until these bonds matured. But he did not do that. He designated an issue which matured in May 1922. We purchased only $20,000 of those notes. They matured in May 1922.

We would then have had, if we had presented them at the office of the Equitable Trust Co., $20,000. I see no authorization or right on our part to retain that $20,000 for 25 years. Certainly it would have done the bondholders no good to have $20,000 of matured obligations of the city of Rio de Janeiro as collateral security for this loan.

Mr. PECORA. Now, let us see. What did you understand to be the duty imposed upon the municipality by the provisions of section 6 of the main contract, the main loan agreement?

Mr. HAYWARD. That if bonds were purchased, they should be retained by us.

Senator COUZENS. Is the word "if" there?

Mr. HAYWARD. "As are purchased." That means "if."

Mr. PECORA. A fund of $1,500,000 out of the proceeds of this loan was set apart to be retained by the bankers, namely, Dillon, Read & Co. What was that fund of $1,500,000 to be used for, as you understood the contract?

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Mr. HAYWARD. According to the supplemental agreement it was to be used to purchase such external obligations of the city as the mayor might designate.

Mr. PECORA. And if such moneys were used for that purpose, didn't you understand, under the provisions of the loan contract, both the main and the supplemental agreements, that you, or the bankers, were to retain as additional security those bonds so purchased?

Mr. HAYWARD. If he designated an issue which we were able to purchase, yes.

Mr. PECORA. And if he did not designate any issue to be purchased, and if no issue was purchased——

Mr. HAYWARD. Then the money would go back to him.

Mr. PECORA. Where do you find that?

Mr. HAYWARD. There is no provision for anything else. There is no right on our part to keep that money.

Mr. PECORA. When were you to return it?

Mr. HAYWARD. Whenever he asked us to. Suppose, Mr. Pecora, I went to you and said, "I would like to have you lend me $100 but you keep the $100. I don't want it. I will just pay you interest at 8 percent on that for 25 years, and at the end of the 25 years you transfer the money from one pocket to the other."

Mr. PECORA. I would think you were crazy for borrowing $100 from me in that fashion.

Mr. HAYWARD. Yes. I think you would apply for a commission to examine my sanity.

Mr. PECORA. I would not know why you would want to make such a loan.

Mr. HAYWARD. Here you have the same situation. Why would the mayor of Rio de Janeiro borrow $1,500,000 in New York for 25 years at 8 percent and leave the money on deposit with us until the maturity of the bonds?

Mr. PECORA. I am trying to find out the reason, in the first instance, for the inclusion of these provisions in the loan agreement.

Mr. HAYWARD. I thought I made that clear. He thought he could profit by buying some of the bonds of the city abroad or in this country, and thus reduce the city's debt, at some discount. We found, after working on the situation, that it was not possible.

Mr. PECORA. My impressions as to the reason for that are more or less reinforced by the testimony you have given, that at the very outset, before the execution on October 31, 1921, of the loan agreement, you were informed, and advised by the municipality that $1,500,000 out of the proceeds of this loan of $12,000,000 was to be used for the retirement of existing indebtedness.

Mr. HAYWARD. Provided——

Mr. PECORA. Apparently that was your understanding from the very beginning.

Mr. HAYWARD. Provided the mayor designated bonds and we were able to purchase them, which we were not.

Mr. PECORA. There is no such provision, either in the cable advices of October 4, 1921, to your firm, or in the loan agreements. If you can enlighten me on that I would be glad to have you do so.

Mr. HAYWARD. I do not see how it can mean anything else. It says issues which the mayor designates.

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Senator COUZENS. Was there any time limit on it?

Mr. HAYWARD. None at all.

Mr. PECORA. Why did you return the $1,500,000, then, if there was no time limit for the use of that portion of the proceeds of this loan for the retirement of other indebtedness?

Mr. HAYWARD. Mr. Pecora, if we had had any thought at the time that this was a part of the security for the loan, we would have done two things. We would have put it in our circular, and we would have insisted ourselves on selecting what bonds should be purchased. We would not have left that to the choice of the mayor. This man was out of office in a year. We had no reason to think that they might not create another issue of bonds in the future in which we might not have much confidence, and we would have been obligated to spend $1,500,000 out of the proceeds of the loan for some bonds we did not believe in. That did not happen, but it might have happened.

Mr. PECORA. That very thing could have happened under the terms of the loan agreement.

Mr. HAYWARD. Yes.

Mr. PECORA. And you agreed to those terms.

Mr. HAYWARD. It was left in this way. He had the choice of designating bonds, and if we could buy them, those bonds would be bought.

Senator COUZENS. But he had no alternative of withdrawing the cash.

Mr. PECORA. There was no time limit for the exercise of the mayor's judgment with regard to the bonds that would be retired through the employment of this fund of $1,500,000.

Mr. HAYWARD. We went through the operation contemplated in the supplemental agreement, that is, an attempt to buy the bonds he designated, and we bought only $20,000 of them.

Mr. PECORA. And the balance of the money was used——

Mr. HAYWARD. To reduce the city's debt.

Mr. PECORA. It was turned over to the Equitable Trust Co.

Mr. HAYWARD. That is correct, and they paid off the maturity in May 1922. The city's debt was thereby reduced $1,000,000.

Mr. PECORA. If, instead of the moneys having been used for that purpose, the moneys had been used in the purchase of $1,000,000 of outstanding bonds other than those issued under this loan agreement, this agreement gave the bankers the right to retain those bonds as additional collateral or security for the payment of the bonds issued under this loan.

Mr. HAYWARD. I think that is what I said a moment ago. If, for instance, we had bought sterling bonds in London for the full amount, this agreement gave us the right to retain those bonds.

Mr. PECORA. When, instead of using the $1,000,000 or more to buy outstanding bonds, it was used to pay the Equitable Trust Co., which held other obligations of the municipality——

Mr. HAYWARD. No; they were just trustees of that loan.

Mr. PECORA. Trustees of another loan, a loan other than the one you made?

Mr. HAYWARD. The other loan was the Imbrie loan of 1919.

Mr. PECORA. Did you get the bonds or other evidences of indebtedness paid off by that $1,000,000 by the Equitable Trust Co.?

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Mr. HAYWARD. No. They would have been valueless, just pieces of paper. They were canceled on the maturity date. It would have done our bondholders no good to hold $1,000,000 worth of matured obligations.

Mr. PECORA. Why would they have been worthless?

Mr. HAYWARD. They had matured. They have been paid off. You cannot reinforce one note of a debtor by taking a canceled note of that debtor.

Mr. PECORA. The Equitable Trust Co. was a trustee under the Imbrie loan, for the benefit of the holders of the bonds that had been issued under that loan, was it not?

Mr. HAYWARD. They were the paying agent.

Mr. PECORA. Trustee, or fiscal agent, or functioning in some such capacity?

Mr. HAYWARD. Yes.

Mr. PECORA. You turned over to them, upon the order of the prefect of the municipality, a sum of about $1,000,000 out of this fund of $1,500,000?

Mr. HAYWARD. Yes; $1,000,000 less this $20,000, or whatever those bonds cost us.

Mr. PECORA. That $1,000,000, less that $20,000, you had been authorized to retain out of the proceeds of your loan, to enable you to buy bonds, other outstanding bonds of the municipality; and you were also authorized to retain such other bonds as security for this loan, were you not?

Mr. HAYWARD. Now, Mr. Pecora. You have taken two hurdles there, and I am not over the first one. We were authorized to retain that money to buy bonds if the mayor designated an issue for us to purchase.

Mr. PECORA. And if you bought bonds, you were also authorized to retain those bonds.

Mr. HAYWARD. That is correct.

Mr. PECORA. Those are the provisions of the loan agreement.

Mr. HAYWARD. That is correct. We bought $20,000, and those bonds matured May 1, 1922. After that they were of no value to our bondholders.

Mr. PECORA. In addition to that, you turned over about $1,000,000 to the Equitable Trust.

Mr. HAYWARD. Yes.

Mr. PECORA. What did you get for this, if anything?

Mr. HAYWARD. We got a receipt, I presume.

Mr. PECORA. But this $1,000,000 was part of the fund of $1,500,000 that you were authorized to retain for the purchase of other outstanding obligations?

Mr. HAYWARD. If the mayor designated them.

Mr. PECORA. If the mayor designated them; and there was no period of time in the loan contract, was there, limiting the power of the mayor to designate such purchases?

Mr. HAYWARD. That transaction was completed when he designated that issue. He could have told us anytime to pay it back to him.

Senator COUZENS. What about the half million? You gave him that in cash?

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Mr. HAYWARD. He drew that down with the rest of the proceeds of the issue.

Senator COUZENS. In cash? That did not go to liquidate any bonds?

Mr. HAYWARD. No.

Mr. PECORA. What did you consider were your rights as bankers under this provision, section 6 of the main contract?

The obligor covenants and agrees that such bonds or other evidences of indebtedness issued by the obligor (but not including the bonds issued hereunder), as are purchased or acquired by the use of any part of the proceeds of this loan, shall be delivered to and deposited with the bankers, to be held by the bankers as security for the fulfillment by the obligor of its obligations hereunder, and under the bonds issued hereunder.

Mr. HAYWARD. That gave us the right to retain the bonds we purchased.

Mr. PECORA. When you paid over this fund of $1,000,000, more or less, for the retirement of the Imbrie & Co. loan to that amount, did you receive anything other than a receipt for the money as security for the fulfillment by the municipality of its obligations under this loan agreement?

Mr. HAYWARD. Nothing other than the benefit the bondholders obtained by having the city's debt reduced by that amount.

Mr. PECORA. What were you supposed to get in the event that any part of that $1,500,000 was used to reduce outstanding indebtedness other than the indebtedness created by this loan?

Mr. HAYWARD. Nothing, as I see it.

The CHAIRMAN. The situation was that the mayor could designate to you what bonds he wanted you to purchase.

Mr. HAYWARD. That is right.

The CHAIRMAN. The mayor enters into an agreement to the effect that you are to hold as part of your security the bonds that you purchase. Now, if he had the right to require that you purchase bonds that had matured and when you purchased them they were paid, what good was the other provision that you were to hold them as security? That actually happened in the case of the Equitable Co. You might say that he told you to buy the bonds through the Equitable Co. and that that was carrying out that agreement. But that was paying off bonds. Consequently, you had no additional security anywhere. There is nothing there to protect these bonds.

Mr. HAYWARD. It was never considered as a part of the security, Senator. Otherwise it would have been made much more specific than it is.

Mr. PECORA. Apparently that clause in section 6 of the main contract means practically nothing.

Mr. HAYWARD. Oh, no. It is very important, Mr. Pecora, provided he had designated something we could buy.

Mr. PECORA. What was done with the other $500,000 of this fund of $1,500,000 that you were authorized to retain out of the proceeds of this loan?

Mr. HAYWARD. That was drawn down in the regular way as part of the proceeds of the issue.

Mr. PECORA. What was done with it? How was it withdrawn? How did it pass out of your possession?

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Mr. HAYWARD. I will have to look that up, to see how they withdrew those funds. [After consulting an associate:] The city withdrew, on November 10, 1921, through a transfer by us to the Bank of Brazil, $8,930,000. There were other subsequent transfers. It is the usual form of taking down the proceeds, unless it is going to be left in New York.

Mr. PECORA. There is a provision in the loan contract, or the supplemental agreement, providing that the municipality would create and at all times maintain with the bankers a deposit of not less than $250,000. Do you find that in section 2?

Mr. HAYWARD. That is just the difference, Mr. Pecora, in the wording there. They would at all times create and maintain——

Mr. PECORA. The obligor covenants that it will create and at all times while any of the bonds issued under the said main agreement are outstanding, maintain with the bankers a deposit of not less than $250,000. Do you find that provision?

Mr. HAYWARD. Yes; section 2.

Mr. PECORA. Was such deposit account created and maintained at all times?

Mr. HAYWARD. That deposit account was created, and it was maintained until it was drawn on in March 1931. That was a general reserve or cushion. That cushion was used——

Mr. PECORA. To take care of current obligations under the bonds?

Mr. HAYWARD. Yes. That was used to make up a fund sufficient to complete a sinking-fund payment in 1931.

Mr. PECORA. That was done on March 31, 1931, was it?

Mr. HAYWARD. That is right.

Mr. PECORA. When was this deposit account created?

Mr. HAYWARD. When was it created?

Mr. PECORA. Yes; originally?

Mr. HAYWARD. I will get that for you in a second. So far as our records here show, that was constantly on deposit from the time of this transaction until it was drawn on in March 1931.

Since that time the city has made one addition to the fund some time during the summer.

Mr. PECORA. This sum of $250,000 provided for by section 2 of the supplemental agreement remained in your hands from the time of the issuance of the bonds, did it not?

Mr. HAYWARD. That is correct.

Mr. PECORA. And you held it under the terms of this agreement as expressed in section 2 of the supplemental agreement; is that correct?

Mr. HAYWARD. That is correct.

Mr. PECORA. When was it set up on the books of your firm as a deposit account maintained by the city of Rio de Janeiro?

Mr. HAYWARD. My understanding is that it was always in their general account as a general deposit.

Mr. PECORA. I am not speaking of a general account. When was it set up as a general deposit?

Senator ADAMS. Was that amount set up as a special deposit or as a general deposit?

Mr. HAYWARD. It apparently was in their general account, Senator, until April 2, 1924.

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Mr. PECORA. Until what date?

Mr. HAYWARD. April 2, 1924, at which time it was set up in a special account.

Senator ADAMS. What were the provisions attached to the special account?

Mr. HAYWARD. Well, that would relate back to the contract. It was just a banking deposit, that is all.

Mr. PECORA. Was it set up as a permanent deposit for the service of these bonds?

Mr. HAYWARD. It is difficult for me to say from this designation that we have here on this piece of paper.

Mr. PECORA. No; not alone from the designation, but from the contractual provisions of the loan agreement?

Mr. HAYWARD. Well, the money was kept here for that period and it was kept available for the purpose we had in mind.

Mr. PECORA. Was it kept here for the service of these bonds, or was it intended to be kept as a general deposit to the credit of the municipality?

Mr. HAYWARD. The latter, is my understanding.

Mr. PECORA. What?

Mr. HAYWARD. General deposit, the agreement says.

Senator ADAMS. A general deposit is one that is open to check; a special deposit is a trust account subject to special conditions, not open to check.

Mr. HAYWARD. This was a special account. When we found that they were going to fail in the payment of the sinking fund we applied it for that purpose.

Mr. PECORA. Then it was not a general deposit in that sense?

Mr. HAYWARD. Yes; it was a general deposit, but it had to be kept here. It was not subject to withdrawal by check.

Mr. PECORA. Well, to be kept for what purpose?

Mr. HAYWARD. For a cushion.

Mr. PECORA. What purpose was to be served by it?

Mr. HAYWARD. It might have been used for any purpose in connection with the loan.

Mr. PECORA. For any purpose in connection with the servicing of these bonds?

Mr. HAYWARD. Yes. As I understand it, suppose they had failed to pay us our commissions as sinking-fund agents I think we would have been within our rights in taking some of that.

Mr. PECORA. Exactly. In view of those circumstances, and in view of those attributes of this deposit why was it kept as a general deposit instead of a special deposit fund in the servicing of these bonds?

Mr. HAYWARD. There was no provision that it was to be a special deposit.

Mr. PECORA. But you knew the reasons for this deposit account, did you not? You just stated for the servicing of these bonds?

Mr. HAYWARD. Yes, Mr. Pecora, but we did keep the money for that purpose, and it was so used.

Mr. PECORA. But you did not keep them apart from other funds for that purpose, did you?

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Mr. HAYWARD. Well, I do not know whether they were separated from other funds by a piece of paper, or how you would separate them.

Mr. PECORA. How was this $250,000 account originally set up on the books of Dillon, Read & Co.?

Mr. HAYWARD. The deposit was just an ordinary banking deposit by the Government with Dillon, Read & Co., forming part of the regular business of Dillon, Read & Co., coupled, however, with the right on the part of Dillon, Read & Co. to apply the funds in such deposit for the benefit of the bondholders in case of any default. The opinion of counsel of Dillon, Read & Co. clearly supports this view. The whole question as to the nature of these funds is entirely immaterial, since the actuality of the situation is that the funds were in fact held by Dillon, Read & Co. and applied only from time to time for the benefit of the outstanding bonds. In other words, the funds are still there except to the extent that they have been paid out for the benefit of the bondholders.

Mr. PECORA. I notice you read that answer from some document. From what document did you read it?

Mr. HAYWARD. This is a memorandum, I suppose, from our bookkeeping department.

Mr. PECORA. It sounds more like the opinion of some counsel.

Mr. HAYWARD. I do not know whether counsel saw that or not, Mr. Pecora. It sounded like it.

Mr. PECORA. Where did you get it from?

Mr. HAYWARD. Our Mr. Shedden, who had charge of our accounts, gave it to me as his interpretation of how they were kept. We have, of course, discussed this with counsel frequently.

The CHAIRMAN. In other words, Rio had to keep on deposit with you $250,000?

Mr. HAYWARD. Until the bonds matured.

The CHAIRMAN. Until the bonds matured, for servicing?

Mr. HAYWARD. For servicing; to be used for any purpose in connection with the loan.

The CHAIRMAN. They had to keep a deposit of that amount?

Mr. HAYWARD. They had to keep a deposit of that amount, and we used a part of it in 1931 to make up the sinking-fund payment, and part of it was restored this summer by the municipality.

Mr. PECORA. Originally it was set up as a general account, was it not?

Mr. HAYWARD. Yes; it was in the general account.

Mr. PECORA. Now some time in April 1924, if I correctly understood your very recent testimony, it was set up in a different way?

Mr. HAYWARD. Yes.

Mr. PECORA. In what way was it set up in April 1924?

Mr. HAYWARD. That was set up in an account called permanent deposit account with the federal district.

Mr. PECORA. The federal district referred to being the municipality?

Mr. HAYWARD. Yes; that is a bookkeeping designation.

Mr. PECORA. Were any of the moneys to the credit of this account used for the servicing of these bonds at any time?

Mr. HAYWARD. Yes; that was the only time they have been drawn.

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Mr. PECORA. When for the first time were they so used for any such purpose?

Mr. HAYWARD. April 1, 1931.

Mr. PECORA. And what were they used for then, and how much?

Mr. HAYWARD. We applied $33,558.98 to make up the sinking fund on the bonds.

Mr. PECORA. The contract provided for certain sinking-fund requirements annually or semiannually, and for the first time since these bonds were issued and sold in October 1921, in April 1931 you found it necessary to draw moneys from this special deposit of $250,000 to meet the sinking-fund requirements of the loan agreement?

Mr. HAYWARD. That is correct.

Mr. PECORA. Were the bondholders informed of that?

Mr. HAYWARD. Oh, I could not say. Probably not.

Senator COUZENS. Had all the previous sinking-fund arrangements been kept up to that time?

Mr. HAYWARD. Yes. They had paid in full for 10 years up to that time, sinking fund and interest. You see, the result of that is that the man who bought these bonds in 1921 at $975 had received by that time $700 in interest. He has a bond which he could today sell for $160. That is not so bad, considering that he still has the obligation of the city, which I believe is good and will be paid.

Mr. PECORA. Has he not been deprived of the use of his thousand dollars during that period of time, and could he not have gotten something for the use of that money in some other form of investment?

Mr. HAYWARD. Oh, I do not mean for a moment that he could not have done better. But he might have done a good deal worse.

Mr. PECORA. When you say he has received so much in interest and you say that he still could get in the open market so much for his bond and that he has not fared so poorly, it seems to me that you are distorting the functions of interest as applied to a principal obligation.

Mr. HAYWARD. No; I am just bringing out the fact that he certainly has not lost all of his investment.

Senator ADAMS. You see, Mr. Pecora, the fellow is lucky to get his money if he is paid back.

Mr. HAYWARD. Yes, certainly. A lot of us have not got that.

Mr. PECORA. When the municipality ordered you to draw down in April 1931 the sum of thirty and odd thousand dollars out of this deposit account of $250,000 to fulfill this sinking fund requirement under this loan agreement, that indicated to you as the bankers that the city was in some financial embarrassment, did it not?

Mr. HAYWARD. Well, I do not remember the exact date, but that was about the period of the general default.

Mr. PECORA. Yes; and that circumstance alone indicated some financial embarrassment by the city to you, did it not?

The CHAIRMAN. Did they ever replace that $33,000?

Mr. HAYWARD. They made a repayment this summer of some amount, but still it is not a very large amount. The difficulty, of course, is due to exchange. That is the only reason that I know of for any default. As I think I testified this morning, practically all

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of the State and municipal loans of Brazil at the present time are in default, and arrangements are being made for—and we hope that there will be—a gradual resumption of payment next year. That is all the result of exchange; not because of lack of money in the cities. They have the money there, but cannot get it out of the country.

Senator ADAMS. I should say the price of $160 then was pretty low for a bond that has that prospect.

Mr. HAYWARD. I think it is very low. All of these bonds are selling for very low prices. In all of the business that we have done for these Latin-American governments in the last 10 years I believe there has not been a case where they have even in the slightest degree intimated that they intend to repudiate. They all, on the other hand, constantly express an intention of resuming payments at the earliest possible moment, and I think that this is a time when they are all trying to work out their own N.R.A. programs, and we certainly can benefit them by devising means whereby they can be restored to prosperity instead of criticizing their lapses.

Senator ADAMS. Why should the price be as low as that if the prospects are so good?

Mr. HAYWARD. Well, we have had an extraordinary lack of confidence on the part of our public, Senator. I could give you, if we had time, a great many instances where similar bonds issued by these obligors in London are selling at a great deal higher price than they are in our market. We are still more or less under a feeling of shock from the depression and a general lack of confidence, which has been contributed to by the speeches and articles attacking these issues. I think they are all selling at far too low prices.

The CHAIRMAN. What is the cause of that depreciation in their money and this rise in exchange?

Mr. HAYWARD. A fall in agricultural prices, Senator; the fact that their gold reserves were depleted; and the general lack of international trade at the present time. They are doing their utmost to meet this situation. They are very sensitive. They resent criticism. And I am very glad to see Mr. Pecora's sense of statesmanship is such that he has put the burden of this on me, and I am delighted to have you do that, and I am delighted to carry it. I think these friends of ours are honest, upright people. I have lived with them for 15 years. I have known all the administrations. I have traveled there constantly. I have not seen the slightest desire to repudiate on the part of any one of them. We have got to be patient.

The CHAIRMAN. What is the rate of exchange now?

Mr. HAYWARD. The milreis today is quoted at about 8¼ cents. The so-called "par" is just under 12 cents. It has been a good deal lower than that in the last few months.

Mr. PECORA. Mr. Hayward, there was an interest payment due on these bonds on October 1, 1931, was there not?

Mr. HAYWARD. Yes; that is correct. They made that payment.

Mr. PECORA. And in order to enable the municipality to meet that interest payment, did not your firm permit it to apply the sum of $239,518.34 out of this deposit account of $250,000 towards the payment of that interest?

Mr. HAYWARD. That is correct.

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Mr. PECORA. Were the bondholders then advised of that circumstance?

Mr. HAYWARD. No; they were not. Not to my knowledge; no.

Mr. PECORA. Did that not virtually indicate a practical, if not a technical, default on these bonds?

Mr. HAYWARD. Oh, it was a default; certainly.

Mr. PECORA. Yes.

Mr. HAYWARD. But the point is——

Mr. PECORA. Do you not think the bondholders here were entitled to know the facts at that time so that they might do whatever they wanted to with their bonds, instead of being permitted to remain in ignorance of these circumstances and hence retaining their bonds?

Mr. HAYWARD. Might I before answering that, correct my previous statement? My attention is being called to the fact that this was not even technically a default, inasmuch as this was the city's money which could be used for that purpose.

So far as notifying the bondholder is concerned, I want to say this: During this period—during that year particularly—the Brazilian Government and all the municipal authorities were still trying hard to work themselves out of the situation. They were in the same frame of mind that we were in in this country, where we felt that the depression was going to be over always week after next.

Mr. PECORA. You mean "just around the corner."

Mr. HAYWARD. Yes. We could not make a public announcement of the fact that the city of Rio was going to default when we did not know whether it was going to default or not. This might have been simply a temporary period of difficulty. Fortunately we had this cushion here which had been provided for that purpose, and they were able with their own funds to make the payment. It would have been highly unjust, and I think we would have subjected ourselves to great criticism on the part of the borrower, if we had stated in the papers that it was our opinion that they were going to fall down on their obligation.

Mr. PECORA. This so-called "cushion" that you have alluded to practically disappeared with the payment of the interest that fell due on October 1, 1931, did it not?

Mr. HAYWARD. Yes; the cushion was then about removed.

Mr. PECORA. The cushion was flattened out completely?

Mr. HAYWARD. Decidedly.

Mr. PECORA. That is, with the exception of about $7,000?

Mr. HAYWARD. With the exception of about $7,000. And, as I said, this summer they made a deposit toward building it up.

Mr. PECORA. Has it ever been restored since October 1931 to its original principal amount of $250,000?

Mr. HAYWARD. Oh, no; not yet, due to exchange. They cannot get the money out. They have the money there, but they cannot get it out.

Mr. PECORA. As I understood your testimony a few minutes ago the present exchange is about two thirds of parity?

Mr. HAYWARD. Yes.

Mr. PECORA. Of par?

Mr. HAYWARD. If my arithmetic is right, yes. Eight and one quarter against twelve. Yes; that is right.

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Mr. PECORA. Have they remitted funds to the amount of two thirds?

Mr. HAYWARD. Oh, that would not follow. The restrictions on Brazilian exchange are similar to restrictions in almost all countries at the present time, and that is that no purchaser is allowed to get dollars or sterling or francs without showing a special purpose and without special permission. The Government has in effect been obliged to prevent all of these borrowers from meeting their foreign payments because there is not enough money to go around. They obviously cannot prefer one over the other, and before you can reestablish general payments even on a partial scale you have got to do it on general agreement among all these people and rationing the exchange.

Mr. PECORA. To what extent has this cushion been restored at the present time?

Mr. HAYWARD. As I recall, they sent us $30,000 this summer. Yes; I think it is $30,000. That would be $37,000.

The CHAIRMAN. What would hinder a bondholder who had a thousand dollar bond from going down to Rio and turning it in and accepting milreis for it?

Mr. HAYWARD. Nothing at all, Senator. I hope you will go.

The CHAIRMAN. I think I would do that if I had one of the bonds.

Mr. HAYWARD. Not that I wish to dispense with your presence here now.

The CHAIRMAN. Unfortunately I have not got any of the bonds.

Mr. HAYWARD. We constantly receive inquiries from bondholders as to whether or not if they are traveling there they can get their money in local currency. I see no reason why they cannot do it. But that would not help many people.

The CHAIRMAN. It would give them about two thirds of their money.

Mr. HAYWARD. I mean there are very few that would go to Brazil and take advantage of that opportunity.

Senator COUZENS. They could not get it out of the country even then, could they?

Mr. HAYWARD. No.

Mr. PECORA. I think that is all with this particular issue.

The CHAIRMAN. The committee will stand adjourned until 10 o'clock tomorrow.

(Thereupon at 4:20 p.m., Wednesday, Oct. 11, 1933, an adjournment was taken until 10 a.m. the next day, Thursday, Oct. 12, 1933.)

COMMITTEE EXHIBIT NO. 21, OCTOBER 11, 1933

UNITED STATES & FOREIGN SECURITIES CORPORATION

December 31, 1932.—There are 51 companies in the portfolio of United States & Foreign Securities Corporation on whose boards there are no representatives from either the directors, officers, or employees of United States & Foreign Securities Corporation, United States & International Securities Corporation, Keswick Corporation or Dillon, Read & Co. Furthermore, Dillon, Read & Co., has not acted as banker for any of these companies:

American Can Co.
American Chicle Co.
American Home Products Corporation.

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American Radiator & Standard Sanitary Corporation.
American Smelting & Refining Co.
American Sugar Refining Co.
American Telephone & Telegraph Co.
American Tobacco Co.
Axton-Fisher Tobacco Co., Inc.
Baltimore & Ohio Railroad.
Beatrice Creamery Co.
Best & Co., Inc.
Central Aguirre Associates.
Chesapeake & Ohio Railway.
Citizens & Southern National Bank, Savannah.
Coco-Cola Co.
Colgate Palmolive Peet Co.
Columbia Gas & Electric Corporation.
Commercial Solvents Corporation.
Commonwealth Edison Co.
Consolidated Gas & Electric Co. of Baltimore.
Detroit Edison Co.
Drug, Incorporated.
Federal Bake Shops, Inc.
First National Bank of Chicago.
General Foods Corporation.
Gilbert, A. C., Co.
Gillette Safety Razor Co.
Hydro-Nitro S.A.
International Business Machines Corporation.
Lorillard, P., Co.
M. & T. Trust Co., Buffalo.
Macy, R. H., & Co., Inc.
May Department Stores Co.
Mission Oil Co.
National Biscuit Co.
National Dairy Products Corporation.
New York Central Railroad.
Pacific Gas & Electric Co.
Pacific Lighting Corporation.
Pennsylvania Railroad Co.
Public Service Corporation of New Jersey.
Sears, Roebuck & Co.
Southern California Edison Co., Ltd.
Southern Pacific Co.
Southern Railway Co.
Standard Oil Co. of California.
Tobacco Products Corporation of New Jersey.
Trojan Oil & Gas Co.
Union Pacific Railroad Co.
William Wrigley, Jr., Co.

COMMITTEE EXHIBIT 24, OCTOBER 11, 1933

City of Rio de Janeiro (Federal District of the United States of Brazil) with Dillon, Read & Co.—Contract, dated as of October 1, 1921

Contract, dated as of October 1, 1921, made by Federal District of the United States of Brazil, hereinafter termed the "obligor", acting by the honorable the consul general of United States of Brazil in the city of New York, thereunto duly empowered, and Dillon, Read & Co., a copartnership of the city of New York, State of New York, United States of America, hereinafter sometimes termed the "bankers."

ARTICLE I

The obligor covenants with the bankers as follows:

SECTION 1. The obligor will issue its external gold loan bonds bearing interest at the rate of 8 percent per annum (hereinafter termed, collectively, the

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"bonds"), for the aggregate principal amount of $12,000,000, all dated October 1, 1921, and payable on October 1, 1946, in which bonds the obligor will covenant to pay the principal and the interest on said principal sum and the sinking fund payments herein provided, in the city of New York, State of New York, United States of America, in gold coin of the United States of the standard existing October 1, 1921, without deduction for any tax or taxes now or at any time hereafter imposed by the United States of Brazil or by any taxing authority thereof or therein or by the obligor or by any taxing authority thereof. The bonds shall be substantially in the form set forth in schedule A hereto attached, and shall be signed in behalf of the obligor and be countersigned by Central Union Trust Co. of New York (or its successor designated for the purpose by the bankers) as in said schedule A indicated.

SEC. 2. The bonds shall bear interest at the rate aforesaid from the date thereof until the principal sum thereof shall have been paid, or until they shall be purchased by the sinking fund or redeemed as herein provided. Such interest shall be payable semiannually on the 1st day of April and the 1st day of October in each year. For the collection of such interest the bonds will have attached coupons substantially in the form set forth in said schedule A.

SEC. 3. The bonds shall be issuable in the denomiation of $1,000 and $500 and the text thereof shall be in the English language, and if so requested by the bankers, shall be printed from engraved plates in a manner conforming to the requirements of the New York Stock Exchange for quotation; but until such time as such bonds in definitive form shall have been prepared for delivery, one or more temporary or provisional bonds for the aggregate principal amount of $12,000,000 without coupons shall be issued. The obligor will deliver in the said city of New York definitive bonds in exchange for the temporary bonds, without charge or expense to the bankers or other persons entitled to receive the definitive bonds. The obligor hereby designates Central Union Trust Co. of New York, in the Borough of Manhattan, New York City, as registrar of the bonds; and so long as any of the bonds are outstanding the obligor will register, or cause to be registered by said registrar (or a successor duly appointed by the bankers for such purpose) as to principal, but as to principal only, any of the bonds upon presentation for such purpose, pursuant to such reasonable regulation as the bankers may prescribe. Such registration shall be noted on the bonds by the registrar so appointed, after which registration and notation thereof on the bonds, no transfer shall be valid unless made at the office of said registrar by the registered holder in person, or by his attorney, duly authorized, and similarly noted on the bonds; but the same may be discharged from registry by being in like manner transferred to bearer, after which it shall again be transferable by delivery. Successive registrations and transfers may be made from time to time as desired. Such registration shall not affect the negotiability of the coupons belonging to any bond, but every such coupon shall continue to pass by delivery and shall remain payable to bearer as therein provided. The bonds of the several denominations shall be interchangeable. Upon surrender by the holder at said registry office of bonds of one or more denominations, with all unmatured coupons thereto attached, with the request that there be issued in exchange therefor bonds of the same aggregate principal amount but of other denominations, the obligor will effect such exchange. In case of any exchange of bonds, the obligor may, with the approval of the bankers, make a reasonable charge for the bonds issued in exchange for outstanding bonds and for the expense of such service. No charge, however, shall be made for any exchange of temporary bonds for definitive bonds.

The bonds and coupons and all payments thereon shall be exempt from any and all taxes, imposts, stamp dues, and assessments, now or at any time hereafter imposed or levied by the United States of Brazil or by any taxing authority thereof or therein or by the obligor or by any taxing authority thereof.

In case of loss or destruction of any bond or coupon, a duplicate will be issued upon proof of such loss or destruction and upon receipt by the obligor of proper indemnity.

SEC. 4. Without intending to limit or lessen the obligations assumed by the obligor under the bonds or elsewhere under this contract, the obligor covenants and agrees that its obligations hereunder and under the bonds shall at all times be and constitute a special and first charge on the revenues received by the obligor from the vehicles tax (imposto sobre vehiculos), the sanitary tax (taxa sanitaria), and the imposto de laudemios, as now existing or as in the future the same may exist, levied by the obligor or with its authority, and

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covenants and agrees that all the proceeds of said vehicles tax, sanitary tax, and the imposto de laudemios and all taxes and exactions levied in substitution for said taxes or any of them or amendment thereof shall, so long as the obligor shall not have fulfilled all its obligations then due hereunder and under the bonds, be specially set apart and used for the fulfillment of the obligations of the obligor hereunder and under the bonds (pro rata and without discrimination as to any of the bonds issued hereunder) and shall not be used for or devoted to any other purpose. The obligor further covenants and agrees that in like manner the obligations hereunder and under the bonds issued hereunder shall be a special charge on the licenses tax, cattle tax, and property transmission tax, as now existing or as in the future the same may exist, levied by the obligor or with its authority (but subject and subsidiary to all the charges now existing) and that the proceeds thereof shall in like manner be especially set apart and used for the fulfillment of the obligations of the obligor then due hereunder and under the bonds (pro rata and without discrimination as to any of the bonds issued hereunder) and shall not be devoted or used for any other purposes.

SEC. 5. And as an additional guarantee the obligor covenants that its obligations hereunder and under the bonds shall at all times be and constitute a special and first charge on all receipts, income, and revenues accruing from the slaughterhouse to be constructed by or for the obligor (to pay for the construction of which it is proposed that a part of the proceeds of this loan is to be used) whether such receipts, income, and revenues shall accrue in the operation of the slaughterhouse by the obligor or by its rental or otherwise; and the obligor covenants that all such receipts, income, and revenues shall, so long as the obligor shall not have fulfilled all its obligations then due hereunder and under the bonds, be specially set apart and used for the fulfillment of the obligations of the obligor hereunder and under the bonds (pro rata and without discrimination as to any of the bonds issued hereunder) and shall not be used for or devoted to any other purpose.

SEC. 6. The obligor covenants and agrees that such bonds or other evidences of indebtedness issued by the obligor (but not including bonds issued hereunder) as are purchased or acquired by the use of any part of the proceeds of this loan shall be delivered to and deposited with the bankers, to be held by the bankers as security for the fulfillment by the obligor of its obligations hereunder and under the bonds issued hereunder. When all of such obligations hereunder, and under the bonds issued hereunder, shall have been completely performed such bonds and evidence of indebtedness as shall remain in the hands of the bankers shall be surrendered to the obligor for cancelation, but on default by the obligor under any of its obligations hereunder or under the bonds issued hereunder the bankers may, in such manner as they may deem wise enforce such bonds or evidences of indebtedness, or any of them, from time to time for the pro-rate benefit of the holders of bonds issued hereunder.

SEC. 7. The bankers shall have exclusive authority to issue the bonds through a syndicate which they have formed or may form for such purpose. The obligor hereby ratifies and approves the syndication and disposal thereof heretofore accomplished by the bankers. On such date not later than November 1, 1921, as the bankers shall designate, the obligor will deliver to the bankers in the city of New York temporary or provisional bonds in such denominations as the bankers shall request, dated October 1, 1921, and bearing interest from October 1, 1921, for the aggregate principal amount of $12,000,000, and thereupon the bankers will make payment therefor as provided in article III, section 2, of this contract.

SEC. 8. Pending the delivery of the definitive bonds, the bankers may deliver to subscribers for or purchasers of the bonds a receipt or other writing in their name, evidencing the right of the holder to receive an amount of such bonds specified in such receipt or writing.

SEC. 9. The obligor will deposit with the bankers at their office in the city of New York, at least 1 month in advance of the maturity, respectively, of the interest and sinking fund instalments payable on the bonds, funds sufficient to pay in United States gold coin the amount of such instalments.

ARTICLE II

The obligor further covenants with the bankers for the benefit of the holders, severally and respectively, of the bonds, as follows:

SECTION 1. The obligor at its option, on October 1, 1931, and on any interest date thereafter, may redeem all or any part of the bonds then outstanding at

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the rate of 105 percent of the principal amount thereof and accrued interest to date of redemption. In case the obligor shall desire to exercise such right of redemption, it shall notify the bankers at least 6 months prior to the redemption date of the amount of bonds to be redeemed and at least 1 month prior to said redemption date will deposit with the bankers in the city of New York an amount in United States gold coin or its equivalent sufficient to redeem such amount of bonds which are to be called for redemption at such price. In case less than all of the bonds then outstanding are to be redeemed, the bonds so to be redeemed shall be selected by lot by the bankers in any usual manner as they may direct. Notice of such intention to redeem shall be given on behalf of the obligor by the bankers by publication not less than four times in two daily newspapers of general circulation published in the Borough of Manhattan, city of New York (the first publication to be at least 6 months prior to the date fixed for such redemption), setting forth that the bonds shall be redeemed at the place of payment specified in the bonds upon the redemption date at the price of 105 percent of the principal sum and accrued interest to said redemption date upon presentation and surrender of such bonds and of the coupons maturing on and after such redemption date. In case less than all of the bonds then outstanding are to be redeemed, such notice shall state the serial numbers of the bonds so to be redeemed. Upon publication of notice of redemption as above provided the bonds designated in such notice shall become payable at such redemption price on the redemption date in such notice set forth. And, after the redemption date so designated, provided the funds for redemption shall have been deposited as above provided, no interest shall accrue upon or in respect of any bonds called for redemption, nor shall any coupon for the payment of interest upon any bond called for redemption maturing subsequent to said date be of any force and effect. The amounts paid by the obligor to the bankers for the redemption of bonds under this article and not used on said redemption date shall be held by the bankers for account of the holders thereof as follows: Such funds (without interest) shall be from time to time paid to such holders on presentation and surrender of such bonds with all coupons maturing on or after such redemption date. In case any of such bonds so called for redemption shall not have been so presented within 1 year from such redemption date the bankers may repay such founds so held on account thereof to the obligor and at the end of 3 years shall so pay such funds. The bankers are authorized to hold such funds for redemption after such redemption date in any bank or trust company of good standing in the city of New York. All bonds redeemed as herein provided shall be canceled by the bankers and be delivered to the obligor and no bonds of this loan shall be issued in lieu thereof.

SEC. 2. So long as any of the bonds shall be outstanding, the obligor will pay to the bankers on or before the 1st day of April and the 1st day of October 1946, as a semiannual sinking fund on amount which shall be equal to 105 percent of one fiftieth of the aggregate principal amount of $12,000,000 (viz,, 105% of $240,000), plus an amount equal to 4 percent of said one fiftieth. Each such payment shall constitute a sinking fund to be held and applied by the bankers as sinking-fund trustees in the purchase of bonds as in this article provided.

SEC. 3. All moneys received by the bankers by any such sinking-fund payment may be from time to time applied by the bankers to the purchase of bonds in the market at such price or prices, not exceeding 105% and accrued interest, by private or public purchase without inviting or advertising for tenders of bonds. It is intended that the times, manner, and price of such purchases shall be determined by the bankers in their absolute discretion as they may from time to time deem for the best interest of the obligor. All bonds so purchased for the sinking fund, together with all unmatured coupons annexed thereto at the time of purchase, shall be canceled by the bankers and delivered to the obligor and no bonds shall be issued in lieu thereof.

SEC. 4. If, 6 months from the date on which a sinking-fund payment is due under section 2 of this article (or if such payment is not made on or before the due date, then 6 months from the date it is made), such payment or any part thereof has not been applied to the purchase of the bonds, such payment or the unapplied part thereof shall revert to the obligor and be paid to the obligor. The bankers shall not, excepting on express instruction from the obligor, by the use of any single semiannual sinking-fund payment in their hands, acquire more than one fiftieth of the total face amount of bonds issued hereunder. In case they shall, out of any such sinking-fund payment, have

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purchased such amount of bonds, to wit, one fiftieth, the unused balance of such sinking-fund payment in their hands shall immediately be paid to the obligor (even if such 6 months shall not have expired).

SEC. 5. It is agreed that a portion of the proceeds of this loan is to be used for the removal of the Morro de Castello and the improvement of the property thus made available and that after such removal, land thus made available (except such portions as shall be actually in use by the obligor and/or the United States of Brazil) will be offered for sale by the obligor, and the bankers will cooperate in such program of sale. The obligor covenants that all proceeds of such sale or sales or other disposal of such lands will, as soon as received, be paid by the obligor to the bankers in New York and will be applied by the bankers in the purchase of bonds hereunder in the manner and at the prices provided by section 3 of this article (and with the consent of the obligor at prices higher than provided in said section 3). Such payments by the obligor under this section 5 shall not however relieve the obligor of its obligation under sections 2 and 3 of this article. Any balance at any time in the hands of the bankers pursuant to this section 5 shall not be paid back to the obligor under section 4 hereof but on and after October 1, 1931, shall be from time to time applied by the bankers in the purchase of bonds as aforesaid or, if the bankers at any time deem it not feasible to acquire such bonds at such price, then in redemption of bonds for account of the obligor in accordance with the provisions hereof.

SEC. 6. In case the obligor shall fail to make any sinking fund payment or other payment as in this article provided, or any interest payment as provided in article I, when and as the same shall become payable under section 9 of article I, and such default shall continue for a period of 60 days, Dillon, Read & Co., as representative of the holders of the bonds, may declare to be forthwith due and payable by the obligor the principal sum of the bonds and the interest accrued to the date of such declaration, and thereupon such sums shall become and be forthwith due and payable by the obligor, and the obligor covenants to pay the same at the place for the payment of the bonds in the city of New York. Dillon, Read & Co. may thereupon immediately dispose of any and all securities held under section 6 of article I or otherwise hereunder and may liquidate and enforce any and all guarantees, charges, and deposits and apply the proceeds and all moneys in their hands received from or for account of the obligor, under any of the provisions hereof or otherwise, to the obligation of the bonds and coupons (pro rata and without discrimination as to any of the bonds issued hereunder), all as in their absolute discretion they may deem most advantageous to the holders of the bonds.

SEC. 7. Dillon, Read & Co. may act as the representative of the holders of the bonds in all matters arising under this contract. For this service they will receive no compensation from the obligor.

ARTICLE III

SECTION 1. The obligor agrees to sell to the bankers, and, subject to the conditions herein specified, the bankers agree to purchase from the obligor, the said $12,000,000 principal sum of bonds at the price of 89 percent of the principal sum thereof, plus accrued interest from the date of the bonds to the date of payment therefor.

SEC. 2. Upon delivery to the bankers as provided in article I of this contract of the temporary or provisional bonds for the aggregate sum of $12,000,000, the bankers will make payment therefor by crediting to the account of the obligor in New York City 89 percent of the principal amount, plus accrued interest from the date of the bonds to the date of such credit.

SEC. 3. The bankers have, with the authority of the obligor, offered the bonds for public subscription and sale and are hereby authorized to offer the bonds for public subscription at such times and in such amounts and at such prices as the bankers shall determine.

SEC. 4. The obligor represents to the bankers that the loan created under this contract is duly authorized by the laws of the obligor and of the United States of Brazil and that the faith and credit of the obligor is pledged for the performance of this contract and the payment of the bonds issuable hereunder in accordance with the terms thereof respectively. The obligor covenants that it will do and obtain such further authorization as may be deemed by the bankers from time to time necessary or expedient for the security of this loan.

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ARTICLE IV

SECTION 1. The obligor hereby authorizes the bankers in behalf of the obligor to make arrangements for the payment of the principal and interest at the places where such sums are payable. Accounts between the obligor and the bankers concerning such payments, and concerning the administration of the sinking fund and all expenses, charges and other proceedings hereunder will be kept by the bankers in the city of New York in terms of United States money; and such accounts, of which transcripts will be sent to the obligor, may at any time be inspected by duly authorized representatives of the obligor. The obligor will pay the cost and expense of engraving, printing, and delivering the bonds, both temporary and definitive, and the transmission and execution of the contract, and of the bonds and of the issue thereof, including the reasonable charges for counter-signature of the bonds and the fees of legal counsel for the bankers in connection with this contract and the performance hereof and the issue and sale of bonds hereunder in the United States, and will reimburse the bankers for the cost of preparing and delivering any receipts deliverable by them to subscribers for the bonds pending the issue of definitive bonds. All expenses not herein specified as being payable by the obligor will be paid by the bankers. The obligor further covenants that it will reimburse the bankers for any and all expenses incurred by them in the course of their proceedings as fiscal agents (including their expenses in administration of the sinking fund and in the redemption of the bonds), and that it will pay them for their services as such a commission of 1 percent of the amount of all moneys disbursed by them for account of the obligor.

SEC. 2. The obligor also will indemnify and save harmless the bankers against and from any loss, cost, or expense which they may sustain by reason of any delay or default in the performance by the obligor of any of the agreements of the obligor herein set forth or which they may sustain by reason of their acting as agents or depositaries of the obligor in accordance with the terms of their agency or with instructions of the obligor.

SEC. 3. The bankers shall not be answerable for the default or misconduct of any agent or attorney appointed by them to carry out any of the provisions of this contract, if such agent or attorney shall have been selected with reasonable care and with the consent of the obligor. If the bankers shall be in doubt in any instance as to their rights or obligations or the rights of bondholders under this contract, they may advise with legal counsel selected by them, and anything done or suffered in good faith by the bankers in accordance with the opinion of such counsel shall be conclusive in their favor as against any claim or demand by the obligor in the premises.

SEC. 4. The obligor and the bankers may deem and treat the bearer of any bond which shall not at the time be registered as to principal as herein provided, and the bearer of any coupon for interest on any bond, whether or not such bond shall be so registered, as the absolute owner of such bond or coupon, as the case may be, for the purpose of receiving payment thereof, and for all other purposes, and neither the obligor nor the bankers shall be affected by any notice to the contrary. The obligor and the bankers may deem and treat the person in whose name any bond shall be registered as to principal as aforesaid as the absolute owner thereof for the purpose of receiving payment of or on account of the principal thereof, and for all other purposes except to receive payment of interest by outstanding coupons.

SEC. 5. The bankers may become the owners of any or all of the bonds, with the same rights as any other bondholders. All notices from the bankers to the obligor in connection with this contract, including the declaration under article II, section 6, may be given by written communication, or by cable, addressed to the Prefect of the Federal District of the United States of Brazil, Rio de Janeiro, Brazil. All notices from the obligor to the bankers may be similarly given, addressed to Dillon, Read & Co., city of New York, United States of America.

SEC. 6. The obligor will comply with the reasonable requests of the bankers for such information concerning the Federal district of the United States of Brazil, its laws, revenues, etc., as reasonably may be deemed useful both in aid of the issue and sale of the bonds in the United States, and so that the bankers may continue to be informed as to such matters and as to the security pledged hereby for the bonds; and the obligor authorizes and instructs its representatives to sign in its name appropriate circulars in connection with the issue of the bonds.

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SEC. 7. Whenever in the bonds or in this contract the term "United States gold coin" is used, it is intended to mean gold coin of the United States of America of the standard of weight and fineness existing at the date of the bonds.

SEC. 8. This contract shall bind and shall enure to the benefit of the copartnership of Dillon, Read & Co., as now organized, or as hereafter organized, and also any successor of the firm. The English text of this agreement shall govern the interpretation of its terms.

For the Federal district of the United States of Brazil:

Witness:

J. C. MUNIZ.

HELIO LOBO,
Counsul General of the United States of Brazil in the City of New York.

For Dillon, Read & Co.:

Witness:

ROBERT O. HAYWARD.

DILLON, READ & Co.

SCHEDULE A—FORM OF DEFINITIVE BOND FOR $1,000

City of Rio de Janeiro, federal district of the United States of Brazil. Twenty-five year 8 per cent sinking fund gold bond

Federal district of the United States of Brazil, hereinafter termed the "obligor", for value received, promises to pay to bearer, or if this bond be registered as herein provided, to the registered holder hereof, on the 1st day of October 1946 the principal sum of $1,000 and to pay interest on such principal sum at the rate of 8 percent per annum semiannually on the 1st day of April and on the 1st day of October in each year, until such principal sum shall have been paid, but only upon presentation and surrender of the coupons for such interest hereto attached as they severally mature. Such principal sum and interest and the sinking-fund payments herein provided will be paid in the city of New York, State of New York, United States of America, at the office of Dillon, Reed & Co. in gold coin of the United States of America, of the standard weight and fineness existing on October 1, 1921, without deduction for any taxes now or at any time hereafter imposed by the United States of Brazil, or by any taxing authority thereof or therein or by the obligor or any taxing authority thereof.

In and by a contract dated as of October 1, 1921, made by the obligor with said Dillon, Read & Co. pursuant to which this bond is issued as one of a series of like bonds of an aggregate principal amount of $12,000,000, the obligor covenants to pay to said Dillon, Read & Co., on or before the 1st day of April, and on or before the 1st day of October in each year until and including the 1st day of October 1946 as a semiannual sinking fund an amount which shall be equal to 105 percent of one fiftieth of said aggregate principal amount of $12,000,000 (plus an amount equal to 4 percent of said one fiftieth). Each such payment shall constitute a sinking fund to be held and applied by said Dillon, Read & Co., as sinking fund trustees, in the purchase of bonds of said series at prices which shall not exceed 105 percent of the principal amount and accrued interest, in the manner and on the conditions and terms provided in said contract.

In the manner provided by said contract the obligor allocates to the services of said series of bonds issued under said contract to an aggregate face amount of $12,000,000, the proceeds of certain taxes, including the vehicles tax, the sanitary tax, and the Imposto de Laudemios, for the pro rata benefit of said series of bonds.

This bond is subject to redemption in the manner provided by said contract at the option of the obligor on October 1, 1931, and on any interest payment date thereafter prior to maturity, after publication in two daily newspapers of general circulation in the Borough of Manhattan, city of New York, not less than four times (the first publication to be at least 6 months prior to the date fixed for such redemption) of notice of such intention to redeem by payment of 105 percent of the principal amount hereof and the interest accrued hereon to and including the date fixed for such redemption.

Dillon, Read & Co. may act as the representative of the holder of this bond in all matters arising under the said contract. In case the obligor shall fail

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to make any interest or sinking-fund payment when and as the same shall become payable, and such default shall continue for a period of 60 days, Dillon, Read & Co., as representative of the holders of the bonds, may declare to be forthwith due and payable the principal sum of the bonds and the interest accrued to the date of such declaration.

This bond shall pass by delivery, unless it is registered in the owner's name at the office of Central Union Trust Co. of New York or other registrar in the borough of Manhattan, city of New York, appointed by Dillon, Read & Co. for the purpose, and such registration is noted hereon by such registrar. After such registration no transfer shall be valid unless made by the registered owner in person or by attorney, and similarly noted hereon by such registrar; but this bond may be discharged from registry and its transferability by delivery be restored by like transfer to bearer noted hereon, after which it may again from time to time be registered or made transferable to bearer as before. Such registration, however, shall not affect the negotiability of the coupons which shall continue to be transferable by delivery.

This bond shall not be valid for any purpose until countersigned by Central Union Trust Co. of New York or its successor duly appointed by Dillon, Read & Co. for such purpose.

Dated, October 1, 1921.

FEDERAL DISTRICT OF THE UNITED STATES OF BRAZIL,
By ----------

Countersigned:

CENTRAL UNION TRUST CO. OF NEW YORK,
By ----------
Treasurer.

(Form of coupon)

No. —— $40.00

On the —— day of ———, 19—, unless the bond herein mentioned shall have been called for previous redemption, Federal district of the United States of Brazil promises to pay to bearer, in the city of New York, State of New York, United States of America, at the office of Dillon, Read & Co., $40 gold coin of the United States of America, without deduction for any taxes now or at any time hereafter imposed by United States of Brazil or by said Federal district of the United States of Brazil, or any taxing authority thereof, being 6 months interest then due on Federal district of the United States of Brazil 25-year 8 percent sinking-fund gold bond no. ——.

FEDERAL DISTRICT OF THE UNITED STATES OF BRAZIL,
By ——— ———.

Agreement, dated as of October 1, 1921, made by Federal District of the United States of Brazil, hereinafter termed "the obligor", acting by his excellency the consul general of the United States of Brazil in the city of New York, thereunto duly empowered, and Dillon, Read & Co., a copartnership of the city of New York, State of New York, United States of America, hereinafter termed "the bankers."

SECTION 1. This agreement is a part of a contract between the same parties bearing the same date hereinafter termed the "main agreement." The covenants and conditions contained in the main agreement are the consideration for the covenants herein contained; and this agreement is governed by the terms and conditions in such main agreement provided.

SEC. 2. The obligor covenants that it will create and, at all times while any of the bonds issued under the said main agreement are outstanding, maintain with the bankers a deposit of not less than $250,000.

SEC. 3. Without intending to limit or lessen any of the obligations assumed by the obligor, the obligor hereby irrevocably authorizes the bankers to retain and apply, out of the payment to be made by them under article III, section 2, of the main agreement, and out of any other moneys which may be from time to time on deposit with the bankers to the credit of the obligor an amount or amounts sufficient to fulfill any and all the obligations of the obligor with regard to the bonds and sinking fund and other payments thereon and, in general, with regard to commissions, expenses, and all other charges, which become payable by the obligor to the bankers, when and as such obligations mature.

S53. 4. Proceeds of the loan and moneys on deposit with Dillon, Read & Co., which the obligor is entitled to withdraw as herein provided, will be subject to drafts payable at sight. Such moneys shall from time to time bear interest at a rate which shall not be less than the average current rate then generally

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allowed by responsible banks and trust companies in the city of New York on similar deposits.

SEC. 5. The obligor agrees that the bankers shall retain $1,500,000 out of the payment to be made by them under article III, section 2, of the main agreement, such amount to be used by them in the purchase of such foreign obligations of the obligor (other than bonds issued hereunder) as may be designated by the prefect of the obligor.

SEC. 6. The obligor agrees to cancel existing contract and that a new contract for the removal of the Morro de Castello mentioned in the main agreement will be made by the obligor with Kennedy & Co. of the city of New York on the basis of actual cost plus a commission for Kennedy & Co. of 12 percent of such actual cost. In the event that it be necessary for the obligor after the employment of Kennedy & Co. to indemnify the person to whom the contract for such removal has heretofore been awarded, the bankers will pay a portion of such indemnity but such portion shall not in any case exceed 300,000 milreis.

SEC. 7. The obligor covenants and agrees that it will use $1,500,000 of the proceeds of this loan in the construction of the municipal slaughterhouse referred to in section 5 of article I of the main agreement. The balance of the proceeds to the credit of the obligor from this loan, after the deduction of the deposits to be retained by Dillon, Read & Co. and the amounts to be used as above provided in the main agreement, are to be used for the removal of the Morro de Castello and connected works. The obligor agrees that the bankers shall deposit $500,000 out of such proceeds with a bank in Rio de Janeiro, to be mutually agreed upon by the bankers and the obligor, and such deposit shall be a trust fund to be disbursed only on requisition signed by the proper officers of the obligor and by a representative of Kennedy & Co. duly authorized for such purpose, and disbursed on order of the prefeito.

SEC. 8. The bankers agree that the aggregate cost to the obligor of the legal expenses of the bankers in connection with the execution of the main agreement and this agreement and the engraving, printing, and registration of the bonds shall not exceed $30,000.

The bankers agree to deliver to the obligor the assignment of the rights of Imbrie & Co. to participate in financing the obligor which the bankers have heretofore received from the receivers of Imbrie & Co.

SEC. 9. The obligor hereby appoints the bankers its purchasing agents in the United States for all purchases of material and supplies made by the obligor in the United States with the proceeds of this loan and covenants that it will pay to the bankers for their services as such a commission of 2 percent of the amount of such purchases and will reimburse them for any and all expenses incurred by them in the course of such agency. This appointment as purchasing agent is not revocable so long as any of the bonds are outstanding. The obligor hereby appoints the bankers its agent charged with the operations of the sinking fund, the payment of interest and the transfer of bonds, for the purposes of the main agreement during the life of the loan created thereby. This appointment is not revocable so long as any of the bonds are outstanding.

SEC. 10. The obligor hereby appoints the bankers its general fiscal agents in the United States, but such appointment is revocable by the obligor at any time on notice by cable or in writing.

FEDERAL DISTRICT OF THE
UNITED STATES OF BRAZIL,
By HELIO LOBO,
Consul General of United States of Brazil in the City of New York.

Witness:
J. C. MUNI.
ROBERT HAYWARD.

DILLON, READ & CO.

COMMITTEE EXHIBIT NO. 25, OCTOBER 11, 1933

$12,000,000

City of Rio De Janeiro (Federal District of the United States of Brazil)

Twenty-five year 8 percent sinking-fund gold bonds, dated October 1, 1921; interest payable April 1 and October 1; due October 1, 1946. Principal and interest payable in New York City in United States gold coin at the office of

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Dillon, Read & Co., free of all present and future Brazilian taxes. Coupon bonds of $1,000 and $500 denominations, registerable as to principal.

The bonds are not callable until October 1, 1931, on which date, and any interest date thereafter, the issue may be called, in whole or in part, on 6 months' notice at 105 and interest. As a sinking fund the government of the Federal District agrees to provide a sum sufficient to buy $240,000 principal amount of bonds semiannually during the life of the loan, which payments will be applied by Dillon, Read & Co. to the purchase of bonds in the market if obtainable at or below 105 and accrued interest. Any balance unexpended at the end of 6 months reverts to the Federal District.

These bonds will be a direct obligation of the city of Rio de Janeiro (Federal District of the United States of Brazil) and their issue, as required by law, has been duly authorized by the Brazilian Government. The city of Rio de Janeiro is the capital of the United States of Brazil and is controlled by, and administered under the supervision of the Brazilian Government. It has a population of approximately 1,200,000 and is the second largest city in South America. The harbor of the city, which is one of the finest in the world, is equipped with modern docks and warehouses and handles over 40 percent of the total imports and exports of Brazil.

The total funded debt of the city outstanding on December 31, 1920, was $49,422,300, of which $24,332,700 was external. The city has always met the principal and interest of its funded debt in cash. Revenues of the city are chiefly derived from taxes on real property, licenses, vehicles, cattle, etc. The revenue of the city, at exchange rates then current, was approximately $11,000,000 in 1918 and $13,000,000 in 1920.

The proceeds of this loan are to be chiefly employed for permanent and revenue producing municipal improvements, including the removal of Castle Hill and the construction of a municipal slaughter house. Castle Hill is situated in the center of the principal business section of the city between the Avenida Rio Branco and the bay. We are informed that all property on this hill has been acquired by the city, and that property in the immediate vicinity has been sold at a price as high as $11 per square foot. The removal of this hill, which is already under way, will make available approximately 4,840,000 square feet of land. All of this land, other than that required for governmental purposes, will be offered for sale by the city, and all of the proceeds from such sale up to an amount sufficient to retire by purchase or call this entire issue will be deposited in trust for that purpose.

The receipts from the vehicles tax, the sanitary tax, and the imposto de laudemios (a realty tax), and the equity in the licenses tax, cattle tax, and property-transmission tax will be allocated to the service of this loan. The average annual return for the last two calendar years from these taxes amounted to $2,615,630 with prior charges of $909,247. The receipts from the operation or rental of the municipal slaughterhouse to be constructed with part of the proceeds of this issue will also be allocated to the service of this loan.

Computations of foreign money, except as otherwise indicated, are made at the rate of 12.5 cents per milreis and $3.75 to the pound sterling. Average value of the milreis in 1920 was over 20 cents.

We offer the above bonds for delivery when, as, and if issued and received by us, subject to approval of legal proceedings by counsel.

Price, 97¾ and interest; to net over 8.2 percent.

Dillon, Read & Co.

Lee, Higginson & Co.

Continental and Commercial Trust & Savings Bank

The information contained in this advertisement has been obtained from sources which we consider reliable. While not guaranteed, it is accepted by us as accurate.

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STOCK EXCHANGE PRACTICES

THURSDAY, OCTOBER 12, 1933

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

The subcommittee met, pursuant to adjournment on yesterday, at 10 a.m. in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Norbeck, Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; George S. Franklin, Wallace P. Zachry, Warren Leslie, Walter G. Dunnington, Clifton Murphy, John T. Cahill, and Bernard Knollenberg, counsel for Dillon Read & Co.; Root, Clark, Buckner & Ballantine, George H. Murphy of counsel, counsel for United States & Foreign Securities Corporation.

The CHAIRMAN. The subcommittee will come to order.

Mr. PECORA. Mr. Hayward, please resume the stand.

TESTIMONY OF ROBERT OTIS HAYWARD, A MEMBER OF THE FIRM OF DILLON, READ & CO., NEW YORK CITY—Resumed

Mr. PECORA. Mr. Hayward, will you take your file in connection with the two Brazilian issues?

Mr. HAYWARD. Eights of 1921?

Mr. PECORA. Yes; in June of 1921.

Mr. HAYWARD. All right.

Mr. PECORA. Mr. Hayward, are you familiar with the underwriting by Dillon, Read & Co. in 1921 of two issues of 8 percent bonds by the United States of Brazil, each issue covering 25 million dollars par value?

Mr. HAYWARD. Yes; I am.

Mr. PECORA. Did you have anything to do with the negotiations that culminated in the acquisition of those two issues by Dillon, Read & Co. at that time?

Mr. HAYWARD. I participated in them; yes.

Mr. PECORA. When was the first of those two issues floated?

Mr. HAYWARD. The 16th of May 1921.

Mr. PECORA. Will you tell the subcommittee, as briefly but as comprehensively as you can, the negotiations that led to the acquisition of that issue by Dillon, Read & Co. from the Brazilian Government?

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Mr. HAYWARD. Dillon, Read & Co. had prior to 1921 been greatly interested in Brazil as a country by reason of the flotation on two occasions of issues of short-time certificates or securities for a company called Brazilian Traction, Light & Power Co., Ltd. The Brazilian Traction Co., a Canadian corporation, was a holding company which owns the shares of a large group of public-utility companies operating in the city of Rio de Janeirio, and the city of Sao Paulo and intervening territory. Those companies, today and at that time, carried on all the business of street, traction, electric light and power, gas, telephone, and so forth. It is my impression that taken as a whole this group constitutes the largest single public utility in South America.

Mr. PECORA. Was Sir Alexander MacKenzie the representative of that traction company in South America?

Mr. HAYWARD. Sir Alexander MacKenzie was the active head of that company. He had lived in Brazil since 1900 in charge of the property.

Mr. PECORA. Do you know whether at that time, or at any time subsequently, any associate or partner of Dillon, Read & Co. became a director of that traction company?

Mr. HAYWARD. Yes, Mr. Pecora, for some years my associate, Mr. Dillon, was a director, and for the last, I think 5 or 6 years, I have been a director, succeeding him.

Mr. PECORA. And certain securities issued by that Brazilian Traction, Light & Power Co., Ltd., were purchased for the portfolio of either one or both of the two investment trusts known as United States & Foreign Securities Corporation and United States & International Securities Corporation; isn't that so?

Mr. HAYWARD. I am under the impression that I heard someone testify to that here. I am not familiar with it myself. Those two issues, because large—and they subsequently matured and have been paid off—naturally led to a great amount of study and investigation of Brazilian conditions as a whole on our part. Wanting to know more about the country, and the company's picture as a whole, I took a trip through Brazil in 1919. At that time I went up the Amazon as far as Para, and came down the coast studying the condition of the important cities. I spent a considerable amount of time in Rio de Janeiro, particularly going over the properties of this utility. Later on I went to Uraguay and the Argentine, and came back and took a trip through the southern states of Brazil, Rio Grande Do Sul, Parana, and Sao Paulo. This was simply a general inspection trip. There was no specific business in mind. Some time late in 1920 I think it was, and it was a long time ago too, but I am rather clear that that was the time, we were advised that the Brazilian Government was considering the placing of an external loan.

Mr. PECORA. Of how much?

Mr. HAYWARD. The amount at first I think was indefinite. It later boiled down to an issue of 50 million dollars. Naturally, knowing Sir Alexander MacKenzie, and being associated with his company, we discussed the business through him with the Brazilian Government; and, in short, the negotiations were carried on over a period of a number of months by cable. I think Sir Alexander Mac-

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Kenzie left Rio in the middle of them and came up to New York on one of his periodic visits, and from then on the work was carried on with Mr. Huntress, who was then vice president of the company and has since died; the work was carried on with him in Sir Alexander's place.

Senator COUZENS. Was there any competition for the loan by New York investment houses?

Mr. HAYWARD. Well, that is an interesting point, Senator Couzens. Brazil is the only Latin-American government that issued securities in this market since 1920 that has not changed its bankers during that period at least once. Several governments have changed their bankers on several occasions. When we discussed this business with Brazil we realized that it was an important undertaking, that Brazil was a great country, that it would entail a constant call on our time and attention for a good many years, and we felt that we did not want to go into the situation if it was to be constantly competitive.

The firm of N. M. Rothschild & Sons, London, had been the bankers for Brazil for almost a century. I think the first loan they brought out was in 1825. In all the succeeding 100 years I believe the Brazilian Government had maintained its close contact with Rothschild and had constantly sought their advice. It was our idea that if Brazil was to come into the American market for funds, which it had not done up to that time, we should establish ourselves in the same position of responsibility and advisership that Rothschild had held before. And, I might say, the situation has worked out in that way. To my knowledge the Brazilian Government has since this issue not solicited offers from any other firm.

Senator COUZENS. Was there any competition when you attempted to get the business away from Rothschild?

Mr. HAYWARD. There were no competing bids put in; no. But we did not attempt to get the business away from Rothschild.

Senator COUZENS. How did you come to get in touch with them over all the other investment houses?

Mr. HAYWARD. Largely through the recommendation to the Brazilian Government of our friend, Sir Alexander MacKenzie.

Mr. PECORA. Didn't Imbrie & Co. have something to do with bringing your attention to this contemplated external loan?

Mr. HAYWARD. Yes. You will appreciate that the world is full of promoters, of gentlemen who hear of business and act as intermediaries and bring it into the issuing houses. The firm of Imbrie & Co., however, were more than that. They had themselves brought out, as we saw on yesterday, in 1919 a loan for the city of Rio de Janeiro. They had also brought out in this market a loan for Sao Paulo, and a loan for the city of Catalino. So that they were fully familiar with Brazilian conditions themselves. I presume, looking back at that period, that the rumor was current in Brazil that the Government wanted to go into the money market, and Imbrie & Co. heard of it and spoke of it. But by reason of our contacts with Sir Alexander MacKenzie we preferred to do the business through him.

Senator COUZENS. Is he still on the ground there?

Mr. HAYWARD. No. He retired some years ago, and is now living in one of the most progressive countries of Europe.

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Senator COUZENS. I do not understand yet just how this firm of Rothschild came to give up the business.

Mr. HAYWARD. They did not give up the business. They are still interested. As a matter of fact, the last loan we brought out in this country was an international issue. The group of Rothschild, Baring Bros., and Schroeder, of London, taking care of the European part and we bringing out the American part. That loan was negotiated by Rothschild. And we have established now the practice of what you might call joint collaboration on all that business. In other words, the Brazilian Government today would not think of making a loan without discussing it both with Rothschild and ourselves. There are times, of course, when the London market is not favorable, and there may be times when the New York market may not be favorable.

Senator COUZENS. Imbrie & Co. did not have any Federal loans?

Mr. HAYWARD. No.

Senator COUZENS. They produced municipal loans?

Mr. HAYWARD. That is right. In 1922, for example, the year of this loan, the Brazilian Government brought out through Rothschild and Schroeder and the Barings in London a loan of 9 million pounds sterling for the settlement of the coffee situation. So that Rothschild was actively interested and constantly following the situation.

Mr. PECORA. This loan of 25 million dollars that your firm made to the Brazilian Government in May of 1921 was the first external loan of Brazil that was floated in the United States, wasn't it?

Mr. HAYWARD. That was the first dollar loan. Brazilian securities were known here. There were, of course, a great number of sterling issues, some of which were traded in in New York. But this was the first direct loan in this country.

Mr. PECORA. As the negotiations and conversations with respect thereto between your representatives and the Brazilian Government advanced, and as I understood you to say, those negotiations commenced some time in September 1920, was it?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. Did it become apparent that the Brazilian Government wanted to borrow about 50 million dollars at that time?

Mr. HAYWARD. Yes, sir; that is correct.

Mr. PECORA. Did you or your firm indicate to them in the course of those negotiations that you would underwrite a loan for that amount?

Mr. HAYWARD. We expressed an interest.

Mr. PECORA. You expressed an interest?

Mr. HAYWARD. Yes.

Mr. PECORA. Did you advise them that you could float a 50 million dollar loan? Or did you suggest that the loan be divided up into two issues of 25 million dollars each?

Mr. HAYWARD. It was, of course, all one loan, Mr. Pecora, but two issues of bonds.

Mr. PECORA. Two series of bonds were issued?

Mr. HAYWARD. That was just a question of market mechanics.

Mr. PECORA. The question of the ability of the market to absorb at one time one issue of 50 million dollars?

Mr. HAYWARD. Yes; at that particular time.

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Mr. PECORA. When did you give such advices to the Brazilian Government?

Mr. HAYWARD. I would have to look in my cables.

Mr. PECORA. Will you look at a cable that bears date February 8, 1921, which I understand your firm sent to its representative, Sir Alexander MacKenzie?

Mr. HAYWARD. Yes; I have that before me.

Mr. PECORA. Will you read that cable into the record?

Mr. HAYWARD. It is dated New York, February 8, 1921, addressed to Sir Alexander MacKenzie, Rio de Janeiro, and it reads—

This market at present would not take Brazilian loan in such an amount named in your cable. Only feasible way for Brazilian Government to progress will be to place matter in our hands to act as advisors for them. Would not be willing to act as bankers for government until financing has been completed.

Mr. PECORA. What was the financing contemplated in that cablegram?

Mr. HAYWARD. This loan, I suppose.

Mr. PECORA. During the early part of 1921, about the time this cable was sent by your firm to Sir Alexander MacKenzie, was not the Brazilian Government also negotiating with representatives of other banking houses with a view of having them finance the loan?

Mr. HAYWARD. There was one incident, of which you are aware, in which I believe the Finance Minister purported to give an option to an individual who was in New York——

Mr. PECORA. Tell the committee about that.

Mr. HAYWARD. This procedure was a surprise to us and was contrary to our understanding of what the Government was going to do, namely, to negotiate the business exclusively with us; and I therefore took occasion to run it down. As I remember, we brought the matter to the attention of the President of Brazil, with the result that this so-called "authority" was revoked, and the Brazilian Ambassador in Washington was instructed to authorize us to continue exclusively with the negotiations.

I think that, in general, covers it.

Mr. PECORA. When was the negotiation for the issuance of the first series of these bonds concluded?

Mr. HAYWARD. Concluded?

Mr. PECORA. Yes, between your firm and the Brazilian Government.

Mr. HAYWARD. Those things are usually concluded very shortly before the public offering. I do not recall exactly in this case.

Mr. PECORA. When were the terms of the loan agreed upon in definite form?

Mr. HAYWARD (after consulting with associates). I am told it was May 9, 1921.

Mr. PECORA. When was the contract for the loan actually signed?

Mr. HAYWARD. That is another one "as of", I imagine.

Mr. PECORA. You are right.

Mr. HAYWARD. That is a legalistic euphemism, I think.

Mr. PECORA. Putting all the blame on the lawyers?

Mr. HAYWARD. Yes; I think the lawyers have had a bad time in this investigation.

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Mr. PECORA. The investing public has had a worse time.

Mr. HAYWARD. It was executed on the 2d of June.

Mr. PECORA. But dated as of May 27, 1921?

Mr. HAYWARD. That is correct.

Mr. PECORA. That is true also with respect to a supplementary loan agreement, is it not?

Mr. HAYWARD. I presume so.

Mr. PECORA. That was executed on the 2d day of June but dated as of May 27, 1921?

Mr. HAYWARD. Yes, sir. Those were ordinarily executed at the same time.

Mr. PECORA. Was there a separate loan agreement entered into in writing between yourselves and the Brazilian Government with respect to the second issue of a par value of $25,000,000 in connection with this $50,000,000 loan?

Mr. HAYWARD. In connection with the first $25,000,000 we received an option on the balance of the authorized loan. During that summer I went down to Brazil and we finally took up the option and offered a second portion. The contract for the second portion was actually signed, according to our records, on the 14th of September.

Mr. PECORA. 1921?

Mr. HAYWARD. 1921.

Mr. PECORA. But what date did it actually bear?

Mr. HAYWARD. As of the day after the first one.

Mr. PECORA. As of May 28, 1921?

Mr. HAYWARD. That is correct. The lawyers evidently felt that they did not want the sun to set more than once between the two portions of this contract.

Mr. PECORA. The second contract covering the issuance of the second series of $25,000,000 worth of these bonds was not executed actually until some time in September, that is, on September 14, 1921?

Mr. HAYWARD. That is correct.

Mr. PECORA. Why was it dated back as of May 28, 1921? Whose interest or convenience was served by doing that?

Mr. HAYWARD. I think it had to be done, Mr. Pecora, because these bonds were all part of the $50,000,000 issue. Therefore they all bore the same date, and therefore the contract had to be dated back to cover the situation. It had no significance other than that.

The CHAIRMAN. Are these bonds payable in gold?

Mr. HAYWARD. I believe that is illegal, now, Senator, is it not?

The CHAIRMAN. No; but in 1921.

Mr. HAYWARD. Oh. These were expressed to be payable in gold; yes.

Senator COUZENS. Are they in default?

Mr. HAYWARD. Yes—Well, they are in default to this extent, Senator. They failed to pay interest on December 1, 1931. Prior to that time the Brazilian Government began to realize that they were faced with a situation which was going to be difficult and would require some time to get through, and they prepared an offering of what is called funding bonds.

The effect of that is this, that for 3 years ending October next year, the Government is offering to the owners of all these external securities, with the exception of two old preferred loans in England, the privilege of taking in lieu of cash these 5 percent funding bonds.

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These bonds will likewise be in a preferred position and they are currently paying 5 percent interest. It amounts, in effect, to the Government's borrowing back the interest of the bondholder and paying him 5 percent for the privilege. At that time they drew up a funding plan, and all of the external bonds of the Government; that is, sterling bonds and dollar bonds and franc bonds, are arranged in order of precedence; that is, the loans which were with the exception of those two I have mentioned, secured by the pledge of certain revenues are given first place. Those holders are offered 20-year 5 percent bonds which the Government undertakes to pay off before it will pay any of the second class. The holders of the unsecured loans, which were largely old sterling loans issued in England, received a 40-year 5 percent bond.

At the present time, of course, the holders of those bonds are coming in every day and making their exchanges. The readiness with which that has been accepted will become apparent when you see that an average of around 80 percent of the owners of the dollar bonds have voluntarily accepted this offer. There is no use being technical, but as to the people who take them, of course, for the moment the default is wiped out so far as they are concerned.

This funding plan, I may say, is similar to the funding plans which Brazil made in 1898 and 1914. As soon as the Government found that difficulties were coming, they advised their London bankers and advised us of the situation. They expressed a desire to do everything possible to ameliorate this default, and I immediately went over to London and worked for sometime with Rothschild in trying to help them iron out the mechanics of this scheme. Through it all the Government showed the greatest good faith and the greatest desire to meet its obligations.

The CHAIRMAN. What was the amount of these funding bonds?

Mr. HAYWARD. It will be the equivalent of 3 years' interest on the bonds which are for the moment in default——

The CHAIRMAN. I mean the total amount of the funding bonds.

Mr. HAYWARD. A funding bond is issued, Senator, only when a man comes into the office and tenders his coupon. So you cannot tell how many will be out until all of the holders have turned in their coupons.

The CHAIRMAN. I thought these funding bonds covered the external debt. Are they in sufficient amount to cover the external debt except the sterling?

Mr. HAYWARD. If everybody took the interest for 3 years.

The CHAIRMAN. What would be the amount of the external debt?

Mr. HAYWARD. The total amount of authorized dollar funding bonds that would be an amount sufficient to take care of all of the dollar issues, is just short of $30,000,000.

The CHAIRMAN. That does not include, of course, the franc and the sterling?

Mr. HAYWARD. They have a similar arrangement.

The CHAIRMAN. Can you tell me the total amount of this external bonded debt?

Mr. HAYWARD. Of the Government, at the present time?

The CHAIRMAN. Yes.

Mr. HAYWARD. I have not the exact figures, but it is roughly around a billion dollars, all told, external and internal.

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Senator COUZENS. What became of the sinking fund that was accumulated from 1921 to 1931? Was there not a sinking fund proposition?

Mr. HAYWARD. Every 6 months, Senator; yes.

Senator COUZENS. Was that paid up until 1931?

Mr. HAYWARD. Yes.

Senator COUZENS. What was done with the sinking fund money? That would be 20 semiannual payments.

Mr. HAYWARD. This loan was reduced from an absolute amount of $50,000,000 to approximately $31,000,000 during that time by the purchase of bonds in the market.

Senator COUZENS. And that was a provision of the sinking fund?

Mr. HAYWARD. Yes.

Senator COUZENS. That you could use sinking fund money to purchase bonds?

Mr. HAYWARD. My impression is that is the only way you can use it. In fact, there were occasions when the market prices of the bonds were above the prices for which the contract provided they should be purchased, and some of the money was returned to the Government according to the provisions of the sinking fund.

Senator COUZENS. Why was it returned to the Government? Was that a provision of the contract?

Mr. HAYWARD. Yes, sir.

Senator COUZENS. What protection did the holder of these bonds have at maturity with respect to any sinking fund created for the purpose of retiring them?

Mr. HAYWARD. All the bonds which had not previously been retired at maturity then became due and payable.

Senator COUZENS. But there would be no fund created to pay them?

Mr. HAYWARD. Presumably the greater part of the issue would be retired by that time, as has been the case so far. It has been retired almost by half—$50,000,000 to $31,000,000.

Senator COUZENS. But those bonds that were outstanding when the sinking fund ceased have no protection with respect to any sinking fund?

Mr. HAYWARD. They hold the general obligation of the Government.

Senator COUZENS. Oh, I understand that, of course; but I mean there is no sinking fund for their protection?

Mr. HAYWARD. No, not operating during the suspension period.

Mr. PECORA. Mr. Hayward, I show you a printed document purporting to be a loan contract executed between your firm and the United States of Brazil dated as of May 27, 1921. Is it a true and correct copy of the loan contract that was entered into on June 2, 1921, but dated as of May 27, 1921, covering the first $25,000,000 issue of these 8-percent bonds?

Mr. HAYWARD. Yes; that is correct.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted and placed in the record.

(The document referred to, being loan contract with the United States of Brazil, dated as of May 27, 1921, was marked "Committee Exhibit No. 26", see p. 2021.)

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Mr. PECORA. I show you another printed document and ask if it is a true and correct copy of so-called supplemental agreement dated as of May 27, 1921, but actually executed on June 2, 1921, and relating to the same issue.

Mr. HAYWARD. That is correct.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted and entered of record.

(The document referred to being supplemental agreement dated as of May 27, 1921, was received in evidence, marked "Committee Exhibit No. 27", see p. 2026.)

Mr. PECORA. I notice this provision in that supplemental agreement, Mr. Hayward, which has been marked in evidence as "Committee's Exhibit 27" of this date, section 5, page 2:

> The bankers shall have an irrevocable option to purchase from the obligor an additional $25,000,000 principal amount of bonds to be issued on the same terms, including prices, and secured by the same security as secures the issue of bonds described in the Main Agreemeent. Such option shall extend for 4 months from the date hereof and may within that time be exercised by notice to the obligor, which may be by cable or in writing. The bankers shall have exclusive authority to attempt to form a syndicate to issue and to market such additional bonds, and the obligor shall not, until the expiration of such option, issue or sell or offer for sale or market any issue of its bonds or obligations in the United States or any other country outside of Brazil.

Is that the option that you referred to a few minutes ago when you stated that in connection with the execution of the loan agreement covering the second $25,000,000 issue, which you said was executed on September 14, 1921, but dated as of May 28, 1921——

Mr. HAYWARD. That is correct.

Senator COUZENS. May I ask at that point, what is the security referred to there?

Mr. PECORA. I will read the provision of the contract.

Senator COUZENS. I have heard no testimony with respect to what security this investment house has for these outstanding bonds. Maybe the witness can tell us what the security was.

The CHAIRMAN. Can you answer that?

Mr. HAYWARD. I will read it from the contract, Senator.

Mr. PECORA. It is on page 5 of the main contract.

Mr. HAYWARD. Page 4, section 4, of the main agreement, and it reads as follows:

> Without intending to limit or lessen the obligations assumed by the obligor under the bonds or elsewhere under this contract, the obligor covenants and agrees that its obligations hereunder and under the bonds, together with its obligations under an additional amount of bonds to be issued by the obligor herein described (such additional amount not exceeding $25,000,000 face amount) shall at all times be and constitute a special and first charge on the revenues received by the obligor from the consumption tax—

I will leave out the Portuguese—

> and stamp tax as now existing or as in the future the same may exist, levied by the obligor or with its authority, and covenants and agrees that all the proceeds of said consumption tax and stamp tax and all taxes and exactions levied in substitution therefor or amendment thereof shall, so long as the obligor shall not have fulfilled all its obligations then due hereunder and under said additional bonds and under the contract under which the same are to be issued, be specially set apart and used for the fulfillment of the obligations of the obligor hereunder and under said additional bonds, and said contract (pro

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rata and without discrimination as to any of the bonds issued hereunder and said additional bonds) shall not be used for or devoted to any other purpose.

The obligor further covenants and agrees that in like manner the obligations hereunder and under the bonds issued hereunder and under said additional bonds and said contract shall be a special charge on all customs duties and customs taxes now or hereafter levied or received by the obligor (but subject and subsidiary to all the charges now existing), and that the proceeds thereof shall in like manner be especially set apart and used for the fulfillment of the obligations of the obligor then due hereunder and under said additional bonds and said contract (pro rata and without discrimination as to any of the bonds issued hereunder and said additional bonds), and shall not be devoted or used for any other purposes.

Senator COUZENS. Did you send anybody over there to take charge of those revenues that are assigned for that service?

Mr. HAYWARD. Senator, you cannot send anybody to take charge of a foreign government's revenues.

Senator COUZENS. Well, it has been done in a lot of countries, by our own Government and other governments.

Mr. HAYWARD. Well, yes; perhaps in islands in the West Indies, where we have a semiprotectorate.

Senator COUZENS. What step did you take to see that bondholders got that protection that was promised?

Mr. HAYWARD. The situation is this: By having the funding plan the Brazilian Government considers that for the moment that funding plan takes the place of any provision under this clause. Under the funding plan they are depositing in Rio milreis sufficient to meet the interest upon their debt at the rate of 12 cents per milreis, and that money which is provided under the contract by the funding-loan agreement shall, as and when the Brazilian Government can obtain exchange, be remitted abroad and be used to reduce these bonds.

Senator COUZENS. Then what is the relation between the revenues assigned for the protection of this loan to the pay-offs that have already been made, or to the retirements that have already been made? In other words, there must be a relation to the revenues that were assigned for this purpose and the amount of bonds that have been paid off, and what is that relation?

Mr. HAYWARD. I am afraid I don't quite understand you, Senator. The interest was paid regularly for 10 years. Therefore, during that period this provision did not come into question. Since that time and immediately after default the Brazilian Government offered this funding plan. We cannot decide now what we will do in the future. We will have to see what the situation is when we get there.

The CHAIRMAN. Is that consumption tax really a sales tax?

Mr. HAYWARD. That is what it is, yes. It is a sales tax..

The CHAIRMAN. And they have maintained that?

Mr. HAYWARD. Oh, yes; these are all maintained, and there would be more than enough to meet the charges if they could get it out of the country. Perhaps that is what you meant, Senator.

Senator COUZENS. What is the relation of those revenues and the amount that has been brought since the default?

Mr. HAYWARD. Oh, they are much larger.

Senator COUZENS. Much larger?

Mr. HAYWARD. Oh, yes; they would be ample to take care of it. But you see 80 percent of the bondholders have accepted this funding plan. Therefore, the question of any attempt to enforce provisions has not come up. Whether it will in the future or not, I don't know.

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I feel certain the Brazilian Government will eventually resume payments as soon as it is able.

Senator COUZENS. Was there any excess of these revenues over the amount needed for this purpose?

Mr. HAYWARD. Oh, I am quite sure there was; yes.

Senator COUZENS. Didn't that excess belong in the sinking fund for the protection of the bondholders?

Mr. HAYWARD. Oh, no.

Senator COUZENS. Because it was assigned for that purpose?

Mr. HAYWARD. Oh, no.

Mr. PECORA. It was to be set apart only in the event of default, only after default.

Mr. HAYWARD. That is right.

Mr. PECORA. They wanted it set apart currently but only in the event of default that these revenues would be collected and set apart as a trust fund, so to speak.

The contract on that says:

So long as the obligor shall not have fulfilled all of its obligations then due hereunder and under said additional bonds and under the contract under which the same are to be issued, be especially set apart and used for the fulfillment of the obligations.

Mr. HAYWARD. The same as we had yesterday.

Mr. PECORA. Now, I show you another printed document, Mr. Hayward. Will you kindly look at it and tell us if it is a true and correct copy of the loan agreement or contract covering the second $25,000,000 issue of these Brazilian bonds, which you said was actually executed on September 14, 1921, but dated as of May 28, 1921?

Mr. HAYWARD. That is correct, Mr. Pecora.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record, and the original returned.

The CHAIRMAN. It may be admitted and spread on the record.

(Loan agreement dated May 28, 1921, was thereupon designated "Committee Exhibit 28, October 12, 1933," see p. 2027.)

Mr. PECORA. Now, at what price did Dillon, Read & Co. take over the first 25 million dollar issue of these Brazilian bonds?

Mr. HAYWARD. Ninety.

Mr. PECORA. And at what price were they offered and sold to the investing public here in America?

Mr. HAYWARD. Ninety-seven and one half, to net 8.25 percent.

Mr. PECORA. So there was a 7½-point spread to the bankers here?

Mr. HAYWARD. That is gross.

Mr. PECORA. What is the present market quotation of these bonds?

Mr. HAYWARD. I think it is about 31, approximately.

Mr. PECORA. Did Dillon, Read & Co. have any associates in this financing?

Mr. HAYWARD. Yes; we did, Mr. Pecora.

Mr. PECORA. Who were they?

Mr. HAYWARD. The names appearing on the prospectus, Mr. Pecora, under Dillon, Read & Co., are Blair & Co., Inc., White, Weld & Co., Union Trust Co. of Pittsburgh, Illinois Trust & Savings Bank, Halsey, Stuart & Co., Inc., Continental & Commercial Trust & Savings Bank, and The Union Trust Co. of Cleveland.

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Senator COUZENS. You were in good company, weren't you?

Mr. HAYWARD. Yes.

Senator COUZENS. Even the Mellon enterprise was in it.

Mr. PECORA. At what price did your firm take over the second 25 million dollar issue of these bonds?

Mr. HAYWARD. Same price, Mr. Pecora, 90.

Mr. PECORA. And at what price were they offered and sold to the public here?

Mr. HAYWARD. Ninety-eight and one half, to net 8.15 percent.

Mr. PECORA. Did you have any associates in connection with this second issue?

Mr. HAYWARD. The names appearing on the prospectus under Dillon, Read & Co. in that instance were as follows: Lee, Higginson & Co., Blair & Co., Inc., White, Weld & Co., Union Trust Co. of Pittsburgh, Continental & Commercial Trust & Savings Bank, Halsey, Stuart & Co., Inc., Illinois Trust & Savings Bank, and The Union Trust Co. of Cleveland.

The CHAIRMAN. What is the present market price of those bonds?

Mr. HAYWARD. Well, they are all one issue, Senator. Thirty-one, I think, is approximate. The high for this year, I think, has been about 40.

Mr. PECORA. The first issue was offered to the public on what date?

Mr. HAYWARD. Sixteenth of May 1921.

Mr. PECORA. And on what date was the second issue offered to the public?

Mr. HAYWARD. 30th of August of the same year.

Mr. PECORA. These two issues were identical in their terms and provisions, were they not?

Mr. HAYWARD. All one issue; yes.

Mr. PECORA. Why was the second issue offered at 98½ in August 1921, whereas the first issue was offered at 97½ to the public? What was the reason for that one point difference?

Mr. HAYWARD. I don't know at the moment. I can only presume that it was the market condition which warranted the price.

Mr. PECORA. You mean the money market here?

Mr. HAYWARD. Yes.

Mr. PECORA. Was in much better shape?

Mr. HAYWARD. I presume so, but I cannot remember back that far.

Mr. PECORA. And so the bank took advantage of that condition to make an extra point themselves?

Mr. HAYWARD. I should think so.

Mr. PECORA. Is it the policy of underwriting bankers in these matters to take as large a commission or spread as the traffic will bear?

Mr. HAYWARD. No. I think that the prime consideration is the ability ultimately to dispose of the issue.

Mr. PECORA. The purpose of the bankers is ultimately to dispose of the issue at as high a price as it can possibly get or thinks it can get?

Mr. HAYWARD. Within reason; yes.

Mr. PECORA. So that, to put it another way, the bankers seek to dispose of an issue at the highest price obtainable in the market; in other words, all the traffic will bear?

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Mr. HAYWARD. I think that is right. These bonds shortly thereafter sold at 105, I believe.

The CHAIRMAN. How long do they run?

Mr. HAYWARD. Twenty years, Senator.

The CHAIRMAN. Twenty years?

Mr. HAYWARD. And they have been reduced from 50 million now to around 31 million.

Mr. PECORA. Mr. Hayward, in connection with the first offering, or rather with the offering of that first issue, was a syndicate organized by the bankers to support the market for a period of time after the original offering to the public?

Mr. HAYWARD. I will have to look that up, Mr. Pecora. [After conferring.] There was a trading account which lasted about 60 days in connection with the syndicate. That is the usual practice under the American system of distributing securities.

Mr. PECORA. And what is that practice adopted for? That is, what are the results that it is sought to accomplish through the formation and operation of a trading syndicate?

Mr. HAYWARD. I think they are twofold: To protect the offering price of the bonds so that the public who have subscribed first may not be at a disadvantage by the price going down considerably, and in the second place to enable the underwriters to dispose of the issue.

Mr. PECORA. Well, it is really done also for the purpose of helping to create a market for the bonds at a price which will not fall below the offering, the original offering price?

Mr. HAYWARD. That is what I tried to say, to protect the purchaser who has bought the issue.

Mr. PECORA. And that practice is almost universally followed in connection with the underwriting and flotation of such issues, is it?

Mr. HAYWARD. It is very common, yes.

Mr. PECORA. And has been?

Mr. HAYWARD. Oh, yes.

Mr. PECORA. And it is generally known that it is universally followed by banking houses in this country?

Mr. HAYWARD. Yes. According to the practice prevailing at the present time if you did not do that the original purchaser might be put to considerable loss and disappointment by reason of the fact that there might be a few tail ends of the issue unplaced; some of the bonds might have been taken from the point of view more of speculation than of permanent investment, and if they were suddenly released on the market and the price went down the original purchaser would feel that he had suffered.

In England I believe the system is somewhat different.

Mr. PECORA. What is the difference?

Mr. HAYWARD. Well, I think over there it is the practice to close out an account very quickly and let the bonds seek their own level.

Mr. PECORA. Which is a fairer practice, is it not, so far as the public is concerned?

Mr. HAYWARD. Well, you can argue both ways, Mr. Pecora. I think it is partly a question of national temperament. I have a feeling that the English investor, perhaps being a little older at the game than we are, buys bonds to put away in his box and forget about. I think that he is not so influenced by the daily quotations

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that he reads in the paper. It is a smaller country. It has only one financial center, which is London. It is easier for the people to keep in touch with their brokers and financial advisors than it is in this country. And I think that during all of this period under review our market suffered considerably from the purchase of bonds from a speculative standpoint.

Mr. PECORA. Isn't it also possible that the main reason, or one of the main reasons, for the forming and operating of these trading syndicates for a 60-day period following the offering to the public of an issue of bonds, is to help the underwriting bankers sell the issue to the public?

Mr. HAYWARD. I think I gave that to you as my second reason, as far as my opinion is concerned.

Mr. PECORA. And if such practices were not resorted to the underwriting bankers might be disappointed in their efforts to dispose of the bonds to the public to a certain extent?

Mr. HAYWARD. Well, of course, you can put all kinds of interpretations on a thing, but——

Mr. PECORA (interposing). One of the interpretations you could put upon the reason for this practice is that the purchasers upon the original offering might not be disappointed by a reaction in the market price?

Mr. HAYWARD. That is one of them. The other is to——

Mr. PECORA (interposing). The other disappointment that this practice is intended to obviate is a disappointment upon the underwriting bankers' part through inability to sell?

Mr. HAYWARD. Yes; obviously so.

Mr. PECORA. And inability to sell the issue?

Mr. HAYWARD. Yes. You see, Mr. Pecora, the flotation of a government bond issue, or almost any bond issue, should accomplish two purposes: It should get the money for the borrower and uphold his credit, and it should protect the purchaser who has bought the bonds. Now, if an issue is a failure it reacts not only on the borrower's credit, but on the purchasers of the bonds. It works both ways; and this is simply an outgrowth of the custom that has been built up here to try and meet those two differing points of view.

Mr. PECORA. The earlier purchasers get no protection beyond the life of the trading syndicate, do they?

Mr. HAYWARD. No; no fixed protection.

Mr. PECORA. And the underwriting syndicate, which is also responsible for the organization and operation of the trading syndicate, as a rule fixes the life of that trading syndicate account for a period of time that will enable them and enable the underwriters to dispose of the whole issue.

Mr. HAYWARD. That is correct. I think it is usual with us at the present time to take 60 days. That may be subject to extension. Sometimes it is longer.

Mr. PECORA. As a rule losses are incurred by these trading syndicates in their market operations to support the market during this 60-day period, are they not?

Mr. HAYWARD. Sometimes there are losses and sometimes there are profits. You cannot tell. The purpose is, of course, fundamentally, to get the bonds into the hands of the ultimate investor.

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Mr. PECORA. That is to the benefit of the underwriting bankers primarily, is it not?

Mr. HAYWARD. No; I should say it is to the benefit of all three parties, the underwriters, the borrower, and the public which has purchased the bonds. In other words, it is a question of whether or not an issue is a success or failure.

Mr. PECORA. Let us see how much the borrower is benefited by that. The borrower, in the first instance, sells the bonds to the underwriting banker, does he not?

Mr. HAYWARD. Yes.

Mr. PECORA. And the commitment of the underwriting banker is all the borrower needs. He needs no protection beyond that, does he?

Mr. HAYWARD. Oh, yes; he does. There are often very tragic instances where——

Mr. PECORA. He needs protection only in the event of the irresponsibility of the underwriting banker.

Mr. HAYWARD. No; I am thinking about the after market prices for his bonds. No borrower can be said to have concluded a successful transaction just because he has unloaded his bonds on a banker. He must keep a market standing for his bonds thereafter. Otherwise the next time he goes into the market he will find great difficulty in interesting a banker to take his securities.

Mr. PECORA. What protection does the ultimate investor get by reason of the operation of these trading syndicates?

Mr. HAYWARD. It prevents him from seeing the price of his bonds drop within a few days or a few weeks after the time he has purchased them.

Mr. PECORA. It prevents that effect for only the 60-day period, which usually measures the life of the trading syndicate.

Mr. HAYWARD. Usually that is all that is required. If the underwriters feel that the situation has not been finally settled, they probably would extend that period. I think you have one instance here, in your studies of our situations, where an after-market operation conducted by another house lasted for a period of a number of months.

Mr. PECORA. That was due to exceptional market conditions at that time.

Mr. HAYWARD. I think so.

The CHAIRMAN. This sort of a statement at the head of a prospectus made the issue quite attractive, did it not: "United States of Brazil, 20-year 8 percent noncallable external gold bonds." That is the title of the prospectus.

Mr. HAYWARD. That is correct, Senator.

The CHAIRMAN. That looked like a very tempting investment, 8 percent for 20 years, noncallable gold bonds.

Mr. HAYWARD. The investor received 8 percent for 10 years and has received scrip now for 2 years, which has a market value of 40 percent at par, and he still has a bond he can sell for $310.

Senator COUZENS. Can you tell me why the State of Brazil had to pay such a high rate as 8 percent, with such a large discount?

Mr. HAYWARD. Yes; I can, Senator.

Senator COUZENS. Will you tell us?

Mr. HAYWARD. I have here a publication called "Handbook on American Underwriting of Foreign Securities" written by Ralph A.

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Young and published by the United States Department of Commerce, dated 1930. On page 32, table 14, he gives what is called an index of American financial conditions. In that index I find that in the first quarter of 1921, which was the period in which the first part of this loan was issued, call money renewal rates in New York were 6.94 percent; 60- to 90-day commercial paper was 7.74 percent. The result of that situation, Senator, was that during the greater part of 1921 practically all foreign governments which were issuing loans in this market had to pay that rate. Even governments with as splendid a financial history as Switzerland and the Scandinavian countries. It was the normal price for credit at that time.

Senator COUZENS. You say Switzerland paid 8 percent?

Mr. HAYWARD. Yes. Of course, since then they have retired all those bonds, I believe, but our own corporations were paying very high rates, and there was nothing unusual about it. If you wanted to borrow you had to pay that price. I think the French Government issued, as I recall it, a 7½-percent loan in 1920, but in 1921 they had to go up to 8 percent.

Mr. PECORA. I show you what purports to be a photostatic reproduction of a prospectus. I ask you if it is a true and correct copy of the prospectus or circular which accompanied the offering of the first series of bonds by your firm and its associates.

Mr. HAYWARD. Yes, that is correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, prospectus of Dillon, Read & Co., et al., in re first series bonds, Brazilian loan, was received in evidence, marked " Committee Exhibit No. 29 ", see p. 2033.)

Mr. PECORA. I show you a photostatic reproduction now of another document, and ask you if it is a true and correct copy of the prospectus or circular which was issued by the bankers to accompany the offering to the public of the second issue of these bonds.

Mr. HAYWARD. The second part of the issue?

Mr. PECORA. The second part of the issue.

Mr. HAYWARD. That is correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, prospectus of Dillon, Read & Co., et al., in re second series of bonds, Brazilian loan, was received in evidence, marked " Committee Exhibit No. 30 ", see p. 2034.)

Senator COUZENS. Why did the Brazilian Government make these noncallable, while other bonds that were being issued were callable?

Mr. HAYWARD. I think Senator Fletcher put his finger on it a moment ago, and that was the attraction of being able to keep a bond with an 8 percent coupon for a period of 20 years. There were not many such securities available at that time, and the investing public had a feeling that those money rates were not going to last; that as soon as possible the borrower might call in his securities and replace them by something bearing a lower rate of interest.

Senator COUZENS. Why did the Brazilian Government enter into a 20-year agreement not to do that while the other governments were not doing it?

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Mr. HAYWARD. I do not know whether the other governments were doing it or not.

Senator COUZENS. You said the other governments had retired their loans.

Mr. HAYWARD. I said the investors were fearful the other governments might retire their loans in cases where they were able to do so.

Senator COUZENS. You said Switzerland and some of the others had retired those loans at a lower rate.

Mr. HAYWARD. In some cases; yes.

Senator COUZENS. Why did Brazil give up her right to retire her loan at a lower rate?

Mr. HAYWARD. I do not know what the motive was.

Senator COUZENS. What was the argument you used to get them to make a flat 20-year loan at 8 percent at a rate of 90?

Mr. HAYWARD. I could not tell you today. I am thinking out loud what I would argue if the situation were before us today, and I should say they had a better chance of interesting the investing public by offering them some attractive features.

Senator COUZENS. When you got those attractive features, there was some doubt in your mind as to whether you could sell the security?

Mr. HAYWARD. No.

Mr. PECORA. Mr. Hayward, do you know the profits, by way of commissions, and so forth, that accrued to your firm from these two flotations?

Mr. HAYWARD. I do not offhand. I think that is in our exhibits, is it not?

Mr. PECORA. You have the figures, have you not, from your records?

Mr. HAYWARD. This is on the first half?

Mr. PECORA. Give it separately, first on the first half and then on the second half of the issue.

Mr. HAYWARD. According to Price, Waterhouse & Co. figures, which were furnished you, on the first issue Dillon, Read & Co.'s profit——

Mr. PECORA. Give the gross profit to all the underwriting bankers, or all the bankers, rather, who participated in that syndicate which disposed of the issue to the public, and then give the portions of that profit that accrued directly to Dillon, Read & Co. or its affiliates.

Mr. HAYWARD. May I save you time by reversing that process? I have the first figure.

Mr. PECORA. Yes.

Mr. HAYWARD. Dillon, Read & Co.'s profit on the first issue was $366,372.40, gross.

Mr. PECORA. Did not Dillon, Read & Co., through the interest of a corporation called the Eastern Trust Co., also acquire additional profits and commissions?

Mr. HAYWARD. I do not know about that. I will get that information.

Mr. PECORA. While they are getting it, will you tell us who owns and controls the Eastern Trust Co.?

Mr. HAYWARD. I do not know, Mr. Pecora.

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Senator ADAMS. With these 8 percent bonds selling at 90, for a 20-year period, that meant a cost to Brazil of practically 9½ percent for its money, did it not?

Mr. HAYWARD. I have not figured that out. That sounds reasonable though.

Mr. PECORA. Can you tell us what the Eastern Trust Co. is, Mr. Hayward?

Mr. HAYWARD. It is my understanding that at the time of this business the interests of Eastern were the same as Dillon, Read & Co. I think that has since gone out of existence.

Mr. PECORA. What was the purpose of the utilization of that Eastern Trust Co. in the syndicates that were organized to distribute these bonds?

Mr. HAYWARD. I would not know that, Mr. Pecora.

Mr. PECORA. Can you not think of any reason?

Mr. HAYWARD. I have not any idea.

Mr. PECORA. Was it done in order to subdivide the profits accruing to Dillon, Read & Co. into two entities so as to avoid income tax payments in the higher brackets by allocating all those profits to one concern?

Mr. HAYWARD. I should not think so, but at that time I was not a member, and I was away, and I am not familiar with those phases of the situation.

Senator COUZENS. Did we have an excess-profits tax during those years?

Mr. PECORA. I think we did.

Senator COUZENS. If we did not have any excess-profits tax, there would not be any point to the suggestion you just made.

Mr. PECORA. I think the excess-profits tax came in right after the war.

Mr. HAYWARD. I have those figures. On the first half, Dillon, Read & Co.'s gross profits were $366,372.40.

Mr. PECORA. On the first half?

Mr. HAYWARD. Yes. The Eastern Trust Co.'s profits on the first half were $134,994.49. On the second half Dillon, Read & Co.'s gross profits were $585,468.62, and the gross profits of the Eastern Trust were $325,129.41. Those are Price, Waterhouse figures.

Mr. PECORA. What is the total of those gross profits accruing to Dillon, Read & Co. and to the Eastern Trust Co.?

Mr. HAYWARD. The total on the first half would be $501,366.89 and on the second, $910,598.03.

Mr. PECORA. Making a total of what?

Mr. HAYWARD. I have not added those.

Mr. PECORA. The total gross profit from both halves was $1,411,964.92.

Mr. HAYWARD. That is correct.

The CHAIRMAN. What were the total profits of the whole selling syndicate or underwriting syndicate?

Mr. HAYWARD. That we would have to look up, Senator. That would take some time. There were a good many people involved.

The CHAIRMAN. It would be something over $1,000,000 more, would it not?

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Mr. PECORA. Senator, we have a calculation on that which I will put into the record, subject to correction by the witness. The total net profit——

Senator COUZENS. Net or gross?

Mr. PECORA. I have it here as net profit.

Mr. HAYWARD. It must be gross. It could not be anything else.

Mr. PECORA. Then, the total gross profit to the underwriters and the selling syndicates on the first half of the issue was $1,242,454.33, and on the second half of the issue $1,545,903.34, making a total gross profit on the entire issue of $2,788,357.67. Those are figures we got from your records, and if our compilation is incorrect, you can check it up and let us know.

Mr. HAYWARD. Those are, of course, gross profits, before taxes, expenses, overhead, and all those things.

Mr. PECORA. Mr. Hayward, in neither one of your circulars was the investing public advised of the price at which these bonds were acquired by the underwriting bankers.

Mr. HAYWARD. No. That has never been customary, up to the passage of the new Securities Act.

The CHAIRMAN. How long were you disposing of these bonds to the public?

Mr. HAYWARD. My recollection is, Senator, they were sold immediately.

The CHAIRMAN. Within a week or 10 days?

Mr. HAYWARD. Yes; they were practically all disposed of. Those were the days when you did not need bond salesmen. People just stood in line to file applications. That seems like a long time ago now.

Mr. PECORA. Those were the days, consequently, when underwriting bankers were able to get spreads of 7 or 8 points or more.

Mr. HAYWARD. Today, of course, if you attempted to bring out a foreign loan, you would require a good deal greater spread than that.

The CHAIRMAN. You had some of them sold before you bought, did you not?

Mr. HAYWARD. Very frequently, Senator, people will read a bit of gossip in the newspaper that some issue is coming along, and if it happens to strike their fancy they will telephone their dealer and ask him to put their names down on the waiting list, so to speak, so that they can be sure to get some of them when they come out. They used to do that.

Mr. PECORA. Mr. Hayward, is it not a fact that before the loan contracts were actually executed between your firm and the Brazilian Government covering both halves of this issue, your firm had practically disposed of these bonds through commitments it had obtained from dealers?

Mr. HAYWARD. Well, these contracts, Mr. Pecora, were all of the "as of" nature, so that that could have no significance.

Mr. PECORA. Will you answer my question, though?

Mr. HAYWARD. They must have been, because the public issue had taken place. The bonds had been sold. These loans were brought out on the same basis as the loan we were discussing yesterday, namely, a prior option.

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Mr. PECORA. In other words, before Dillon, Read & Co. actually executed the loan contracts with the issuing Government, it had practically disposed of the bonds through commitments to purchase them which it had received from dealers throughout the country.

Mr. HAYWARD. We operated on an option. The way you put it would convey the impression that we did not become obligated until the signing of these "as of" contracts. That, I understand, is not the case. They were considerably after the business had really all been concluded. They were signed, of course, before the delivery of the bonds and the passing of any money, naturally, but the obligation on our part was assumed when we agreed to take the issue.

Mr. PECORA. Is that true with regard to the second issue or the second half of the issue?

Mr. HAYWARD. We had an option which we exercised.

Mr. PECORA. You had a 4-months' option, did you not?

Mr. HAYWARD. Yes; and we exercised it.

Mr. PECORA. And that 4-months' option was contained in the supplemental agreement that accompanied the original loan agreement which was signed on June 2, 1921, but dated back as of May the 27th?

Mr. HAYWARD. That is right.

Mr. PECORA. There was no commitment on the part of Dillon, Read & Co. under that option, was there?

Mr. HAYWARD. No, no; we were free to take it or leave it.

Mr. PECORA. You were free to take it or leave it. As a matter of fact you did not take it until the contract was signed on September 4, 1921, did you?

Mr. HAYWARD. No, no; the date is wrong on that, Mr. Pecora. The public offering took place in August.

Mr. PECORA. Yes; the date is wrong. The date is September 14.

Mr. HAYWARD. The public offering took place in August.

Mr. PECORA. I know it, but the loan contract covering the second half of this issue, which was entered into between Dillon, Read & Co. and the Brazilian Government, was not executed until September 14, 1921?

Mr. HAYWARD. Yes; but that was ratifying what had been previously done. In other words, my recollection is that I advised the Brazilian Finance Minister formally in Rio that we exercised the option on a certain date, and in all likelihood the public offering was made the next morning. That would be the usual practice. So that from the time I advised him that we exercised the option we certainly were committed to take those bonds.

Mr. PECORA. Well, even when you notified the Brazilian Government some time in August 1921 that you were going to exercise the option, your firm had received commitments from dealers all over the country which absorbed the entire second half of this issue, had you not?

Mr. HAYWARD. Oh, I should not think so; no. No; the way those things work is this, as you probably know: Telegrams and offering letters are sent out, and it takes a number of days in the natural course of events for replies to come in. You may have a loan which immediately appears to be a great success and be over subscribed, but you may not have the commitments from all of the participants for some days later.

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Mr. PECORA. As a matter of fact the underwriting bankers are pretty well assured of their ability to dispose of the bonds through the organization of participating syndicates and selling groups and through the allocation through the medium of those syndicates of portions of the issue to dealers all over the country?

Mr. HAYWARD. That is the way a loan is sold.

Mr. PECORA. Yes.

Mr. HAYWARD. But an issuing banker would not make an issue unless he felt that it was under proper terms and proper market conditions.

Mr. PECORA. As a matter of fact they more than feel that, do they not? They actually are assured through the responses they meanwhile have received from the dealers who are invited to participate? They get those assurances substantially before they actually commit themselves to purchase the issue from the issuing government?

Mr. HAYWARD. Well, you have an indication certainly. I mean the first ones coming in will indicate to you whether it is——

Mr. PECORA. You have an indication that almost amounts to a complete assurance, do you not?

Mr. HAYWARD. Well, pretty close; yes.

Mr. PECORA. Yes. There is something I want to clear up if I can. There was testimony given before the Senate Finance Committee in an inquiry that that committee made on the resolution of Senator Johnson in 1931 with regard to these foreign issues. I have before me from the report of that committee a table showing that the gross originating receipts to Dillon, Read & Co. from the first half of this issue were $467,125. That figure does not correspond to the figure of $366,372 40, nor to the figure of $501,366.89 which is the aggregate of the gross profits to Dillon, Read & Co. and the Eastern Trust Co.

Mr. HAYWARD. No; they are obviously different.

Mr. PECORA. How do you account for that discrepancy, Mr. Hayward?

Mr. HAYWARD. I do not know, Mr. Pecora, on what basis those tables were made up. We would have to look that up for you. You see the heading may differ or cover a different set of circumstances than the basis on which these figures were made up.

Senator COUZENS. Those figures do not include the Eastern Trust Co.?

Mr. PECORA. They must have included some of them, because according to this witness the profits of Dillon, Read & Co. as a separate entity, from the first half of this issue, were $366,372.40, and the profits of the Eastern Trust Co., a Dillon, Read & Co. affiliate, from this first issue, were $134,994.49, making a total for both entities of $501,366.89. The figure that was given to the Senate Finance Committee in 1931 was $467,125, which is a figure in between the Dillon, Read & Co. profits and the aggregate of the Dillon, Read & Co. and the Eastern Trust Co. profits.

Mr. HAYWARD. We would have to look back at our work sheets and see what basis that was prepared on. We would be glad to do that.

Mr. PECORA. There is a difference of about $34,000.

Mr. HAYWARD. Yes. These figures which I gave you today were compiled by Price, Waterhouse & Co.

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Mr. PECORA. Yes. When was any default committed on the payment of either interest or sinking fund requirements under this issue?

Mr. HAYWARD. The first date on which interest was not paid in cash was December 1, 1931. That was 10 years after the issue.

Mr. PECORA. What steps, if any, did Dillon, Read & Co. take to enforce the terms of the loan agreement with the Brazilian Government with regard to the setting apart of the revenues that were made available under the loan agreement for the servicing of these bonds?

Mr. HAYWARD. As I tried to make clear some time ago, in the fall of 1931, before the date that this first default occurred, the London bankers and ourselves were notified that the Finance Minister felt that he would have to make some arrangement other than a full cash payment. I then went to London and discussed the situation with Rothschild and the London group, and as an outgrowth of all that Sir Otto Niemeyer of the Bank of England went to Brazil to examine the situation and make a report on what conditions he found existing.

The funding plan was then drawn up, and during the fall, and previous to this date of December 1, was announced by the Brazilian Government. Under that plan, as I stated, the Government undertakes to deposit currently in the Bank of Brazil—and we are informed that they are doing so—an amount of milreis sufficient to cover its obligations at the par rate of exchange, and that money is eventually to be withdrawn gradually and used to retire this scrip. That scrip, as I said, has so far been accepted by approximately 80 percent of the bondholders.

Under those circumstances there has not as yet been any occasion for us to attempt to enforce the pledges. Whether the time will come when that situation will come up I do not know. It is my impression, as I said yesterday, that the Brazilian Government is considering an announcement covering a partial resumption of cash payments next year, and that would include the city of Rio also, so that we are in a position where we are watching the progress of events.

Mr. PECORA. What I have in mind is that under section 4 of the main loan contract the Brazilian Government obligated itself in the event of the default on any of the bonds covered by this agreement to specially set apart all the proceeds of the consumption tax and the stamp tax and all taxes and exactions levied in substitution for those taxes to the servicing of these bonds. Further obligated itself that those revenues represented by those taxes should not be used for or devoted to any other purpose. Has the Brazilian Government set apart these revenues in conformity with this provision of the loan agreement?

Mr. HAYWARD. Under the funding plan they are setting apart semiannually these sums. What particular bureau of the Treasury they come from I do not know. Of course there would be no way of telling. It is simply a theoretical question. The crux of the situation, Mr. Pecora, is the inability to obtain foreign exchange. Here you have a situation——

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Mr. PECORA. Do you know what amount of revenues have actually been set apart since this default in 1931 under the terms of section 4 of the original loan agreement?

Mr. HAYWARD. Under the terms of the funding agreement they make reports currently of the amount of milreis deposited, and I believe we have those reports. But as I was trying to explain to you, that money, even though it is there today, is in the local Brazilian currency, and you cannot at the moment get it out and convert it into dollars. That is the bottom of the whole difficulty. As I see it, it makes no difference to the bondholders where those particular sums came from. They are there in the bank.

Mr. PECORA. Do you think that the public, which subscribed for these bonds back in 1921 at 97½ and 98½, would have subscribed at those figures if they knew that the underwriting bankers had acquired the bonds at 90? Tell us frankly your opinion about it.

Mr. HAYWARD. Yes. That to my mind is not in any sense an exhorbitant spread. That is what you mean, is it not?

Mr. PECORA. Well I thought my question was pretty plain.

Mr. HAYWARD. Yes.

Mr. PECORA. Do you think that the public would have as freely subscribed for these bonds at 97½ and 98½ if at that time they knew your firm had acquired them at 90?

Mr. HAYWARD. Oh, yes; I have no question about it. No question about it.

Mr. PECORA. What was the reason then for not informing the public of the price to the underwriting bankers?

Mr. HAYWARD. It never had been done.

Mr. PECORA. Well, you are telling us what the fact is as to whether it was done, but what was the reason for its never having been done, if you can tell us?

Mr. HAYWARD. No; I do not know. I suppose it never occurred to anyone to do it. It simply was not the custom in this country or any other country that I know of.

Mr. PECORA. Was it not so the public would not be apprised of the fact that it had not been let in on the ground floor or anything near the ground floor?

Mr. HAYWARD. Oh, no; no.

Senator COUZENS. As a matter of fact, Mr. Pecora, no one hardly ever let anybody know the cost of the goods they sold. It just was not done.

The CHAIRMAN. Are you representing the bondholders in these negotiations with reference to refunding bonds?

Mr. HAYWARD. We have no specific mandate from the bondholders, but in the absence of any protective committee, or any organized group, or any other instrumentality for watching the interest of the bondholders, we consider it our duty to act for them to the best of our ability. They are, of course, free at any time to organize themselves if they wish to do so, and that, of course, would bring up the general subject as to the desirability or not of bondholders' protective committees.

I think it may be useful for you to appreciate that in this situation, as in all of these other Latin-American situations which are

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in default, we have constantly employed our utmost efforts both in traveling back and forth and visiting these people and collecting information and making representations to them, without the cost of a dollar to these bondholders. We pay that all out of our own pocket.

Personally, I feel that in a situation such as the present, when these countries are still pretty close to the bottom of the depression, just beginning to get their heads above water, that the bondholders' protective committee in a good many instances is somewhat unfortunate, because it leads the investor to believe that the next morning he is going to begin to get all his money back, and basing his belief on that, he is induced to deposit his bonds and is immediately assessed a certain percentage for the expenses of these committees. These committees all cost money. You have to hire offices, you have to pay salaries, and have a personnel. Now, so far we have been contributing our services without cost to the bondholders.

The CHAIRMAN. I was just wondering whether you had any express authority from the bondholders to act?

Mr. HAYWARD. None whatever.

The CHAIRMAN. Have they got a protective committee in connection with these bondholders?

Mr. HAYWARD. No; none whatever, Mr. Chairman. And as I said, 80 percent have voluntarily accepted this scrip.

Mr. PECORA. Mr. Hayward, did the Brazilian Government's representatives inform you in connection with the negotiations for this 50 million dollar loan the purposes for which the proceeds of the loan were to be applied by it?

Mr. HAYWARD. Mr. Pecora, under the Brazilian practice, if a loan is contemplated provision is ordinarily made for it in what they call the budget law. The budget law is adopted by the Legislature ordinarily during the last few days of a calendar year. At this time, 1921, or 1920, the President of Brazil was Dr. Epitacio Pessoa. Dr. Epitacio Pessoa is still living and is one of the most distinguished lawyers in Brazil. After his term of office ended in 1922 he served for some time as a member of The Hague International Court. At the present time he is a member of the Commission of Arbitration which is set up to smooth out any difficulties which may arise between the United States and Great Britain, and he is serving on that Commission today as the designee of the United States Government, which shows their great confidence in him I believe. Dr. Epitacio Pessoa himself wrote the authorization for this loan. That authorization was to cover the general requirements of the Treasury, and that was all.

Mr. PECORA. Did not your firm receive a cable under date of May 12, 1921, from Huntress, who was Sir Alexander MacKenzie's associate down in Brazil at that time, which among other things, stated as follows: "Proceeds of loan to be used in development of services and works of reproducing character, purchases of material, with preference in the United States under equality of conditions, and to support exchange?"

Mr. HAYWARD. Could I see that, Mr. Pecora?

Mr. PECORA. Yes [handing same to Mr. Hayward].

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Mr. HAYWARD (after examining same). Yes; we received such a cable.

Mr. PECORA. In the circular offering these bonds to the public I notice that the purpose of the loan is stated as follows:

> The proceeds of this loan are to be employed in part for the purchase in the United States of materials required by the Government.

Mr. HAYWARD. That is correct.

Mr. PECORA. That is not a complete statement of the purposes of the loan as you knew those purposes to be, is it?

Mr. HAYWARD. Yes.

The CHAIRMAN. It says "in part".

Mr. HAYWARD. It says "in part".

Mr. PECORA. It says "in part for the purchase in the United States of materials required by the Government".

Mr. HAYWARD. It says "in part".

Mr. PECORA. Why did you not state all the purposes?

Mr. HAYWARD. It is impossible to state all the purposes, Mr. Pecora, because there was no way of knowing them.

Mr. PECORA. Well, you did know by means of this cable of May 12, 1921, did you not?

Mr. HAYWARD. That is simply an expression of some general intents. The authorization for the loan was for the general purposes of the treasury. Some time after this Dr. Epitacio Pessoa wrote a book in which he reviewed the operations of his administration, and in that he set out at length the purposes for which the loan was used. My recollection is that it takes three or four pages of printed matter to set that out. In a government prospectus you cannot hope to do more than give a general indication.

Mr. PECORA. Well, it did not take more than one paragraph of four lines in this cable to set out what the purposes were to which the proceeds of the loan were to be applied?

Mr. HAYWARD. That would have been no more complete than this, Mr. Pecora. The reason that this was interesting and the reason that it was inserted was that at this time there was a feeling current in the United States that whenever possible foreign loans should be expended in some part in the United States so that our industries and our people would derive some benefits from them. One of the purposes of this loan was to carry out works in the north of Brazil, in the arid regions. In the States of Ceara, Maranho, and Piauhy they go at times for 1 and 2 years without any rainfall. The result is that large numbers of the population are obliged to pick up their family belongings and emigrate into the Amazon region. It had been one of the desires of President Epitacio Pessoa to contribute something toward the alleviation of those conditions, and previous to the time of this loan he had studies made of that situation by an American firm, Dwight P. Robinson & Co., who were subsequently given a contract for part of the work. So that this simply covered in anticipation that phase of it.

Mr. PECORA. From time to time, under the loan agreement, the Government of Brazil was required to make to the bankers certain sinking-fund payments?

Mr. HAYWARD. Semiannually.

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Mr. PECORA. And during the 10 years that preceded the default of these bonds, in 1931, what was the aggregate amount of those sinking-fund payments that were made by the Brazilian Government to bankers in fulfillment of this loan agreement?

Mr. HAYWARD. I will get that for you. This was a 20-year loan. It was calculated that the sinking fund would retire one fortieth of the issue each 6 months. Ten years having elapsed, the amount of money they sent us would have been half——

Mr. PECORA. Approximately one half of the amount of the issue?

Mr. HAYWARD. Yes.

Mr. PECORA. Did Dillon, Read & Co. refund any of these unexpended sinking-fund payments to the Brazilian Government in the 10 years prior to the default?

Mr. HAYWARD. Dillon, Read & Co. naturally observed the terms of the sinking fund provision of the contract, and that required a return to the Government of such sums as they could not expend by buying these bonds in the market at the required price. These bonds sold for considerable periods of time above that price. We were therefore in a position where these bonds were unobtainable at the price required by the contract, and of course we had no alternative except to return that money to the Government. The net result was that the loan has been reduced 18 million dollars— $18,647,000.

Mr. PECORA. What was the total amount of the unexpended balance of this sinking fund returned by Dillon, Read & Co. to the Brazilian Government in the 10 years?

Mr. HAYWARD. $8,927,000, approximately.

Mr. PECORA. $8,927,656.18?

Mr. HAYWARD. That is correct.

Mr. PECORA. That is about equivalent to the present market value of the outstanding issue, is it not?

Mr. HAYWARD. I am not as good an arithmetician as that. Yes, approximately.

The CHAIRMAN. Were all the interest coupons on those bonds held in the United States and paid by Dillon, Read & Co. here?

Mr. HAYWARD. We paid interest in the United States, yes. We act as the agents for the Government.

The CHAIRMAN. I do not want to anticipate Mr. Pecora; I do not know what he has in mind; but I would like to know what was the aggregate of your investment in these securities in Brazil—Dillon, Read & Co.'s purchase in Brazil and their sales in the United States.

Mr. HAYWARD. The total amount of Brazilian bonds we brought out during this period was approximately $186,000,000, Senator; and, roughly, I believe the Brazilian Government during this period reduced that by approximately $42,000,000, so that the net amount outstanding is about $144,000,000.

May I again repeat that in returning these sums to the Brazilian Government, Dillon, Read & Co., of course, had no alternative. We were bound to observe the terms of the contract; and those were the terms.

The CHAIRMAN. Did the figure you gave include the Rio bonds?

Mr. HAYWARD. No, sir. The Rio bonds were originally $12,000,000, and they are now reduced to approximately $8,000,000. Those are the only Brazilian issues that we originated ourselves.

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The CHAIRMAN. The Rio bonds and the Federal Government bonds?

Mr. HAYWARD. Yes, sir. We adopted, some time after the Rio issue, the same policy which Rothschild of London had previously adopted, and that was to restrict ourselves to the banking operations of the National Government. We felt that in looking ahead over a period of years there might be times when there might be some conflict of interest between the Federal Government and the State and cities, and we felt that we would rather devote ourselves exclusively to the interests of the Federal Government. You can readily appreciate that during the period that has elapsed since then it has meant that we have declined a very large amount of Brazilian business which has been offered to us by States and cities, at considerable financial loss to ourselves; but we felt we should not take on more obligations than we could really handle, and that we might some day be in an embarrassing situation if we represented more than the Federal Government.

The CHAIRMAN. You do not quite mean that you lost any money by it; you just did not make some that you might have made?

Mr. HAYWARD. Yes. We passed up the opportunity to make additional profits.

Mr. PECORA. Have you the data before you relating to an issue of $25,000,000 par value of 30-year gold bonds, dated June 1, 1922, due June 1, 1952, usually referred to as United States of Brazil Central Railway Electrification loan?

Mr. HAYWARD. We have it here.

The CHAIRMAN. What rate of interest did they bear?

Mr. HAYWARD. Seven percent. By that time the cost of money had gone down a little bit.

If I might, Mr. Pecora, make a short remark: As I said yesterday, I have still great confidence in the eventual ability and willingness of all of these Latin American republics to meet their obligations. We have found that when the point of default was coming they have held out and maintained their payments here on their foreign debt at times when even their school teachers and policemen were going without their salaries. The defaults are in no instance that we have here in any sense attributable to a disregard of the moral fiber and the sanctity of their obligations. These countries look to the United States as they would to a big brother. I feel that we should rather exert our energies toward helping them rather than to criticize them when they are in difficult circumstances. A country like Brazil, for example, has always been a very loyal and fast friend of the United States. They have modeled their constitution after ours. They joined the great war because we joined it. They resigned from the League of Nations because we were not a member. Even back as far as the Centennial Exposition in Philadelphia, the old Emperor of Brazil, Dom Pedro, was the only head of a foreign state who came here personally to assist in the opening ceremonies, and he was brought here as a guest of the Nation on a United States battleship.

These are merely occasional illustrations of a devotion, I might say, to the United States.

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Speaking of more practical matters, and that is our trade, we are trying now to launch our recovery campaign just as these countries have launched their own some time past, because the depression hit them before ours hit us. During this period we have now under review, namely, from 1920 to 1929, roughly speaking, these Latin American entities borrowed in the United States approximately $2,000,000,000 in the form of issues of public securities, and during that same period our figures show that we sold them over $4,100,000,000 worth of goods. I do not like to stress our friendship purely on commercial grounds. We have other ties that should bind us; and it is important, it seems to me, that if our campaigns are to be successful and we are going to resume our industries and get our unemployed men and women off the streets, we have got to find markets. I know there are those who believe sincerely that we should never again lend another dollar to foreign countries. If that is eventually the desire and the best opinion of the United States, I am quite satisfied to close up my branch of this business and go into something else; but I cannot believe that is so. I cannot conceive of this country going on and not assuming the position of financial leadership which was thrust on us, you might say, after the war. And in order to do that we have got to maintain the friendly ties that we have built up during all this period.

Mr. PECORA. Those are interesting observations, as far as I am concerned, and I am only wondering how far the fact that the bankers who underwrote these issues and paid them 90 for 8 percent bonds might have contributed to their economic distress.

Mr. HAYWARD. I cannot see any connection.

Mr. PECORA. The bank paid 90 for these bonds and sold them to the American public at 97½ and 98½. Do you think the bankers were requiting these ties of friendship that Brazil has for us by taking over this issue at 90, an 8 percent issue——

Mr. HAYWARD. That difference represents——

Mr. PECORA (continuing). That virtually places the Brazilian Government under the obligation of paying approximately 9 percent; and it would have been better, perhaps, if the American bankers had been a little more considerate of those ties of friendship.

Mr. HAYWARD. That was the normal cost of distributing securities.

Mr. PECORA. Seven and a half to eight and a half percent?

Mr. HAYWARD. Yes.

Mr. PECORA. You know that in 1922 your firm took over another Brazilian issue, this Central Railway electrification issue, at 91, and that was only a 7 percent issue, and you sold it to the American public at 96½. It would seem there must have been a very considerable variation within 1 year's time in this cost of distribution of bonds.

Mr. HAYWARD. That was a year later, though.

Mr. PECORA. I said, a year later.

Mr. HAYWARD. The cost of money had gone down. This was no longer the first issue of Brazil. It was more familiar and it was easier for the dealers to handle the situation.

Senator COUZENS. These latter ones were not issues of the Government of Brazil, were they?

Mr. HAYWARD. Oh, yes; just the same, a general obligation.

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Mr. PECORA. Those are fine patriotic sentiments, but perhaps it is a little late to express them.

The CHAIRMAN. I feel quite in accord with your remarks, Mr. Hayward, but of course Brazil did not take her position in the war on account of the position that the United States took. Portugal was against the German movement, and Brazil was controlled largely by Portuguese sentiment.

Mr. HAYWARD. It is very heavily Portuguese in sentiment, Senator, certainly. That was undoubtedly a phase of it.

The CHAIRMAN. But aside from that, and speaking with reference to these securities, Latin American securities floated in the American market at something like 2 billion dollars. Is it not a fact that about 66 percent of those securities are in default or partial default?

Mr. HAYWARD. I should have thought it was larger than that, Senator. Speaking very generally, I think the Argentine National Government and the city of Buenos Aires and the Government of Uraguay and the city of Sao Paulo coffee loan are about the only ones paying in full. It is a situation that has spread over the whole continent.

Senator COUZENS. This investigation is not to criticize Brazil, but to disclose the activities of investment bankers.

Mr. PECORA. The observation I made is really one of sympathy for Brazil, that they only received 90 for bonds which were sold here at 98½.

Now we will turn our attention, if you will, Mr. Hayward, to the facts with regard to this United States of Brazil Central Railway Electrification loan of $25,000,000, of June 1922. Have you got the records and data before you?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. When were the negotiations between your firm and the Brazilian Government concluded for this $25,000,000 so-called "Central Railway Electrification" loan?

Mr. HAYWARD. When were they concluded?

Mr. PECORA. Yes, sir.

Mr. HAYWARD. The option from the Government is dated the 1st of June 1922. The public offering was the 5th of June 1922.

Mr. PECORA. What is the current market quotation for these bonds?

Mr. HAYWARD. I should say, roughly, 27. I have not looked it up this morning.

Mr. PECORA. At what price were those bonds acquired by Dillon, Read & Co. from the Brazilian Government?

Mr. HAYWARD. Ninety-one.

Mr. PECORA. At what price were they sold by Dillon, Read & Co. and its associates to the American public at that time?

Mr. HAYWARD. They were sold at 96½, to net 7.30 percent.

Mr. PECORA. When was the offering made to the public?

Mr. HAYWARD. June 5, 1922.

Mr. PECORA. What was the total gross profit to Dillon, Read & Co. from this flotation?

Mr. HAYWARD. Mr. Pecora, the gross profit was $381,284.74.

Mr. PECORA. Well, that is a combination of the profits consisting of $218,784.74, which directly went to Dillon, Read & Co. as a sepa-

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rate entity, and $162,500 which went to the Eastern Trust Co. as a separate entity.

Mr. HAYWARD. That is an inclusive figure.

Mr. PECORA. Yes. And you still recognize that the Eastern Trust Co. was a wholly owned company of Dillon, Read & Co.?

Mr. HAYWARD. It was—at this time I said, and was still the same.

Mr. PECORA. You mean by "at this time" at the time of the flotation?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. What was the total profit to the originating group and all the other selling syndicates in this issue?

Mr. HAYWARD. Let me look that up.

Senator COUZENS. Mr. Pecora, has he told us yet what was the reason for organizing the Eastern Trust Co.?

Mr. PECORA. He said he did not know.

Mr. HAYWARD. I do not know in detail.

Mr. PECORA. That is as I understood your answer.

Mr. HAYWARD. The total profit is, or the Price, Waterhouse figures are $1,038,998.62 gross.

Mr. PECORA. Isn't that gross after expenses, after the originating expenses have been paid?

Mr. HAYWARD. It includes certain expenses.

Mr. PECORA. Isn't it virtually gross after all expenses have been paid in connection with not only the originating group but the purchasing and selling groups?

Mr. HAYWARD. No. I do not know just what the bookkeeping practice on that is, but certain items are included. Of course, this does not include any of Dillon, Read & Co.'s normal expenses annually.

Mr. PECORA. By those "normal expenses" do you mean overhead?

Mr. HAYWARD. Yes; overhead, taxes, and things of that sort.

Mr. PECORA. Did you handle the negotiations of Dillon, Read & Co. in connection with this loan, in behalf of Dillon, Read & Co.?

Mr. HAYWARD. Yes; I did.

Mr. PECORA. And what were the purposes to which the proceeds of the loan were to be applied as you were informed when you negotiated for the loan?

Mr. HAYWARD. Dr. Epitacio Pessoa, who was still President, wanted to make this loan for the particular purpose of the general improvement and extension of Centrale Railway, including the electrification of the suburban section running out from the city of Rio. The Centrale Railway is not a stock corporation. It is the property of the Brazilian Government, and is managed, as I understand, under the Department of Transportation, or the Minister of Transportation. It is entirely owned by the National Government, and it has been built up since 1852 I think.

Senator COUZENS. Were the revenues of the railroad assigned for the benefit of the bondholders?

Mr. HAYWARD. The specific security mentioned for the loan is a charge on the gross receipts of the railway.

Senator COUZENS. And are they in default?

Mr. HAYWARD. It is in the same situation as the other Government loans. It is on a parity with all other Brazilian Government issues.

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Senator COUZENS. In other words, the receipts of the railway company are being deposited for the benefit of the bondholders, but they are not in a position to be transferred, is that right?

Mr. HAYWARD. Well, under the funding plan the money is being deposited. I won't say that the receipts are being deposited. They make deposits on this loan the same as on the 8-percent loan and all others. It is included in the funding plan, of course.

Mr. PECORA. I show you a photostatic reproduction of what purports to be an advertisement of the offering of these bonds to the public. Will you look at it and tell us if it is a true and correct copy of such advertisement as published in the New York Times on or about June 25, 1922?

Mr. HAYWARD. That is correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be received and the committee reporter will make it a part of the record.

(A photostatic reproduction of an advertisement offering the bonds to the public is to be made a part of the record, and is marked "Committee Exhibit No. 31, Oct. 12, 1933", see p. 2036.)

Mr. PECORA. Mr. Hayward, I show you what purports to be a photostatic reproduction of a circular. Will you please look at it and tell us if it is a true and correct copy of the circular or prospectus issued by your firm and its associates and the selling syndicate in connection with this bond issue?

Mr. HAYWARD. That is correct.

Mr. PECORA. I offer it in evidence and ask that it may be spread on the record of the subcommittee's hearings.

The CHAIRMAN. Let it be received, and the committee reporter will make it a part of the proceedings.

(A photostatic reproduction of a circular or prospectus was marked "Committee Exhibit No. 32, Oct. 12, 1933", see p. 2037.)

Mr. PECORA. Now, committee exhibit no. 31, which is the advertisement, states that the purpose of the issue is as follows:

> The proceeds of the loan are to be used to provide for the electrification of the suburban division of the railway, which is owned by the Government of Brazil and is without bonded debt.

But I notice the purpose of the issue recited in the circular or prospectus, which has been marked "Committee Exhibit No. 32, October 12, 1933", is stated to be as follows:

> The proceeds of the loan are to be used in part to provide for the electrification of the suburban division of the railway, which is owned by the Government of Brazil and is without bonded debt.

Now, there is apparently a conflict in those two statements. Which of the two is correct?

Mr. HAYWARD. I think they are both correct. I see no conflict there.

Mr. PECORA. Well, in the advertisement the statement is that "the proceeds of the loan are to be used to provide for the electrification of the suburban division of the railway", and in the prospectus it says: "The proceeds of the loan are to be used in part to provide

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for the electrification of the suburban division of the railway." Isn't there a difference there?

Mr. HAYWARD. No. I see no difference, Mr. Pecora.

Mr. PECORA. Well, where you state in one place, in the advertisement, that all the proceeds are to be used for——

Mr. HAYWARD (interposing). But it does not say that.

Mr. PECORA. Well, it says the proceeds are to be used for the electrification. Isn't that synonymous with a statement that all the proceeds are to be so used?

Mr. HAYWARD. No. I do not take it that way.

Mr. PECORA. You recognize no difference at all between the two statements, one of which says that the proceeds are to be used for the electrification of the railway, and the other of which says that the proceeds are to be used in part for the electrification of the railway?

Mr. HAYWARD. The advertisement says that this loan is to provide for the electrification of the suburban division. That was a part of the purpose of this issue. There has been a great deal of confusion on this point, and——

Mr. PECORA (interposing). Well, I should think so.

Mr. HAYWARD. We were heard on it last year before the Johnson committee, and if you will permit me to review the process that it went through with the Brazilian Government it will throw some light on it. When I was in Brazil——

Mr. PECORA (interposing). I do not think you need to go back to that. Tell us why in the newspaper advertisement the statement of the purpose of the issue is that the proceeds of the loan are to be used for the electification of the suburban railway, whereas in the circular or prospectus the statement is that the proceeds of the loan are to be used in part for the electrification of the suburban railway.

Mr. HAYWARD. Well, they are both correct. I have no idea now, after 12 years, why the phrasing of the words was different. Both mean the same thing to me.

Senator COUZENS. Well, they do not mean the same thing to the public, do they?

Mr. HAYWARD. I do not know why they should not.

Senator COUZENS. Well, why quibble about words? Certainly the words "in part" do not mean what the other one says.

Mr. HAYWARD. The other one does not say exclusively.

Mr. PECORA. Well, there is no indication of anything different at all. It just says "the proceeds" which connotes the entire proceeds, doesn't it?

Mr. HAYWARD. Not necessarily. It says the proceeds are to provide for the electrification. Among other things it did provide for the electrification.

Mr. PECORA. As a matter of fact how much was actually needed or estimated to be needed, at the time this loan was negotiated, for the electrification of the suburban railway?

Mr. HAYWARD. That was what I was going to tell you.

Mr. PECORA. Go ahead.

Mr. HAYWARD. In 1922 I discussed with Dr. Epitacio Pessoa the question of the general improvement of the Centrale Railway, in-

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cluding the electrification of the suburban division. He told me at that time that he was not quite ready to go into the matter definitely, but that he hoped before the end of his term of office, which occurred in November of 1922, that he could push forward his plans to such a point that it might be begun. The suburban section of the Centrale Railway at the present time is terribly congested. There are, I believe, something like 14 parallel tracks running in and out of the main station at Rio.

During business hours it is very crowded. The Government for several years before this time as I understand had made studies of this project, and even at that time a considerable amount of money had been disbursed by the Treasury to pay for these preliminary electrification plans. I told the President at that time that in principle it sounded interesting to us, that superficially it would seem to me that such a project was sound, and that if later on he would like to go into the thing more definitely I should be very glad to come back to Brazil if he would let me know when he was ready to take it up. As a result of those conversations I received a cable from the President some time in 1922. I went down to Rio, and after being there some time we began a study of the situation. I found then that the Government had called for tenders for the actual electrical part of the equipment, and that——

Mr. PECORA (interposing). When did you find that out?

Mr. HAYWARD. When I was there in 1922, a few months before this loan. They had called for tenders for this electrification work. Bids had been submitted by, as I remember, five companies, the General Electric Co., the Westinghouse Co., the English Electric Co., and another English company, and a Swiss company. In order for a study to be made and an examination of the tenders the railroad administration had appointed a commission of its executives to examine them. They were extremely voluminous. I went over the mass of the tender of the General Electric Co., and I might say that they covered eight volumes of the size of almost running from that end of the table here, blue prints, and so forth——

Mr. PECORA (interposing). I think you are now giving us details that are entirely unnecessary.

Mr. HAYWARD. Then I will try to cut it short.

Mr. PECORA. Can't you confine yourself to the question I propounded to you, which, in substance, was: How much money were you told in the course of the negotiations for this loan, would be required for the electrification of the suburban division of this railway?

Mr. HAYWARD. For the actual electrical part which was to be covered by those tenders, approximately $8,000,000. The rest of this loan was for the general improvement of the railroad.

Mr. PECORA. What do you mean by "the general improvement of the railroad"? Do you mean purchase of equipment?

Mr. HAYWARD. Purchase of equipment, locomotives, cars, extension of lines, and the general requirements of the Ministry of Transportation.

Mr. PECORA. Well, if approximately figured, $17,000,000 of the proceeds of the loan were to be used in the purchase or replacement of equipment, and only $8,000,000 was to be used in the electrification,

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which is in the nature of more permanent railway improvement, why didn't you tell that to the investing public in your advertisement and circular?

Mr. HAYWARD. Well, when——

Mr. PECORA (continuing). Why confine yourself to the statement in the advertisement that the proceeds of the loan were to be used for the electrification, and in the circular that the proceeds of the loan were to be used in part for such electrification, omitting in both statements any mention of the fact that the major part of the proceeds of the loan were to be used for general expenses of the railroad?

Mr. HAYWARD. Well, I don't know of any particular reason, Mr. Pecora, that the Brazilian Government might have had. They wanted to designate this loan in some way, and this project of electrification was——

Mr. PECORA (interposing). The representatives of the Brazilian Government did not prepare this advertisement, did they?

Mr. HAYWARD. Certainly.

Mr. PECORA. They did?

Mr. HAYWARD. Well, they didn't write it textually, but it was all based on their requests and information and the desires that they expressed.

Mr. PECORA. Do you mean that you consult the desires of the issuing government in these cases with regard to the statements to be embodied in the circular offering the bonds to the public, as to what the purposes of the loan are?

Mr. HAYWARD. Well, the normal procedure in preparing a circular for a government issue is to request from the government all information that is necessary as a basis for the statement.

Mr. PECORA. And then the banker causes the advertisement or prospectus to be prepared based upon such information as he may receive; is that right?

Mr. HAYWARD. Well, that is correct. Obviously it has to be done by someone. You could not leave the writing of a prospectus for the American public to the financial minister of a foreign country.

Mr. PECORA. But obviously the agency that was responsible for the text of the circular and the advertisement, knew at the time this advertisement and this circular were issued and published that the major part of the proceeds of the loan were to be used for purposes other than the electrification of the suburban railway.

Mr. HAYWARD. Well, if it was——

Mr. PECORA (interposing). And if you knew that, and you have just admitted that that is what you knew and learned in connection with the negotiations leading up to the making of the loan, why didn't you embody that information in your circular and advertisement?

Mr. HAYWARD. It was all tied up with this one railroad.

Mr. PECORA. Well, it is one thing to tell the public that a part of this money is to be used for purposes in the nature of permanent railroad improvement, and another thing to tell them that the major part is to be used in the purchase of supplies or equipment or what not in connection with the railroad.

Mr. HAYWARD. I should say that the electrification was by far the largest single item of the program. It was the most interesting one.

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It was the one which they wished to identify with this loan, and therefore they chose to feature it.

Mr. PECORA. Well, only about one third of the proceeds of the loan were to be applied to that purpose.

Mr. HAYWARD. Yes; but it was the largest single purpose. As a matter of fact electrification did not mean simply the putting up of electric wires, or the installing of motors. A great amount of money has been spent by the Government, probably a part of it out of the proceeds of this loan, to prepare the location for the electrification. In other words, they have built stone walls from the Centrale Station in Rio out to the end of the line which is to be electrified. They have also built bridges, and——

Mr. PECORA. Those details being things that you knew, will you tell this subcommittee why the circular and the advertisement stated what they did state with respect to the purposes to which the proceeds of the loan were to be applied?

Mr. HAYWARD. Well, this was a Government circular. It expressed the general intent. It brought out——

Mr. PECORA (interposing). Is it a Government circular?

Mr. HAYWARD. Certainly. It was signed by the Government's representative.

Mr. PECORA. And whom do you mean?

Mr. HAYWARD. Their representative in the United States designated for the purpose.

Mr. PECORA. Where do you see the signature on the circular that was issued to the public?

Mr. HAYWARD. Have you the photostatic copy there?

Mr. PECORA. Yes.

Mr. HAYWARD. Your examiners have a copy on which appears the name of the Consul General in New York, who signed the contract as their representative.

Mr. PECORA. But that is not the one that was issued to the public.

Mr. HAYWARD. It is the same thing, word for word.

Mr. PECORA. The signature of the Brazilian Government representative is not attached to the circular that you issued to the public.

Mr. HAYWARD. Oh, no. But it is on the original. That is the common practice, to have the circular signed by an official.

Mr. PECORA. But the signature of the Brazilian Government's official representative does not appear here.

Mr. HAYWARD. Not on the printed copy, but as I said, on the original.

Mr. PECORA. Did the Brazilian Government's official representative also approve the copy or proofs for the advertisement published in the newspaper?

Mr. HAYWARD. Well, I presume so. Usually those things are done at the same time.

Mr. PECORA. Now, as a matter of fact, when was this electrification work to be done?

Mr. HAYWARD. I got to the summer of 1922 when these bids were being examined. It was anticipated at that time that the contract would be let immediately, and after prolonged studies this commission handed down its decision and recommendation to the Minister

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of Transportation to the effect that the offer of the General Electric Co. was the most favorable one and should be accepted.

That aroused considerable opposition on the part of the other companies who had made offers, and the thing became rather confused. I believe that there were various threats of litigation on the part of some of the disappointed competitors, and the net result of the whole thing was that November came around, President Epitacio Pessoa's term of office ended, and the electrification contract was not signed at that time.

Mr. PECORA. When was it signed?

Mr. HAYWARD. It has not been signed yet. At the present time the Government has a call out for tenders.

Mr. PECORA. The loan was made in 1928 for the electrification of the road, either in whole or in part, was it not?

Mr. HAYWARD. That is correct.

Mr. PECORA. And no part of the proceeds of this loan has been used for such electrification up to the present minute?

Mr. HAYWARD. No; that is very far from being the case, Mr. Pecora.

Mr. PECORA. What is that?

Mr. HAYWARD. So far as I know that is not the case at all.

Mr. PECORA. You said no contract had as yet been let for the electrification?

Mr. HAYWARD. Yes; but I think I brought out a few moments ago the point that there is a great deal to electrification other than the wires and the electric material. The Government has, according to their statements, since that time spent a great deal of money. I would not attempt to say how much. This particular President of Brazil has publicly estimated that almost the equivalent of this amount of the loan has been spent in the preliminary preparations. That included the rebuilding of stations out in this suburban section, the construction of concrete overhead passages, and the pillars on which the electrification wires are eventually to be placed. In other words, everything is ready——

Mr. PECORA (interposing). Has any electrification contract been let as yet?

Mr. HAYWARD. I just said that there had not, Mr. Pecora.

Senator COUZENS. Has all this money been consumed?

Mr. HAYWARD. I presume so, Senator; yes.

Mr. PECORA. Do you know how much of it was utilized for any railroad purposes at all?

Mr. HAYWARD. I could not tell you of my own knowledge, but the President of Brazil, who negotiated the loan, I believe, has stated since that all of the proceeds were used for the railroad improvement.

Mr. PECORA. Without electrifying it?

Mr. HAYWARD. Well, including something for these preliminary preparations.

Mr. PECORA. But without actually electrifying it?

Mr. HAYWARD. The electric system is not working today; no.

Mr. PECORA. And no contract for it has even been let?

Mr. HAYWARD. No. The Government has several times since then called for bids, and they are now, I believe, discussing it.

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Mr. PECORA. When did you get those advices from the President of Brazil?

Mr. HAYWARD. Which advices, Mr. Pecora?

Mr. PECORA. To the effect that practically all of the money had been spent for railway purposes.

Mr. HAYWARD. That is stated in a book which the President wrote back in 1925, reviewing the general history of his term of office, all questions connected with Brazil.

The CHAIRMAN. Where is this railroad located?

Mr. HAYWARD. The book is printed in Portuguese. It was shown to Mr. Ross, but he naturally did not have time to read it.

I beg your pardon, Senator?

The CHAIRMAN. Where is this railroad located—Centro?

Mr. HAYWARD. Senator, it goes from Rio to Sao Paulo. That is the main branch. It goes from Rio de Janeiro to Minas Geraes. That is another branch. It covers all that section of the country outside of Rio, but not across the river. You recall where the English line, the Leopoldina, runs. That is a private company. The Centrale is the largest railroad system in Brazil.

The CHAIRMAN. Can you give the mileage?

Mr. HAYWARD. The mileage, I think, Senator, is in that circular. Fifteen hundred miles at that time, and they extend it some every year.

Mr. PECORA. Do you know how much if any of these moneys has been spent in the United States in connection with this railroad improvement?

Mr. HAYWARD. Quite a considerable sum, Mr. Pecora.

Mr. PECORA. How much?

Mr. HAYWARD. I couldn't tell you in dollars. The entire equipment of this railroad is American standard equipment, so that anything they purchase in the way of locomotives and cars and that sort are bought in the United States.

Mr. PECORA. Do you know how much has been expended for that; did you ever learn?

Mr. HAYWARD. Oh, I should say roughly several million dollars, but I don't know exactly how much.

Mr. PECORA. That is a rather loose term, "several million."

Mr. HAYWARD. I would not want to exaggerate one way or the other.

Mr. PECORA. It is too vague.

The CHAIRMAN. The Government owns and operates the railroad, does it?

Mr. HAYWARD. Yes, sir.

Mr. PECORA. The railroad has been operated at a loss, hasn't it, during a greater part of its existence?

Mr. HAYWARD. Oh, it has a loss every year, operating loss, yes. That is common with government-owned railroads.

I would like to add that this loan is essentially made on the full faith and credit of the Brazilian Government, irrespective of the purpose of issue. It has always ranked on the same basis with the Government's other debt. There has never been any distinction between this loan and the 8 percent loan or the 6½ percent loan. I have followed this situation year in and year out since this loan was

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made, and I hesitate very much to have anything said here which would remain as a reflection on the sincere intention of the Brazilian Government to go through with this project. We know in our own country the number of years that it takes to complete Federal enterprises such as Boulder Dam and Muscle Shoals. It seems to me this is precisely in the same situation.

Senator COUZENS. But this money is all gone.

Mr. HAYWARD. Your examiners saw some place in our files last January where we made certain representations to the Government in regard to tenders which they had called for at that time, and since that time and now tenders have been asked for again, and they are at present negotiating with a concern and attempting to find some way to go ahead with it. I haven't the slightest question that at the earliest possible moment this job will be completed. Meantime you have a situation where the basis for the electrification work is ready to be completed at any time.

Senator COUZENS. Where are they going to get the money from to go ahead with that work if they would let the contract?

Mr. HAYWARD. Well, the Brazilian Government has a large annual revenue. They can take care of that.

Senator COUZENS. You mean they would not use this revenue that was set apart for that purpose but would use current income?

Mr. HAYWARD. Yes; surely.

Mr. PECORA. The Brazilian Government also has large items of expenditure which have consumed the revenues there, hasn't it?

Mr. HAYWARD. Whether or not they have reported a surplus in recent years; I believe most of us today are suffering from deficit in one form or another.

Mr. PECORA. When was the loan agreement covering this issue entered into actually?

Mr. HAYWARD. About the 29th of June.

Mr. PECORA. And the contract was dated as of May 31, 1922?

Mr. HAYWARD. That is correct. The same idea as the others.

Mr. PECORA. And also in this case, as in the other issues respecting which you have been examined, the participating syndicates and the selling syndicates had been formed before the contract was actually executed?

Mr. HAYWARD. Yes. We had an option in the same way as the other cases.

Mr. PECORA. Is this a true and correct copy of the loan contract in connection with this issue?

Mr. HAYWARD. Yes; that is correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered on the record.

(Loan contract dated May 31, 1922, was thereupon designated "Committee Exhibit 33, Oct. 12, 1933", see p. 2038.)

Mr. PECORA. Under the terms of this contract a permanent deposit account of $500,000 was required to be maintained with the bankers by the Government?

Mr. HAYWARD. That is correct.

Mr. PECORA. Was that done?

Mr. HAYWARD. Yes.

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Mr. PECORA. And what was done with that permanent deposit account?

Mr. HAYWARD. It had the same history as the others, roughly, I mean it was eventually drawn on.

Mr. PECORA. I mean as applied particularly to this issue.

Mr. HAYWARD. It was drawn on to the extent of $392,052.50 on May 1, 1931, to make up an amount sufficient to cover interest due at that time, June 1.

Mr. PECORA. The interest was due June 1?

Mr. HAYWARD. Yes.

Mr. PECORA. And the withdrawal was not made up by a subsequent deposit, was it?

Mr. HAYWARD. Not by subsequent deposits by Brazil.

Mr. PECORA. So that the provisions of the contract with regard to the maintenance of this permanent deposit account of $500,000 has not been lived up to?

Mr. HAYWARD. At the present time that account is in arrears.

Senator COUZENS. How can it get into arrears if it is a permanent account? How can a thing be permanent when it is torn down and built up again? I don't understand those terms.

Mr. HAYWARD. Well, "permanent", Senator, is a bookkeeping term. I thought I discussed yesterday this was a cushion to be used in case of an emergency. The emergency arose and some of that was used. Now, eventually the Brazilian Government will restore that to the full amount.

Senator COUZENS. What is the meaning of "eventually"?

Mr. HAYWARD. At some time in the future, I presume.

Senator COUZENS. And yet the contract says it is a "permanent account", and yet it is dissipated and used and built up "eventually", which means "some time in the future."

Mr. HAYWARD. Senator, I should not call it dissipating it when you pay it to the bondholders in the interest.

Senator COUZENS. Well, the interest is supposed to be paid outside of the $500,000.

Mr. HAYWARD. That is true, but that was the purpose of this account to help them out in the case of emergency. Otherwise it would not have been in there at all.

Senator COUZENS. Why do you call it permanent when it is not permanent?

Mr. HAYWARD. Well, you can call it anything. That does not mean anything.

Mr. PECORA. Call it anything except what it is.

Mr. HAYWARD. Call it $500,000.

Mr. PECORA. Is it not more than a bookkeeping term in this case? Doesn't the contract itself refer to it as a "permanent deposit account"?

Mr. HAYWARD. Section 2 of the supplemental agreement reads:

> The obligor covenants that it will create and at all times while any of the bonds shall be outstanding maintain with the bankers a deposit of not less than $500,000.

There is no word "permanent" there. That is a bookkeeping term.

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Mr. PECORA. Well, it says "maintain at all times while any of these bonds are outstanding a deposit of not less than $500,000."

Mr. HAYWARD. I agree with you. The intent is to have it there permanently, certainly.

Mr. PECORA. Now, when did the first default occur on this issue?

Mr. HAYWARD. The same date as the 8-percent issue, December 1, 1931.

Mr. PECORA. Was there not practically a default, if not technically a default, when nearly $400,000 was withdrawn from this $500,000 account and applied to the meeting of the interest obligations that fell due on June 1, 1931, and the account was not replenished and brought up to the sum of $500,000?

Mr. HAYWARD. I don't think it is of great importance, but it seems to me that that was not, because that was the Government's money. It just happened to be in New York instead of being remitted from Brazil. We did not lend it to the Government.

Mr. PECORA. It was the Government's money which provided, as you call it, a cushion?

Mr. HAYWARD. Yes.

Mr. PECORA. For the protection of the bondholders, and which its contract provided it always was to maintain that sum of $500,000. Now, when the sum of $390,000 odd was withdrawn from this deposit account on May 1, 1931, to meet the interest charges that fell due on June 1, 1931, and that withdrawal was not replaced, wasn't there a practical default then by the failure to bring that deposit account up to the amount of $500,000?

Mr. HAYWARD. Why, Mr. Pecora, I should say there certainly was a default so far as the fund is concerned, but not a default on the bonds.

Mr. PECORA. Well, there was a default in the performance of the obligations imposed by the loan agreement on the Government, was there not?

Mr. HAYWARD. Why, certainly there was a default under the terms of the supplemental agreement.

Mr. PECORA. Now, did your firm cause to be released a press announcement on or about that time with respect to the situation then existing?

Mr. HAYWARD. Oh, no; Mr. Pecora. We could not announce that the Brazilian Government——

Mr. PECORA (interposing). Not a press announcement. Didn't it make an announcement to the Government?

Mr. HAYWARD. Oh, that is different—an announcement to the Brazilian Government.

Mr. PECORA. I refer you to a cable that your firm sent on May 2, 1931, to the Brazilian Minister of Finance in which, among other things, you said: "We released yesterday announcement funds in hand for sevens and eights June 1 payment, which had decided effect on strenthening Brazilian bonds and general confidence in your situation." Did you send such a cable?

Mr. HAYWARD. Yes; that is correct.

Mr. PECORA. Now, what was the announcement referred to in this part of the cable that you said you had released? Was it an announcement to the public?

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Mr. HAYWARD. Well, I don't know, but I presume it was the usual announcement that is made that interest would be paid on a certain date. It indicates to the public that the funds are in New York and are available.

Mr. PECORA. Was it an announcement to the public?

Mr. HAYWARD. I don't know, but it would seem so.

Senator COUZENS. Have you a copy of that announcement?

Mr. HAYWARD. No; I have not, Senator. I don't remember ever having read it.

Senator COUZENS. Have you a copy of that announcement, Mr. Pecora?

Mr. PECORA. No, sir. Our only knowledge of the making of such an announcement is derived from this part of the particular cable.

Mr. HAYWARD. It is common practice at the bottom of the financial pages to have small print to that effect.

Mr. PECORA. Wasn't there a press announcement to the effect that is set forth in this cable?

Mr. HAYWARD. Well, I don't know anything more than this cable. That is probably what it was. That does not necessarily mean a paid advertisement, Mr. Pecora. It might be just a note given to the reporters.

Mr. PECORA. A news item.

Mr. HAYWARD. Yes.

Senator COUZENS. What does the cable say with respect to the announcement?

Mr. PECORA (reading):

We released yesterday announcement funds in hand for 7's and 8's June 1 payments which had decided effect in strengthening Brazilian bonds and general confidence in your situation.

Senator COUZENS. They knew the contract was in default, and they issued a statement which boosted the price of the bonds.

Mr. PECORA. I was coming to that.

Mr. HAYWARD. The contract at that time was not in default.

Mr. PECORA. It might not have been in technical default, but it was in practical default, was it not?

Mr. HAYWARD. Not at that time. There was an obligation to replenish that fund.

Mr. PECORA. And that obligation had not been lived up to by the Government, had it?

Mr. HAYWARD. The fund had not been drawn on on that date.

Mr. PECORA. The fund was drawn down May 1, according to your own records. Nearly four fifths of this fund was drawn down on May 1, out of this so-called "deposit account" of $500,000.

Mr. HAYWARD. This was one day after that and as I have said the interest payment date was June 1.

Mr. PECORA. Was it ever replenished or replaced?

Mr. HAYWARD. As I said, it is still not completely replenished.

Mr. PECORA. To what extent has it ever been replenished since May 1, 1931?

Mr. HAYWARD. It was replaced by a transfer from other funds, other accounts on August 12, 1931, to the extent of $213,659.80.

Mr. PECORA. From what other funds was that replacement made in August?

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Mr. HAYWARD. I see from this sheet that that was replenished by an unexpended balance in the sinking-fund account. That was the money the Government had up here.

Mr. PECORA. That was another account that was provided by the loan agreement for sinking-fund requirements, was it not?

Mr. HAYWARD. I presume so; yes.

Mr. PECORA. This $500,000 account was replenished by a withdrawal of funds from another account which had been specially set up to provide for sinking-fund requirements.

Mr. HAYWARD. Oh, no. There was that amount left over in another fund which was not used, or did not need to be used.

Mr. PECORA. But that fund was created to cover sinking-fund requirements for servicing.

Mr. HAYWARD. Oh, no.

Mr. PECORA. What was it created for?

Mr. HAYWARD. I will find that for you in a moment. The sinking fund provided that at a certain period——

Mr. PECORA. The unexpended balances would be returned to the Government.

Mr. HAYWARD. The unexpended balances would be returned to the Government. Instead of returning it to the Government we kept it and put it in this fund, thereby restoring it to that extent.

Mr. PECORA. To the extent of about one half. It brought it up to around $230,000, I believe you said.

Mr. HAYWARD. No.

Mr. PECORA. $312,000?

Mr. HAYWARD. Today the fund was $321,607.30.

Mr. PECORA. Prior to the drawing down of this sum of $392,000 odd on May 1, 1931, to meet the ensuing interest payment, it had been the practice and the custom for the Brazilian Government to put you in possession of funds for the purpose of meeting interest payments as they fell due, had it not?

Mr. HAYWARD. Yes; they would make semiannual remittances.

Mr. PECORA. When they did not make any special remittances of the funds necessary to meet interest payments falling due on June 1, 1931, did not your firm then know definitely that the Government was embarrassed with regard to meeting its requirements under the loan agreement?

Mr. HAYWARD. It certainly would evidence a temporary embarrassment, Mr. Pecora. It would not warrant us in publicly announcing that we thought that the Government was going to default on June 1.

Mr. PECORA. I infer, from the language embodied in your cable to the Brazilian Minister of Finance, dated May 2, 1931, that on May 1, 1931, your firm made some kind of a public announcement covering these bonds.

Mr. HAYWARD. As I say, I have never seen any such announcement. The cable certainly looks as though that regular announcement was made, that the interest would be paid, so the bondholders would know whether or not to send in their coupons.

Mr. PECORA. Is it not probable that that announcement was couched in terms that led the public to believe that the interest payments were being made in due course by funds specially remitted to you by the Brazilian Government for such purpose?

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Mr. HAYWARD. I would not think so; no. I do not know, Mr. Pecora. I have never seen that announcement.

Mr. PECORA. Let us see if a letter which your firm sent to the Consul General of Brazil under date of November 9, 1931, throws any light on that. Will you turn to your copy of such letter?

Mr. HAYWARD. May I read it?

Mr. PECORA. You do not have to read the entire letter. I will read the part that I think bears on the situation. You can follow me with your copy. The part I want to read is as follows [reading]:

As you were and are undoubtedly aware, the loan contracts are a matter of public record and are open to inspection by any holders of Brazilian Government bonds. Should the holders of such bonds——

Mr. HAYWARD. Mr. Pecora, pardon me. Could you tell me which paragraph of the letter you are reading from? I do not find it in our photostatic copy.

Mr. PECORA. I am reading from the second paragraph of the second page, the fourth line of the second paragraph.

Mr. HAYWARD. Right.

Mr. PECORA. I will continue my reading [reading]:

As you are undoubtedly aware, the loan contracts are a matter of public record and are open to inspection by any holders of Brazilian Government bonds. Should the holders of such bonds shortly form protective committees, we have no doubt that the attorneys for these protective committees will wish to make complete examination of the situation, inspecting the contracts of the Brazilian Government covering its loans abroad, and the fact that the Government is in default also in regard to these important clauses of the contract is bound to impress them most unfavorably. We were under no obligation to accede to the request of the Minister of Finance in April that part of these funds should be used for the payment of interest. No public announcement to the effect that these funds had been so used was made by us, and the holders of Brazilian bonds presumed, and still presume, that the payment of interest on that date was met by funds remitted from Brazil.

Mr. HAYWARD. That is all correct.

Mr. PECORA. Does not that letter throw some light on what the situation was in May 1931?

Mr. HAYWARD. No, I do not think it does, Mr. Pecora, because the letter is dated November 9.

Mr. PECORA. But the letter refers to what happened in April and May of 1931, does it not?

Mr. HAYWARD. Yes. It correctly describes what took place at that time.

Mr. PECORA. And if it correctly describes what took place at that time, does it not inform us that what took place at that time, among other things, was this, that the Brazilian Government, prior to this transaction of May 1931, had remitted funds specially to the bankers with which to meet interest payments as they fell due on these bonds, but that that course was not followed by the Brazilian Government in order to enable it to meet the interest payment on these bonds falling due on June 1, 1931, and in view of that departure, Dillon, Read & Co., at the request of the Brazilian Minister of Finance, to which request Dillon, Read & Co. was not bound to accede, drew down nearly $400,000 from this special fund of $500,000 with which to meet the interest payment of June 1, 1931, and made a public announcement to the bondholders which gave those bondholders a wrong impression as to the actually existing situation? Is not that what this language from your letter means?

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Mr. HAYWARD. No; I do not agree with that at all, not in any sense.

Mr. PECORA. What does it mean, if it does not mean that?

Senator COUZENS. The letter says that if the bondholders find out, it will be just too bad.

Mr. PECORA. In substance.

Mr. HAYWARD. It does not say that either, Senator.

Senator COUZENS. It says that in substance. It says the bondholders are not aware of what you did in May 1931, and so, therefore, the fact that they are not aware indicates clearly that you were fooling the bondholders by that announcement you made with respect to the payment of interest.

Mr. HAYWARD. Not at all. This was the Brazilian Government's money. It was used for the purpose it was left here for. That is all there is to the situation.

Senator COUZENS. That letter does not say so.

Mr. HAYWARD. I am telling you the facts.

Senator COUZENS. I know; but we cannot go beyond the records for the facts, when you specifically say the bondholders will be surprised and chagrined and annoyed that they have been fooled by what you did in May 1931.

Mr. HAYWARD. No, Senator. This letter was an attempt by us to persuade the Government to restore that fund. That is the whole purpose of it.

Mr. PECORA. And in that attempt you informed the Government of the impression, of the erroneous impression, that the bondholders had derived concerning the true nature of the situation, as a result of the announcement, whatever it was, that, according to your cable of May 2, 1931, you released to the public on May 1, 1931.

Mr. HAYWARD. No. I can not agree with you, Mr. Pecora. The money was here just for that exact purpose. I venture to say that you might have criticized us very severely if we had never put any such provision in the contract. We cannot be criticized both ways.

Mr. PECORA. What does this mean [reading]?

As you are undoubtedly aware, the loan contracts are a matter of public record and are open to inspection by any holders of Brazilian Government bonds. Should the holders of such bonds shortly form protective committees, we have no doubt that the attorneys for those protective committees will wish to make complete examination of the situation, inspecting the contracts of the Brazilian Government covering its loans abroad; and the fact that the Government is in default also in regard to these important clauses of the contract is bound to impress them most unfavorably. We were under no obligation to accede to the request of the Minister of Finance in April that part of these funds should be used for the payment of interest. No public announcement to the effect that these funds had been so used was made by us, and the holders of Brazilian bonds presumed, and still presume, that the payment of interest on that date was met by funds remitted from Brazil.

What is your interpretation of that language in this letter of November 9, 1931, to the Brazilian consul general?

Mr. HAYWARD. The purpose of the letter is perfectly obvious, it seems to me, and that was to draw to the attention of the Government the fact that that fund should be restored so that it could be used again if it was needed. It has no other purpose.

Senator COUZENS. That is not what the counsel asked you. Mr. Pecora asked you what your interpretation was of that particular

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paragraph. What you had in your mind outside of that is not the question at issue. What is your interpretation of that paragraph?

Mr. HAYWARD. Just what it says, Senator.

Senator COUZENS. If I understand the English language, I clearly understand what it means.

Mr. PECORA. I think that is all on this issue.

Mr. HAYWARD. Mr. Pecora, you must appreciate that, if any announcement of this sort, that the Government was in default, had been made, it would have hurt nobody more than the bondholders. That is what we had in mind.

Mr. PECORA. Were their interests served by keeping them in ignorance of the true conditions?

Mr. HAYWARD. No; but there was no default at that time.

Mr. PECORA. You say, in November 1931 that there was a default.

Mr. HAYWARD. This was written months later.

Mr. PECORA. Written months later; nevertheless it referred to what happened in May of 1931, did it not?

Mr. HAYWARD. It was only failure to replenish the fund, not default on the bonds.

Mr. PECORA. You call it default in your letter to the Brazilian consul general. That is the term you yourself used.

Mr. HAYWARD. It is a question of language. We were trying to get that fund restored.

Mr. PECORA. "Default" means only "default", does it not?

Mr. HAYWARD. Yes; but you can default on various things. They defaulted on one thing, and not the other.

The CHAIRMAN. The committee will take a recess until 2 o'clock.

(Whereupon, at 1:05 p.m., Thursday, Oct. 12, 1933, the committee recessed until 2 p.m.)

AFTERNOON SESSION

The committee reconvened at 2 p.m., Thursday, October 12, 1933, at the expiration of the noon recess.

The CHAIRMAN. The committee will come to order.

TESTIMONY OF ROBERT OTIS HAYWARD, A MEMBER OF THE FIRM OF DILLON, READ & CO., NEW YORK CITY (Resumed)

Mr. PECORA. Mr. Hayward, are you familiar with a loan made in October 1927 to the United States of Brazil of $41,500,000 face value of 6½-percent sinking-fund gold bonds dated October 15, 1927, due October 15, 1957?

Mr. HAYWARD. Yes. That was half of an international loan; the other part being issued in London by Messrs. Rothschild, Baring & Schroeder, the negotiations having been carried on by Rothschild with the Brazilian Government. We issued the American portion.

Mr. PECORA. The American portion amounted to $41,500,000 par value?

Mr. HAYWARD. That is correct.

Mr. PECORA. Was your firm invited to participate in this loan by N. W. Rothschild & Sons, of London?

Mr. HAYWARD. Yes. It was along the lines I outlined this morning of a joint operation.

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Senator ADAMS. Each took a hemisphere?

Mr. HAYWARD. Yes.

The CHAIRMAN. What was the amount?

Mr. PECORA. $41,500,000 par value. At what price did your firm acquire those bonds from the Brazilian Government?

Mr. HAYWARD. Eighty-eight and interest.

Mr. PECORA. These were 6½-percent bonds?

Mr. HAYWARD. Yes, sir; that is right.

Mr. PECORA. At what price were they offered and sold to the American investing public?

Mr. HAYWARD. The American portion was offered to the public at 92½ and interest, to yield 7.1 percent.

The CHAIRMAN. What is the market price now?

Mr. HAYWARD. I think 28 or 29.

The CHAIRMAN. They are in default?

Mr. HAYWARD. They are in the same state as all of these other bonds. That is, the funding plan covers those coupons.

Mr. PECORA. Your participation in this loan was invited some time in September 1927, was it not?

Mr. HAYWARD. I do not recall the exact date, Mr. Pecora.

Mr. PECORA. And up to that time your firm had floated issues aggregating $135,000,000 par value for the United States of Brazil, had it not?

Mr. HAYWARD. $145,000,000.

Mr. PECORA. One hundred and forty-five?

Mr. HAYWARD. Yes.

Mr. PECORA. I make it 135.

Mr. HAYWARD. Well, you see, in 1922 we participated in the coffee loan that I spoke of this morning, which Rothschild brought out, and we took the equivalent of 2,000,000 pounds for this market. That added $10,000,000. Those bonds have been paid off.

The CHAIRMAN. Mr. Hayward, do you know whether or not under the British law the practice in England is for the underwriters offering bonds for sale to set out in their advertisement and prospectus what they pay for the bonds and what they are asking for them, showing the spread?

Mr. HAYWARD. My understanding on that point, Senator, is that it had not been the practice until the passage of the Companies Act in England governing the sale of securities, along the lines of which our new law, I believe, is somewhat modeled.

Mr. PECORA. You mean the new securities law?

Mr. HAYWARD. The new securities law. So that at the present time I understand it is the practice in England. But it has not been so until recent years.

The CHAIRMAN. Do you remember when that British Companies Act was passed? I do not recall it.

Mr. HAYWARD. There have been two. I think 1928 was the year.

Mr. PECORA. The British Companies Act, as I recall it, was originally passed something like 60 years ago.

Mr. HAYWARD. Yes; but this was a revision.

Mr. PECORA. It has undergone some radical revisions; the last amendments of any consequence having been enacted in 1929 or 1928.

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Mr. HAYWARD. 1929. The earlier act I believe did not include that point.

Mr. PECORA. At the time that you were invited to participate in this loan by Rothschild & Sons what was the condition of the Brazilian Government's credit?

Mr. HAYWARD. Oh, I think it was very good. From the point of view of the price of their bonds, do you mean?

Mr. PECORA. Yes.

Mr. HAYWARD. I think it was very good.

Mr. PECORA. From the point of view of increasing its indebtedness?

Mr. HAYWARD. I do not quite understand that, Mr. Pecora.

Mr. PECORA. Well, I will demonstrate what I am after by reminding you of a cable that was sent by Dillon, Read & Co. to Rothschild & Sons of London, under date of September 12, 1927, relating to this particular issue. Have you got a copy of that cable here with you?

Mr. HAYWARD. Yes. I know what you refer to.

Mr. PECORA. In that cable you state to Rothschild & Sons as follows:

We greatly appreciate your message on Brazil and are pleased to look forward to simultaneous issue with yourselves. We feel our present market suitable for issue of one half of 15,000,000 pounds and will cable you our ideas and terms after further consideration tomorrow. Concur your views that some caution is desirable in increasing government's indebtedness, particularly in view possible increased national needs for stabilization.

Mr. HAYWARD. That is correct.

Mr. PECORA. Who actually represented Dillon, Read & Co. in the negotiations with the Brazilian Government with respect to this particular issue in 1927?

Mr. HAYWARD. My recollection is that the negotiations were carried on primarily by Messrs. Rothschild.

Mr. PECORA. Did not Dillon, Read & Co. have a special representation down there in the person of Sir Alexander MacKenzie?

Mr. HAYWARD. No, sir. Alexander MacKenzie had retired and left at that time. We always have a representative in Brazil. But to the best of my recollection at the present time the discussions were primarily in the hands of Rothschild in the initial stages. I am told, Mr. Pecora, that Sir Alexander MacKenzie was still there.

Mr. PECORA. He was, because he cabled you.

Mr. HAYWARD. Yes; it was shortly after that that he left.

Mr. PECORA. So that Sir Alexander MacKenzie was your representative?

Mr. HAYWARD. Yes; that is right.

Mr. PECORA. And Sir William Lynch represented the Rothschilds in these negotiations?

Mr. HAYWARD. Sir Harry Lynch is the resident representative in Brazil, of the Rothschilds.

Mr. PECORA. Is it Sir Harry or Sir William?

Mr. HAYWARD. Sir Harry.

Mr. PECORA. Did your firm receive a cable on or about September 30, 1927, from its representative in Rio de Janeiro, Sir Alexander MacKenzie, with respect to negotiations that culminated in this issue?

Mr. HAYWARD. Could you describe that, Mr. Pecora?

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Mr. PECORA. I will read what I have as a photostatic reproduction of it. From Sir Alexander MacKenzie, Rio de Janeiro:

Lynch reports that President alarmed moral effect issue price mentioned, especially in view of Lazard Banco Sao Paulo 6 percent £1,250,000, 91¼. He asks if could issue 6¼ percent so as to raise issue price. Lynch has communicated this Rothschild but is sure they will not accept. President talked about delaying until next year unless they can have better issue price. Personally, am of the opinion he under the circumstances cannot justify better price and that hesitation due to fear of criticism. Still believe I should not intervene unless complete break with Rothschild, in which case once they declare this you could provoke President to send for me by telegraphing something to Minister of Finance. Will keep you informed any new developments.

Have you that cable, Mr. Hayward?

Mr. HAYWARD. Yes. That is correct.

Mr. PECORA. That cable was referred to your personal attention, was it not?

Mr. HAYWARD. I presume so.

Mr. PECORA. Is there not a notation to that effect on the face of the cable?

Mr. HAYWARD. Yes; that is right.

Mr. PECORA. Will you be good enough to elaborate to this committee upon the matters referred to in this cable so tersely, and tell the committee just what stage the negotiations had reached at the time this cable was sent, what differences of opinion as to rates of interest and issue price had arisen, and so forth?

Mr. HAYWARD. It is pretty difficult for me to give you much detail, but I gather from reading the cable that we had reached the point of discussing the rate of interest on the proposed bonds and the issue price, and there may have been some difference between what it was considered the London market and what it was considered our market would take.

Mr. PECORA. There is a reference in the first part of this cable to a feeling of alarm on the part of the President of Brazil over the moral effect that the issue price mentioned would create, especially in view of Lazard Banco Sao Paulo 6 percent £1,250,000 issue at 91¼. Does that refer to possibly the circumstance that at about that time a 6-percent issue for the face amount of £1,250,000 had been made and handled by the Lazard Banco Sao Paulo?

Mr. HAYWARD. I presume so, but I do not recall definitely that loan.

Mr. PECORA. Do you know when that £1,250,000 issue had been made?

Mr. HAYWARD. No; I do not off-hand, Mr. Pecora. I could look it up for you.

Mr. PECORA. Was 91¼, the price referred to with respect to that issue in this cable, the price at which the bonds were sold to the underwriters by the Government, or the price at which they were sold to the public by the underwriters?

Mr. HAYWARD. That I do not know.

Mr. PECORA. What discussion had there been up to the time of the sending of this cable between your representative and the Brazilian Government's representative with respect to the issue price of the proposed issue?

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Mr. HAYWARD. I believe that at that time we were discussing the possibility of a 6 percent coupon for the Brazilian Government bonds.

Mr. PECORA. Yes?

Mr. HAYWARD. And the price to be paid for such 6-percent bond was apparently not at that time acceptable to the President.

Mr. PECORA. What was that price proposed?

Mr. HAYWARD. I will have to see if there is something else in there to refer to to refresh my memory.

Mr. PECORA. Perhaps if you refer to a cable that your firm received under date of September 26, 1927, from Rothschild & Sons, of London, you will be able to answer the question. Have you a copy of that cable before you?

Mr. HAYWARD. Yes; I have that here—I am just reading it now.

Mr. PECORA. I will read it into the record. Dated September 26, 1927. From Rothschild & Sons, London. Addressed to Dillon, Read & Co., New York. No. 11.

With further reference our wire no. 9 we consider President not unreasonable in asking for higher net price. We are anxious help him conclude contract satisfactory Brazilian public opinion and are therefore prepared to pay 83½ for London portion with conditions same as previously stated. We appreciate that your spread must be 4½ percent. Only solution, therefore, is that issue price, London, should be lower than New York. Feel issue price here must in no event exceed 87 and perhaps should be 86½. This would mean you issue 88 in either case. Do you agree improved bid to 83½ for both portions without binding ourselves to issue price? Please reply urgently our office closed tomorrow.

ROTHSCHILD & SONS.

LONDON.

Mr. HAYWARD. That is correct.

Mr. PECORA. Does the reading of that cable refresh your present recollection as to what the circumstances were with regard to the negotiations at this particular stage?

Mr. HAYWARD. Of course this is only one cable in frequent interchanges that go on several times during the day.

Mr. PECORA. I know that.

Mr. HAYWARD. Apparently at this particular point we were discussing paying 83½ for a 4½-percent bond. I think these discussions perhaps will be a little clearer to you if I say that the purchase price is considered of importance from the public point of view in Latin America even irrespective of the coupon rate, and it is sometimes a matter of pride for a borrower to receive a price higher than someone else, and the coupon rate is not always taken into consideration. The result of these discussions, I believe, was that we eventually made the loan a 4½-percent loan instead of the 4-percent loan, and the price was therefore increased from 83½ to 88. I think that is the only significance this exchange has.

Mr. PECORA. What was the purpose of this loan? Do you know?

Mr. HAYWARD. The circular states:

The proceeds of the present loan will be applied towards the liquidation of treasury obligations of the Government, including its floating debt, a necessary step for giving effect to the legislative decree 5108 of December 18, 1926, which provides for the changing of the monetary system of Brazil.

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The CHAIRMAN. When did the change go into effect, and what was the change?

Mr. HAYWARD. The change was the stabilization law of Dr. Washington Louis, who became the President of Brazil in the fall of 1926; and that, in effect, reduced the par value of milreis to slightly under 12 cents.

The CHAIRMAN. Wasn't there some doubt expressed by the Brazilian Government concerning the purposes to which this loan might be applied?

Mr. HAYWARD. There were various discussions in regard to the description of the use of the proceeds, no doubt.

Mr. PECORA. When was the loan contract providing for this loan, executed between your firm and the Brazilian Government?

Mr. HAYWARD. I will get that in a moment.

Mr. PECORA. Go ahead.

Mr. HAYWARD. The general bond and the loan contract were both executed on the 11th of October 1927, in London.

Mr. PECORA. What date does the contract actually purport to bear?

Mr. HAYWARD. The same date.

Mr. PECORA. When were the negotiations for the making of the loan concluded?

Mr. HAYWARD. I should say just before the signing of the contract.

Mr. PECORA. So that in this case the contract was signed very shortly after the negotiations were concluded?

Mr. HAYWARD. Yes.

Mr. PECORA. And in that respect the circumstances surrounding the execution of the contract differed from the previous loans?

Mr. HAYWARD. Yes. In this case all the parties were assembled in London, and it could be done in a little different form than it had been done before.

Mr. PECORA. Was that due to any haste on the part of the bankers at that time to bring out the issue quickly for any reason?

Mr. HAYWARD. No. As a matter of fact, the negotiations lasted over quite a long period of time.

Mr. PECORA. Have you before you a copy of the cable which your firm caused to be sent to Rothschild of London, under date of October 5, 1927?

Mr. HAYWARD. I will get it in a moment.

Mr. PECORA. All right.

Mr. HAYWARD. Well, now, there seem to be several cables on that date. Which one do you have reference to?

Mr. PECORA. The one reading as follows:

Your no. 19 received. Congratulations. Bankers Trust Co. and Blair & Co. closing today Polish loan and will offer 45 million dollars bonds here Monday morning. We feel it very desirable for success of the Brazilian issue that we should anticipate the Polish offering by bringing out Brazil's Friday morning. Will you please advise us urgently if details sufficiently advanced to permit our signing contract tomorrow for American portion and making offering Friday morning. If lawyers feel stabilization law insufficient, wouldn't it be possible to offer loan subject to passing new legislation before payment for bonds? We fear Polish loan will either take large amounts of funds now awaiting investment off the market, or will be badly received and react against Brazilian loan, which might necessitate delay of offering for several weeks. We therefore are anxious to do everything possible to bring out the bonds this week.

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What about that?

Mr. HAYWARD. That is correct.

Mr. PECORA. Then there was unusual haste on the part of the bankers, both American and British, with regard to this Brazilian issue.

Mr. HAYWARD. No.

Mr. PECORA. In the matter of bringing it out.

Mr. HAYWARD. No. And the actual loan was not brought out until some time after that time, on October 13. It had been under discussion for a long time before that. The substance of that cable is simply this: That in timing issues it is always desirable to avoid confusion in the market, in the way of offering one issue on the heels of another. There was no particular reason why this loan should be brought out that week or the next month. There were any number of periods during the years succeeding that when the loan could have been made. What we had in mind in that discussion was simply a program for that week.

Mr. PECORA. Well, what you had in mind there quite definitely if I can understand the language of this cable, was to beat the Bankers Trust Co. and Blair & Co. in the matter of the marketing of the Brazilian loan.

Mr. HAYWARD. No. Mr. Pecora, we did not want to beat anybody. That was not necessary. It was a question of spacing.

Mr. PECORA. Didn't you say here that the Bankers Trust Co. and Blair & Co. were closing a Polish loan today and will offer 45 million dollars of bonds here Monday morning and we feel it very desirable for the success of the Brazilian issue that we should anticipate the Polish offering by bringing out the Brazilians Friday morning?

Mr. HAYWARD. That is simply a question of spacing. It would have been just as well, as actually happened, to bring it out later. We did not want a contract signed and the Brazilian Government then asking us to make an immediate issue, on the same day, or the day before, or the day after another large loan.

Mr. PECORA. But you were actually expressing a keen desire in this cable to bring out the Brazilian issue on Friday morning in order to anticipate the bringing out of the Polish issue the following Monday morning as contemplated by the Bankers Trust Co. and Blair & Co.

Mr. HAYWARD. But we didn't do it.

Mr. PECORA. I know you didn't do it, but you wanted to do it, and this cable is some evidence of a desire on your part to do that.

Mr. HAYWARD. That was only in case the Brazilian Government wanted the immediate issue, that we did not want a conflict with that other issue. And actually we waited.

Mr. PECORA. This cable did not go to the Brazilian Government but to your associates on the other side, Rothschild & Son.

Mr. HAYWARD. That is correct.

Mr. PECORA. You were asking them if it was not possible to arrange the details, to advance the details sufficiently to permit the signing of the loan contract on October 6, so that you might bring out the American portion on Friday, or 3 days ahead of the bringing out of the Polish loan by the other bankers.

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Mr. HAYWARD. Simply because we did not want the two loans at the same time. Fortunately that was not done, so that that was not necessary.

Mr. PECORA. But you wanted to beat the Bankers Trust Co. and Blair & Co. to the American market.

Mr. HAYWARD. We did not want them to come out simultaneously.

Mr. PECORA. As a matter of fact you did beat them, didn't you?

Mr. HAYWARD. No; we did not. We did not bring out the loan until the 13th, and that confusion was avoided.

Mr. PECORA. Well, there seems to be quite a difference in the understanding of simple words here. When did you actually offer these Brazilians?

Mr. HAYWARD. October 13.

Mr. PECORA. Now I notice that the sterling bonds, a portion of this loan sold by Rothschild & Sons of London, were sold at 91½ to the British public, whereas the American half were sold to the American public at 92½. What was the reason for that?

Mr. HAYWARD. Simply the difference in cost of distributing securities in England as compared with the cost of distributing them in the United States.

Mr. PECORA. Do you mean that English bankers are content to accept a smaller spread?

Mr. HAYWARD. No. It is a matter of the greater cost of distribution, particularly retail distribution.

Mr. PECORA. What is it?

Mr. HAYWARD. In England there is one financial center, and a small extent of country, whereby the advertising and other expenses are very much more limited than here. In the United States in order to reach the investing public it is necessary to duplicate your efforts in a great many parts of the country at the same time; and for that reason in all financing at the present time, or during this period spoken of, the cost is much greater here than it is abroad.

The CHAIRMAN. What makes up that cost? What are the elements of that cost?

Mr. HAYWARD. Well, the main thing that you have to consider is what you suballow dealers, the greater amount of advertising that is required, the greater number of people that have to be reached, and consequently printing and all those details which come into it are greater. That is a very considerable amount.

Mr. PECORA. Now, this Brazilian loan was floated by you in 1927, which was some 5 years after you had floated the $25,000,000 loan that it was stated was to be used either wholly or in part for the electrification of the Centrale Railway of Brazil, wasn't it?

Mr. HAYWARD. That is correct.

Mr. PECORA. In the course of that 5-year intervening period you had learned that the Brazilian Government, for some reason or other, had not yet even let the contract for the electrification of the railroad to meet the expense of which it had contracted that loan of 1922.

Mr. HAYWARD. They had not signed the contract covering $8,000,000 for electrification; no.

Mr. PECORA. Did you accept that condition as a reasonable and normal one in 1927?

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Mr. HAYWARD. Being familiar with the circumstances, as I was, and having followed it from year to year, I felt that it was nothing more than the normal delay that could be expected in the operation of any Government enterprise. During that period I had frequently visited Brazil. I was there, as I testified on yesterday, in 1923. At that time I met the incoming administration, the President being Dr. Arturo Bernados. We discussed the general program of the Government. And I took occasion to talk to him a number of times about the progress of the electrification plan. He gave me his assurance that he desired to see it completed as much as his predecessor, Dr. Epitacio Pessoa, who had contracted the loan, but that he would have to take some time to get his house in order before he could take it up. He assured me, therefore, that at the earliest opportunity that would be done. I went down in 1927, before this loan, and spent considerable time in Brazil, and at that time I met the incoming President, Dr. Washington Louis, and also his Finance Minister, who is today the President of Brazil. I talked with both of those officials and a number of others, and received the same assurances of their interest in this project, of their intention eventually to carry it out. They still intend to carry it out, and eventually will do so, I am quite confident.

Mr. PECORA. Meanwhile, so far as you know, the moneys that have been borrowed, in 1922, to pay for that electrification have not been reserved for that purpose but have been expended for other purposes, isn't that so?

Mr. HAYWARD. Dr. Pessoa said in his book that I have referred to, that it had all been devoted to this railroad.

Mr. PECORA. But, obviously, not for this electrification.

Mr. HAYWARD. That has not been done as yet, no.

Mr. PECORA. And you do not know how much might have been paid out to meet the claims of the railroad company, do you?

Mr. HAYWARD. We do not know. But we have no reason to believe they will not be able to pay for it when they are to go ahead.

Mr. PECORA. I show you a printed document and ask you if it is a true and correct copy of the loan contract entered into with the Brazilian Government by Dillon, Read & Co. on October 11, 1927, covering this bond issue.

Mr. HAYWARD. That is correct.

Mr. PECORA. I now offer it in evidence and ask that it may be spread on the record of the hearing.

The CHAIRMAN. Let it be received, and the committee reporter will make it a part of the record of the hearing.

(The loan contract of Dillon, Read & Co. with the Brazilian Government dated Oct. 11, 1927, was marked "Committee Exhibit No. 34, Oct. 12, 1933", see p. 2045.)

Mr. PECORA. Mr. Hayward, what kind of book was that written by the President of Brazil in 1925, containing what you have stated here?

Mr. HAYWARD. It was a résumé of his administration.

Mr. PECORA. Was it by any chance a campaign document?

Mr. HAYWARD. Oh, no. His term of office had expired, and under the Brazilian Constitution no one is eligible to that office for reelec-

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tion. It is in Portuguese. I should be glad to present you with a copy of it.

Mr. PECORA. Now, I notice in this loan contract that has been marked "Committee Exhibit No. 34, Oct. 12, 1933", a provision that does not appear to be included in any of the loan contracts that have been put in evidence heretofore during the course of your examination. I refer to the provision known as section 6, on page 9, which reads as follows:

> The bankers agree to use their best efforts to form a syndicate or syndicates to purchase the dollar bonds to be purchased by the bankers as provided in section 1 of article II. But anything herein to the contrary notwithstanding, the bankers shall not be obligated to take up and pay for the dollar bonds unless the bankers shall have succeeded in their endeavor to form a syndicate or syndicates for the purchase of the dollar bonds; and neither the bankers nor any syndicate or syndicates formed by the bankers shall be obligated to take up and pay for the dollar bonds if in the sole judgment of the bankers financial conditions existing in the United States or elsewhere shall at the time be such as in the judgment of the bankers to make it undesirable or inadvisable to complete the purchase and distribution of the dollar bonds as contemplated by this contract, or if the British bankers shall fail to take up and pay for the sterling bonds in accordance with the terms of the British contract.

Now, would you say that that is a provision which is a novel one in an agreement of this kind?

Mr. HAYWARD. No. That is the common force majure clause that is found frequently in agreements.

Mr. PECORA. Do you find its counterpart in any other loan agreement that your firm had theretofore entered into with the Brazilian Government?

Mr. HAYWARD. No; I am informed that we do not. Those prior loans were in the form of an option, so that was not necessary.

Mr. PECORA. Those loans were in the form of completed and executed contracts, weren't they?

Mr. HAYWARD. Eventually, yes.

Mr. PECORA. They were entered into subsequent to the giving of the options.

Mr. HAYWARD. When the loan was issued; yes.

Mr. PECORA. And the terms and provisions of the loan were fixed by the contract definitely and specifically and not by the option.

Mr. HAYWARD. No. The option was the instrument on which we began our operations. The contract was signed later.

Mr. PECORA. Exactly. The option was what started the negotiations, but the contract was what terminated them and definitely fixed the rights and liabilities of the parties signatory thereto.

Mr. HAYWARD. That is correct.

Mr. PECORA. What was the reason for inserting this provision, section 6, in this contract which has been marked "Committee Exhibit No. 34, October 12, 1933"?

Mr. HAYWARD. Well, it was the customary force majure clause.

Mr. PECORA. You said it was not in any loan contract that you had entered into with the Brazilian Government prior to the execution of this one, in October of 1927. So, apparently, it was not very customary, was it?

Mr. HAYWARD. Those other loan contracts were five and six years before this. This was I might say moulded along the lines more of the English loan contract, where perhaps that is more customary.

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It is primarily for the protection of all concerned, bondholders as well as bankers.

Mr. PECORA. Isn't is primarily for the protection of the banker?

Mr. HAYWARD. No. It is——

Mr. PECORA (interposing). So that is a commitment to buy the bonds from the Government issuing them, but it does not become final unless and until he is assured by his own processes of getting those assurances that he can dispose of the bonds in the open market.

Mr. HAYWARD. Oh, I should think that is to the public benefit.

Mr. PECORA. What benefit does the public get from that as distinguished from any benefit that the banker gets from it?

Mr. HAYWARD. Well, you might have to issue the bonds at a time when international conditions were disturbed, as they have been a number of times in the last 12 or 15 years.

Mr. PECORA. In that event the public would not buy the bonds, would they?

Mr. HAYWARD. But, if the public had subscribed for the bonds and the bankers were committed to take them, they would have to go through with it.

Mr. PECORA. The bankers would be the people who would have to go through with it if they did not have this kind of clause in the loan contract, isn't that the fact of the situation?

Mr. HAYWARD. The people who subscribed would also be in the position where they would have to go through with it.

Mr. PECORA. This loan contract did not protect the subscribers among the public, did it?

Mr. HAYWARD. Yes, indirectly; because if such condition arose then the bankers would be allowed to discontinue their efforts and would release the people who had subscribed for the bonds.

Mr. PECORA. Doesn't this mean, in substance, that no commitment on the part of the bankers to buy these bonds from the issuing government, becomes effective until the bankers shall have succeeded in their endeavor to form a syndicate or syndicates for the purchase of the bonds?

Mr. HAYWARD. That is right. Now, let us take the position of the public, who have perhaps subscribed for half of the issue. Of course, this did not happen, and we have always gone through with these transactions. Fortunately, no situation arose which required a canceling of it. But it would be a great help and would save the public who had subscribed for a portion of the issue if some condition had arisen which might have made desirable the canceling of it.

Mr. PECORA. It also freed the bankers entirely from any commitment until they knew they could dispose of the entire issue, didn't it?

Mr. HAYWARD. Yes. It helps both of them.

Mr. PECORA. Was the insertion of this clause in this contract by any chance due to any feeling or notion on the part of the bankers that the market at that time was in such condition that the bankers were unwilling to take any chance by committing themselves to purchase bonds until they knew they could sell them to the public?

Mr. HAYWARD. No. There was no such thought as that so far as I know. It was a pure formality.

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Mr. PECORA. Were there any revenues specially placed as security behind these bonds in 1927?

Mr. HAYWARD. Yes.

Mr. PECORA. What were they?

Mr. HAYWARD. Shall I read from the prospectus?

Mr. PECORA. If you will.

Mr. HAYWARD. It says:

The bonds of both issues in the opinion of counsel will be specifically secured subject to the charges of the 6½ percent loan of 1926, by charges on: (a) Income taxes and taxes on invoices; (b) consumption taxes, subject also to the charges of the 8 percent loan of 1921 and (c) import duties, subject also to the charges of the 5 percent sterling loans of 1898 and 1914, and the 8 percent loan of 1921.

Mr. PECORA. Now, that statement purports to be a summary of certain provisions of section 8 of the general bond that was executed on October 11, 1927, doesn't it?

Mr. HAYWARD. I will just look at that and tell you.

Mr. PECORA. All right.

Mr. HAYWARD. Yes; it seems to be.

Mr. PECORA. That section 8 of the general bond also provides as follows:

The Government further covenants and agrees that it will not while any of the bonds shall be outstanding do anything whereby the proceeds of the income taxes, the taxes on invoices, the consumption taxes, the import duties and import taxes, above mentioned and now existing, shall be diminished.

Doesn't it contain that clause?

Mr. HAYWARD. That is right.

Mr. PECORA. How did you expect the Government would be able to live up to that condition?

Mr. HAYWARD. By not altering the rate of taxation to the detriment of the bondholders.

Mr. PECORA. Well, did the principle upon which that rate of taxation is to be applied remain constant or is it variable?

Mr. HAYWARD. I beg your pardon?

Mr. PECORA. The principle upon which that rate of taxation is to be applied is a variable amount, it is not a constant amount, is it?

Mr. HAYWARD. No; but——

Mr. PECORA (interposing). Incomes are not constant, are they?

Mr. HAYWARD. No; but as I understand it——

Mr. PECORA (interposing). The consumption of goods is not always at a constant figure, is it?

Mr. HAYWARD. No; but this simply says the Government will not take any affirmative action which will result in a reduction of taxes.

Mr. PECORA. No; that it will not do anything whereby the proceeds of taxes shall be diminished.

Mr. HAYWARD. Isn't my interpretation correct?

Mr. PECORA. I do not think so. One refers to proceeds from taxes and your interpretation refers to rate of taxation.

Mr. HAYWARD. But it says the Government will not do anything to diminish it. It does not say that the Government guarantees the amount will remain the same.

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Mr. PECORA. Now, that section 8 also contains this clause, does it not:

So long as any of the bonds shall be outstanding, the Government covenants that it will not issue any other bonds or incur any other obligations charged upon the beforementioned revenues or any of them in priority to or pari passu with the bonds.

Do you know whether the Government lived up to that obligation or condition?

Mr. HAYWARD. This is the last loan the Government has issued, in 1927.

The CHAIRMAN. Have you any idea what this consumption tax yielded to the Government at that time, what the proceeds were?

Mr. HAYWARD. I can find it out for you. It was a very large amount. I could not tell you offhand, not without looking it up. It is a sales tax, which is effected to by putting a stamp on articles of merchandise.

The CHAIRMAN. Well, a stamp tax is a different tax from a sales tax, isn't it?

Mr. HAYWARD. Well, technically speaking that is true. But this is a payment represented by stamps put on goods.

Mr. PECORA. The bonds represented by this 1927 issue are now in default, are they not?

Mr. HAYWARD. They are now in the same category as these other bonds.

Mr. PECORA. When did the first default occur in the case of these particular bonds?

Mr. HAYWARD. The first default in interest occurred on the 15th of April 1932.

Mr. PECORA. And when did the first default occur on the sinking fund requirements of the contract?

Mr. HAYWARD. The 15th of October, 1931.

Mr. PECORA. I now call your attention to the following clause embodied in the same section 8 of the general bond:

The Government further covenants and agrees that, subject as aforesaid, all the proceeds of said income taxes, taxes on invoices, consumption taxes, import duties and import taxes shall, in case, and so long as, the Government shall not have fulfilled all its obligations then due hereunder and under the bonds, be specially set apart and used for the fulfillment of the obligations of the Government then due hereunder and under the bonds, equally and rateably as between the sterling bonds and the dollar bonds (United States gold coin and sterling money being taken at the rate of £1 sterling money equals $4.8665 in United States gold coin), and shall not be used or devoted to any other purpose.

Do you know whether the Government has lived up to that obligation?

Mr. HAYWARD. You have here the same situation that we had in the case of the loans we discussed this morning—the funding loan takes the place of these.

Mr. PECORA. But that is not an answer to the question.

Mr. HAYWARD. The answer is that they are setting aside milreis today in Brazil and those milreis cannot be gotten out at the present time.

Mr. PECORA. Do you know whether they are actually set apart for the purpose of the requirements under these bonds; I mean all the proceeds of the taxes that this section 8 of the general bond requires the Government of Brazil to set apart?

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Mr. HAYWARD. I have no reason to think they are not. They have advised us that they are making these deposits. Now, just what fund that money comes from I do not know. That is a matter of accounting in the Government Treasury.

Mr. PECORA. Wouldn't it be a simple thing to find that out?

Mr. HAYWARD. No.

Mr. PECORA. Do you think if you asked the Brazilian Government to advise you what, if anything, it had done toward living up to this agreement, they would advise you what they were doing?

Mr. HAYWARD. I know that they have advised us that they are depositing milreis in the Bank of Brazil awaiting the opportunity to forward the funds.

Mr. PECORA. But depositing milreis in the Bank of Brazil is not a compliance with this agreement, is it?

Mr. HAYWARD. It is not a technical compliance.

Mr. PECORA. Is it a practical compliance with the agreement?

Mr. HAYWARD. I think so.

Mr. PECORA. The agreement says " set apart " the revenues.

Mr. HAYWARD. What you get eventually is the Brazilian currency in any case.

Mr. PECORA. Do you know whether the Brazilian Government is setting apart all the moneys that they agreed to set apart for this purpose?

Mr. HAYWARD. I have no reason to think it is not being done.

Mr. PECORA. Have you any definite knowledge at all on the subject?

Mr. HAYWARD. Simply that the Government advises us that they are depositing milreis.

Mr. PECORA. Does that mean that the Government is setting apart, in full compliance with this clause of the contract, the revenues that it is required to set apart because of the default in 1931?

Mr. HAYWARD. Not necessarily, but it makes no difference to the bondholder whatever where it comes from.

Mr. PECORA. And has the Government of Brazil advised you definitely that amounts equivalent to the revenues required to be set apart by this clause of the contract, are being set apart regardless of the means by which they come?

Mr. HAYWARD. No; they have not.

Mr. PECORA. Now, you said that the first default of any kind in the bonds covered by this issue was with respect to the sinking fund payments of October 1931.

Mr. HAYWARD. I believe that is correct.

Mr. PECORA. Did your firm receive from Rothschild in London a cable dated August 26, 1931, relating to this particular issue?

Mr. HAYWARD. You mean a very long one, Mr. Pecora?

Mr. PECORA. Yes, sir.

Mr. HAYWARD. Yes; we did.

Mr. PECORA. That cable reads as follows, doesn't it?

As you are aware Brazilian Federal Government has been meeting with increasing difficulties in finding necessary exchange but has persisted under pressure from Niemeyer who wired to Minister of Finance yesterday. Last night we have received the following cable from Lynch: " For your guidance exchange situation here is very serious and rates have been only prevented falling further owing banks combining not to buy below an agreed rate but how long

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agreement will last is problematical. Absence of bills continues there is no tendency for a rise and current rate artificial. Commercial Associations held meeting yesterday to discuss situation. You will appreciate effect current rates on many classes and any further fall would be disastrous particularly in connection with foreign public utility companies for even those enjoying tariffs on gold or part gold basis the public will not stand for further increase in cost of service."

I found Minister of Finance most despondent and apprehensive and I had a long conversation with him to little avail. He repeated that he is convinced importance and efficacy program which he would prefer to adhere to than modify but that it is materially impracticable for government to buy exchange and physically impossible for him to give the attention which execution necessitates while he is being pressed change his policies and there exists the possibility of its breaking down without due public warning through any previously announced understanding with bankers. He considers whole of his work during this administration would be sacrificed owing to the loss of confidence he would suffer and it would be difficult to continue office. Change Minister of Finance would be a calamity. We would unquestionably enter into regime of paper issues and defaults and I have no hesitation in saying that this is one of the reasons why some prominent men here who are not confident feasibility program support Minister of Finance endeavors. He says that in order to carry on with policies it is essential to obtain credit London, New York for about 4,000,000 pounds to be used exclusively for the service of foreign loans to end of year. Earlier in the year the suspension of sinking fund would have served purpose but that alone now would be unfruitful. He suggests that such advance should form part general program and on repayment if not used to purchase exchange the equivalent in currency destroyed by it so that bankers might feel confident of cash reimbursement in the event of subsequent funding he is prepared deposit here in name bankers with any nominee currency value in order that they would be in a position buy exchange and repay themselves as soon as market relieved of weight of government requirements. He considers such a credit should give confidence to carry out necessary program successfully and prevent funding which otherwise appears inevitable.

If you have any other formula for credit Minister of Finance would be pleased to consider and he begs you and Niemeyer to kindly believe he has done everything in his power and that it is essential to make known at earliest possible moment either the obtaining of a credit or change policies. Minister of Finance would be grateful if you will inform Dillon, Read & Co. but if you think it more advisable he will do so direct. He regrets cabling in this sense during British crisis and realizes moment inopportune but says his own position here is very precarious. It is obviously impossible for bankers in London make any advances. Do you think there is any chance on your side either through banks or through your Government. We believe that in any case under exceptional exchange difficulties fiscal agents should be prepared recognize necessity for suspension of all sinking fund except two funding loans immediately. Milreis equivalent should be deposited in Brazil so as to compel provision for same in budget. Sir Henry Lynch states this will not be sufficient but every effort should be made to prevent suspension of cash interest payments. We will be glad to know your views about sinking funds and whether you have any suggestions to make?

What action, if any, was taken?

The CHAIRMAN. What is the date of that?

Mr. PECORA. This cable is dated August 27, 1931.

Mr. HAYWARD. This was during the period when they were reaching the point where they had to prepare the funding agreement.

Mr. PECORA. What action was taken subsequently?

Mr. HAYWARD. It is difficult for me to now recall the exact circumstance. My impression is, Mr. Pecora, that we felt that no bank credit could be wisely arranged here, as the London bankers felt, and shortly after that, the next month, the Government started active work on the funding plan.

Mr. PECORA. On or about August 31, 1931, did your firm place to the credit of Rothschild & Sons, of London, for the account of the

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Brazilian Government the sum of $290,000 out of sinking fund payments that were in the hands of Dillon, Read & Co. for the servicing of these bonds?

Mr. HAYWARD. Yes; that is correct.

Mr. PECORA. Was that fund of $290,000 so transferred to the account of the London bankers replaced at any subsequent time?

Mr. HAYWARD (after conferring with associates). This was one issue, in substance the London portion and the American portion. It was provided in the loan agreement that interest should not be paid on one portion and not on the other portion. At this particular point we had money from Brazil to pay the interest and the sinking fund on the dollar portion, but Rothschild did not have enough money to pay their interest. We could not have paid anything on our bonds unless Rothschild were in a position to pay interest on their bonds. So on instructions from the Finance Minister we transferred the sum herein referred to to Rothschild in London to enable them to pay the interest on their bonds, and thus we were allowed to pay the interest on ours.

Mr. PECORA. What were the total profits that accrued to Dillon, Read & Co. from the handling of this issue?

(Mr. Hayward conferred and examined documents.)

Mr. PECORA. It may help you, Mr. Hayward, if I tell you that our figures on that are $598,789.69.

Mr. HAYWARD. That agrees with ours.

Mr. PECORA. And what was the total profit accruing to all the groups, the four groups?

Mr. HAYWARD. The total gross profit to all the groups was $1,750,117.24.

Mr. PECORA. I notice you continue to call this a "gross profit." Was it actually a gross profit, or was it a profit after certain expenses had been deducted, after certain syndicate expenses had been deducted?

Mr. HAYWARD. Yes; before overhead and taxes.

Mr. PECORA. Then it is not the total gross, is it? It is the actual net outside of overhead and taxes?

Mr. HAYWARD. Well, I don't know. There may be other items. It does, however, include certain expenses incurred in marketing the issue.

Mr. PECORA. Those expenses it includes are just the ordinary overhead expenses?

Mr. HAYWARD. No; I mean the specific expenses of the issue.

Mr. PECORA. It excludes those expenses, doesn't it?

Mr. HAYWARD. No; it includes those. It excludes others.

Mr. PECORA. What does it exclude?

Mr. HAYWARD. Well, overhead and taxes and so forth.

Mr. PECORA. That is exactly what I say.

Mr. HAYWARD. I beg your pardon.

Mr. PECORA. That this profit that you call a total gross profit is in reality the gross profit as reduced by payment of all the expenses except overhead and taxes?

Mr. HAYWARD. Well, maybe not all of them. Similar items; yes.

Mr. PECORA. It is the net profit with the exception of taxes and overhead, isn't it?

Mr. HAYWARD. Which are very large items, of course.

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Mr. PECORA. Mr. Hayward, are you familiar with a loan made to the Republic of Bolivia in 1927 secured by an issue of bonds in the face amount of $14,000,000 bearing 7-percent interest, dated January 1, 1927, and due July 1, 1958?

Mr. HAYWARD. May I interrupt you a second, Mr. Pecora, on that point we were discussing before?

Mr. PECORA. Surely.

Mr. HAYWARD. Mr. Pecora, in referring again back to the profit figure on that Brazil loan, I am informed that the figures we have given you represent gross cash profit after expenses charged directly to groups, other direct expense and allowances on resale abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense. It makes it just a little clearer.

Mr. PECORA. Yes; thank you. Now, will you turn to your file with regard to the $14,000,000 Republic of Bolivia 7-percent issue of January 1927?

Mr. HAYWARD. Yes.

Mr. PECORA. Was this the first Bolivian issue that Dillon, Read & Co. ever had anything to do with?

Mr. HAYWARD. Yes; it was.

Mr. PECORA. Who attended negotiations for this loan on the part of your firm?

Mr. HAYWARD. I did.

Mr. PECORA. When were the negotiations commenced?

Mr. HAYWARD. The discussion for this loan originated in 1924.

Mr. PECORA. In 1924?

Mr. HAYWARD. 1924; yes. The loan came out in 1927. In 1924 the Bolivian Government sent up to New York a railroad engineer whom they had employed for some time studying the eventual location of a railroad which they wished to build from Cochabamba to Santa Cruz. This road had been considered one of prime necessity in Bolivia for a great many years, in view of the peculiar geographical location of the country. Part of the country in the capital is in the high plateau region of the Andes about 9,500 feet above sea level. A large portion, however, of the Bolivian territory is down in the tropical and Amazon Basin at the foot of these mountains. In the absence of a railroad it is necessary to carry goods on muleback back and forth between those parts of the country.

Senator ADAMS. The capital is on the Pacific slope, isn't it?

Mr. HAYWARD. Yes; at the top—9,500 feet.

Senator ADAMS. But on the Pacific slope.

Mr. HAYWARD. It is situated so that the only transportation available between these two points of the country, therefore, is by muleback, and as a net result of that the people living in the high plateau region at the present time have to import from the outside, in a good many cases even from New York, important requirements, even foodstuffs, which could easily be supplied from their own territory if there were some method of communication.

Therefore, the construction of this road had been a desideratum for a long time, and they had employed a German engineer named Grether to study the various possible locations for this road, and he had reported to the Bolivian Government, and they asked him to

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come up to New York and get in touch with bankers and engineers to see if he could interest them in going ahead with the project.

Mr. Grether was brought in to me by a friend of ours, and I discussed the thing with him at some length. It seemed to us at the time that in view of the fact that the Bolivian Government had only two years before made an issue of $29,000,000 of 8 percent bonds it was a little too soon for them to embark on this enterprise. It may be—I don't recall exactly—that market conditions perhaps at the time were not entirely favorable.

The net result of it, however, was that it was our advice to him that the project should be studied and examined further before they took any active steps.

Mr. Grether returned to Bolivia and continued his work, and he came up again to New York about a year later, in 1925. I went over the situation with him again and reviewed it. He remained here for some time. I told him I thought at that moment the best service I could be to him would be to refer him to some American engineers who might be interested in working on the thing with him and developing the plans and keeping it alive, but that even then we still felt, as we had the year before, that——

Mr. PECORA (interposing). Who were the American engineers you had in mind?

Mr. HAYWARD. I sent him to Mr. Leonard Kennedy.

Our opinion, therefore, was, as it had been before, that it should still be kept under advisement.

In 1926 the Bolivian Government took it up again, and this time we felt that the situation looked more feasible. It was then 4 years since the Bolivian Government had made its loan. It had not done much further external borrowing. It had maintained its payments. Its credit was good. So we told the Government that if they would send representatives to New York we would be glad to go into it with them further, and we had actual, serious discussions which began, I think, in March 1926.

Mr. PECORA. And with whom were those discussions which began in March 1926 had?

Mr. HAYWARD. First of all, the Bolivian Government sent to New York from Paris a Mr. Martinez Vargas. Mr. Vargas, I believe, had been at one time a member of the Bolivian Cabinet, and his occupation was as Treasurer for the large Patino Mines Corporation, which has its financial headquarters in Paris.

Mr. PECORA. The Patino Mines Corporation owns the tin mines of Bolivia?

Mr. HAYWARD. It owns, I believe, the largest tin properties. There are a good many other companies there.

Mr. PECORA. And they are the largest tin mines in the world?

Mr. HAYWARD. Bolivia produces, Mr. Pecora, approximately 25 percent of the world's tin. The Dutch East Indies and other places produce the balance.

Mr. PECORA. You met this Mr. Vargas in March 1926?

Mr. HAYWARD Yes.

Mr. PECORA. Mr. Vargas was a representative of the Brazilian Government?

Mr. HAYWARD. That is right.

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Mr. PECORA. For the purpose of negotiating for a loan of several millions of dollars?

Mr. HAYWARD. That is right.

Mr. PECORA. What was the amount of the loan you actually negotiated with the Brazilian Government through Mr. Vargas or through any other representative of the Government at that time?

Mr. HAYWARD. The amount eventually issued was $14,000,000.

Senator COUZENS. You refer to the Brazilian—you mean the Bolivian?

Mr. HAYWARD. The Bolivian, yes; $14,000,000 was the amount eventually issued. Then our discussions went through very long phases. After Mr. Vargas remained for a while, my recollection is that he had to go back to Paris, and the Bolivian Government sent up a commission of three gentlemen specially empowered to carry on the discussions with us, and they remained in New York a good many months.

Mr. PECORA. The discussions with Mr. Vargas contemplated that they loan to Bolivia as much as 50 million dollars?

Mr. HAYWARD. We discussed all sorts of projects. At one time we talked about a loan of $50,000,000 which would be principally for two purposes, part of the bonds to be reserved and set aside and held until it was possible to retire the loan of 1922, the balance to be issued in installments as the work on this railroad progressed. At that time we were discussing an immediate issue of $10,000,000, I believe.

Mr. PECORA. The negotiations finally reached a stage where you made a loan to the Bolivian Government of $14,000,000, didn't they?

Mr. HAYWARD. They finally resulted in the issue of $14,000,000.

Mr. PECORA. And when was that issue actually made?

Mr. HAYWARD. February 2, 1927, the following year. The discussions went all through the rest of that year, 1926.

Mr. PECORA. At what price did Dillon, Read & Co. acquire those bonds from the Bolivian Government?

Mr. HAYWARD. I will look that up for you, Mr. Pecora. The discussions with Mr. Kennedy over the construction of the railroad were carried on by his firm, Kennedy & Carey, railroad contractors, and they eventually received the contract. In this connection I might say that neither myself nor any of my associates have any interest whatever in that company.

Senator COUZENS. That is not the same company that Mr. Dillon's family got 45 percent interest in?

Mr. HAYWARD. No; that company, by this time, I believe, had been liquidated.

Mr. PECORA. And was succeeded by the firm of Kennedy & Carey?

Mr. HAYWARD. They had nothing to do whatever with each other. There was no connection. It was an entirely different business.

Mr. PECORA. Well, the Kennedy——

Mr. HAYWARD (interposing). Kennedy was the same man.

Mr. PECORA. Of the firm of Kennedy & Carey was the same Kennedy that was associated with Leonard Kennedy in New York?

Mr. HAYWARD. He was the same individual. That was the only connection.

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Senator COUZENS. Did this gentleman negotiate with any other banking house except yours when he was here?

Mr. PECORA. This Mr. Vargas you mean?

Senator COUZENS. Yes.

Mr. HAYWARD. Senator, you can see that this study we made of Bolivia lasted over a long period. We did not want to go into the thing unless we had some assurance that the Bolivian Government was serious and that they would pursue the discussions to a conclusion, so that at the very outset I asked Mr. Vargas to give me his agreement that he would not actively solicit bids; that we would not be asked to enter into a competition for this issue, and I am under the impression that he lived up to that agreement very loyally.

Mr. PECORA. What was the price at which Dillon, Read & Co. subscribed for those bonds?

The CHAIRMAN. With respect to the 7-percent bonds, when were they to mature?

Mr. HAYWARD. The 7-percent bonds?

Mr. PECORA. July 1, 1958.

The CHAIRMAN. Thirty-one years.

Mr. PECORA. Thirty-one and a half years.

Mr. HAYWARD. The price was $12,618,000 plus interest, which is approximately 90.05.

Mr. PECORA. At what price were they offered and sold to the investing public in America?

Mr. HAYWARD. Ninety-eight and one half.

Mr. PECORA. There was a spread there, then, of very nearly eight and a half points.

Mr. HAYWARD. That is correct.

Senator COUZENS. Is that in default?

Mr. HAYWARD. Yes, it is, Senator.

Senator COUZENS. Was the railroad ever built?

Mr. HAYWARD. They built the portion for which this money was borrowed.

Senator COUZENS. Did Kennedy & Carey build it?

Mr. HAYWARD. Yes, they built it.

Senator COUZENS. Was it on a competitive basis, or did they get a cost-plus contract?

Mr. HAYWARD. It was on a competitive basis, but whether it was a cost-plus contract, I do not recall.

Mr. PECORA. Were not Kennedy & Carey named in the loan contract as the people to whom the contract for the building of the road was to be given?

Mr. HAYWARD. No, they were not.

Mr. PECORA. Are you sure of that?

Mr. HAYWARD. Quite sure. I know there were preliminary discussions, which you may have in mind, in which we suggested that they should be named, but when the contract was finally signed they were not so designated. It was left open to negotiation with the Government. In other words, it seemed desirable, after considering the thing from every point of view, to have the matter of the loan and the matter of the railroad distinct transactions.

Mr. PECORA. What was the total profit, after deducting expenses of the syndicate, other than overhead and taxes, that accrued from this flotation to the bankers and their participants?

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Mr. HAYWARD. I will get that in a moment. (After conferring with an associate.) I have that figure, Mr. Pecora. The gross, which we have been designating here as gross, for all groups, was $1,030,903.20.

Mr. PECORA. How much of that amount went to Dillon, Read & Co. as its share of all these profits?

Mr. HAYWARD. The so-called gross profit to Dillon, Read & Co.?

Mr. PECORA. Yes.

Mr. HAYWARD. $573,360.33.

Mr. PECORA. Isn't it $575,480.89?

Mr. HAYWARD. I think not.

Mr. PECORA. While they are looking that up, I will ask you this question. Was there a so-called "finder's commission" paid to anybody in connection with this issue?

Mr. HAYWARD. My recollection is that the American engineer who originally brought Mr, Grether in to me received a commission of $10,000.

Mr. PECORA. Was there a commission of $70,000 paid as a finder's commission to Leonard Kennedy?

Mr. HAYWARD. Yes; it was.

Mr. PECORA. For what?

Mr. HAYWARD. For his technical services over a period of 3 years, in working on this situation; the advice of his company on engineering problems connected with keeping the thing alive.

Mr. PECORA. Was that a finder's commission?

Mr. HAYWARD. Perhaps I erred a bit in calling that a finder's commission. It was a payment, really, for services rendered.

Mr. PECORA. You brought him into the picture in your preliminary conferences with Vargas, didn't you?

Mr. HAYWARD. I saddled him, however, with 3 years of work, and for that we felt he should be compensated, and we paid him that out of our part of the profits.

Mr. PECORA. Perhaps the saddling was eased a little by the contract he got from the Bolivian Government as a result of this loan—for the construction of the railroad, was it?

Mr. HAYWARD. I know nothing about the finances of Kennedy & Carey, or the profits they made on this enterprise, but my opinion is that it was not a very profitable job.

Mr. PECORA. Mr. Hayward, you did not really need the services of Kennedy, did you, to negotiate this loan agreement with the Bolivian Government?

Mr. HAYWARD. He was extremely helpful.

Mr. PECORA. You could have gotten along without him, could you not?

Mr. HAYWARD. He had a technical knowledge which I did not have. He maintained contact through the engineering employees of the Bolivian Government. His organization made extensive studies of this proposed railroad, all of which was available to us in reaching a decision as to whether or not the enterprise was one which we felt should be gone ahead with.

Mr. PECORA. Was not that equally valuable to the Bolivian Government, as to whether or not this railroad should be constructed?

Mr. HAYWARD. Oh, yes.

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Mr. PECORA. Did the Bolivian Government pay him a fee or commission of any kind for that assistance?

Mr. HAYWARD. That I would not know. I never heard of any such commission.

Mr. PECORA. Was not this $70,000 paid to him for services actually rendered in obtaining this business and in consummating the negotiations which led to this issue?

Mr. HAYWARD. It was more of a technical nature, as I told you, strictly on the railroad side of it.

Mr. PECORA. For engineering advice on railroad construction?

Mr. HAYWARD. Engineering advice, and keeping in contact with this man who was coming to New York. This was, as I say, paid out of our own pockets.

Mr. PECORA. Was it paid out of your own pockets exclusively?

Mr. HAYWARD. Yes; it was entirely charged against our profit.

Senator ADAMS. Mr. Pecora, is there ever such a thing as a "loser's" commission?

Mr. PECORA. By the way, what is the market value of these Bolivian bonds at the present time?

Mr. HAYWARD. That is around 7.

Mr. PECORA. That is even less than the spread your firm got in 1927.

Mr. HAYWARD. I have not figured that out.

Mr. PECORA. You said your spread was about 8½ points.

Mr. HAYWARD. Oh, yes; that is right.

Senator COUZENS. Who got the other $10,000?

Mr. PECORA. Some other engineer.

Mr. HAYWARD. An American engineer in New York who knew this German and brought him in to us.

Senator COUZENS. What was his name?

Mr. HAYWARD. His name was Reynders.

Senator COUZENS. What did he do for his $10,000?

Mr. HAYWARD. He was the finder.

The CHAIRMAN. How much of the road was built?

Mr. HAYWARD. The plan is to build the road in sections, Senator, and the total estimated cost, as I recall it, at that time would come to around $28,000,000. They spent $6,000,000 or $7,000,000, I think, so that it would be the first portion.

The CHAIRMAN. Do you know how many miles that was?

Mr. HAYWARD. I do not recall offhand just how many miles it was.

Senator COUZENS. Is it operating?

Mr. HAYWARD. It has been operated; yes.

Senator COUZENS. What was done with the balance of the money? They spent $6,000,000 or $7,000,000 on that. What did they do with the rest of the $12,000,000 they got?

Mr. HAYWARD. It was mostly for railroad construction. That has been the great necessity of Bolivia.

Mr. PECORA. Prior to the flotation of this $14,000,000 by you in January and February 1927, had other American banking interests floated bonds issued by the Republic of Bolivia?

Mr. HAYWARD. Yes; on several different occasions.

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Mr. PECORA. Do you recall one occasion in 1922, when the Equitable Trust Co. purchased $33,000,000 of Bolivian 8-percent bonds, of which $29,000,000 were issued?

Mr. HAYWARD. Yes. Those bonds were listed on the Stock Exchange at the time of our issue, and my recollection is they were then selling at a price of about 105.

Mr. PECORA. After the issuance of the $14,000,000 of bonds in February 1927 by your firm, did any question arise between yourselves and the Equitable Trust Co. concerning the application or allocation of certain revenues which the Equitable Trust Co. claimed had been pledged under its prior issue of 1922, and which had also been pledged as security for your issue of 1927?

Mr. HAYWARD. My understanding is that that is not correct, Mr. Pecora, that there was no overlapping of pledges. The matter——

Mr. PECORA. Yes; but did not the question arise as to whether or not there was?

Mr. HAYWARD. Oh, yes.

Mr. PECORA. That is all I asked, whether such question had arisen.

Mr. HAYWARD. Yes.

Mr. PECORA. Tell the committee about that.

Mr. HAYWARD. My recollection is that the issue of this loan raised the question as to whether there had been some duplication of pledges. There were a great many taxes pledged. It required a prolonged study of Bolivian law to work it out. We had on several occasions altered the list of taxes to be pledged and had discussed the matter on several occasions with the State Department, who were interested in the situation. During my absence in Russia and China, I think it was, the question was brought up by the Equitable Trust Co. It was discussed with them by some of our associates, and it was suggested that counsel for the Equitable discuss the matter with our counsel, and my understanding is that that discussion took place and the matter was thereupon dropped.

Mr. PECORA. Dropped as between yourselves and the Equitable Trust Co.?

Mr. HAYWARD. Yes.

Mr. PECORA. When was it dropped?

Mr. HAYWARD. I do not recall the exact date, but we never heard from them again on the subject.

The CHAIRMAN. How many bonds did they have?

Mr. PECORA. $29,000,000.

Mr. HAYWARD. They issued $29,000,000 in 1922, out of a total authorized loan of $33,000,000. The last $4,000,000 were canceled and never brought out.

Mr. PECORA. The Equitable Trust Co. did not drop that controversy until long after these bonds were brought out by your firm in the early part of 1927, did it?

Mr. HAYWARD. It was some time after. I do not remember just how long.

Mr. PECORA. It was pretty nearly 2 years after that they were continuing the controversy with you, was it not?

Mr. HAYWARD. I think that was another loan. That was in connection with the 1928 loan, the $23,000,000 loan of 1928.

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Mr. PECORA. I am going to come to that.

Mr. HAYWARD. Yes.

Mr. PECORA. The same question arose then?

Mr. HAYWARD. It was the same general question.

Mr. PECORA. As had arisen with respect to the $14,000,000 issue of the early part of 1927?

Mr. HAYWARD. It was the same general question, the straightening out of which, I believe, was finally accomplished. The Equitable dropped the matter.

Mr. PECORA. Now, when the information was compiled which was embodied in the circular or advertisement accompanying the offering of these bonds to the public in the early part of 1927, who prepared the circular and advertisement?

Mr. HAYWARD. To the best of my recollection, we followed the usual procedure. The commissions who had come to New York brought a vast amount of material which they furnished us with. We asked them for items which we wanted in addition, and when the material was all available and at hand, that was cast into a suitable form, and I think we, in this case, cabled the entire prospectus verbatim to Bolivia, with the request that the Finance Minister check it, and if it was correct, that he sign it. In order to avoid, as I recall, any errors in transmission, the State Department very kindly transmitted the thing to us through the American Legation in LaPaz.

Mr. PECORA. Did the firm of Easley & Inslee have anything to do with your firm in connection with this matter?

Mr. HAYWARD. We employed the firm of Easley & Inslee, because one of their partners, Mr. Inslee, was in Bolivia. He had mining interests there, and he was familiar with the country, and he was helpful in concluding the physical details at the end of the loan.

The CHAIRMAN. Did they agree to keep a deposit with you for sinking fund or other purposes?

Mr. HAYWARD. The regular agreement, Senator, every 6 months; and that was carried out until the crisis came in Bolivia in 1931.

Mr. PECORA. I show you what purports to be a photostatic reproduction of an advertisement published in the New York Times February 2, 1927, referring to this issue. Will you look at it and tell us if it is a true and correct copy of such an advertisement which your firm caused to be published?

Mr. HAYWARD. That is correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be received.

(The document referred to, advertisement, New York Times, Feb. 2, 1927, Dillon, Read & Co., was received in evidence, marked "Committee's Exhibit No. 35", see p. 2050.)

Mr. PECORA. I also show you a photostatic reproduction of a document. Kindly look at it and tell us if it is a true and correct copy of a circular or prospectus that your firm caused to be issued offering this issue to the public.

Mr. HAYWARD. That is correct.

Mr. PECORA. The text of the two documents is the same, so that prospectus need not be spread on the record.

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I notice, Mr. Hayward, that the following note appears at the foot both of the advertisement, which has been marked "Committee's Exhibit No. 35", and of the prospectus, which you have identified. The description I refer to reads as follows:

Statements above are in no event to be construed as representations by us, and have been received by us partly by cable.

Mr. HAYWARD. I see that; yes.

Mr. PECORA. That note appears to differ from notations placed at the end of other advertisements or prospectuses published by your firm in connection with other South American issues. What is the reason for the difference?

Mr. HAYWARD. The first reason that would occur to me as possible would be this, that the loans you have heretofore examined—in those cases we had as counsel the firm of McAdoo, Cotton & Franklin, now Cotton, Franklin, Wright & Gordon. In this case we had as counsel the firm of Root, Clark, Howland & Ballantine. It is probable that the difference in wording is simply due to every lawyer's delight in being original.

Mr. PECORA. Or is it due to the desire of your later counsel to afford your firm the greatest possible measure of protection against any misstatement?

Mr. HAYWARD. I do not see any difference, in substance, between that——

Mr. PECORA. Even of an unintentional character.

Mr. HAYWARD. I do not see any great difference, offhand. I have not studied the two by comparison. I do not see any great difference between them. We always use every possible effort to get accurate information.

Mr. PECORA. From what sources did you receive by cable any of the representations or information set forth in that circular or advertisement?

Mr. HAYWARD. It would be difficult for me to say, Mr. Pecora. I do not write circulars. I am informed that some of this information was obtained from what is called the permanent fiscal commission in Bolivia. That was a rather interesting institution, which was set up under the trust indenture covering the loan of 1922, which required the presence, during the life of those bonds, in Bolivia of a commission of three men, I think, two of whom were to be appointed by the American bankers, the Equitable and their associates, and who acted as a sort of general auditing department of the Treasury. I believe that some of the information, some of the figures, may have been obtained by cable from them. They issue annual printed reports, but those, of course, might be out of date, and the cable might be necessary.

Mr. PECORA. Was it not customary, at the time and prior to the time that this offering was made, for the underwriting bankers to embody, either in the advertisement or in a circular—and sometimes in both—the text of any official advices or information received by them concerning the issue from the representatives of the issuing government?

Mr. HAYWARD. In this particular case, I see on the circular:

The following information has been furnished us by His Excellency Zacharias Benavides, Minister of Finance of the Republic of Bolivia.

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In other words, this represents a statement signed by the Finance Minister containing that information.

Mr. PECORA. As a matter of fact, was not the substance of this information first embodied in a cable sent by Dillon, Read & Co. to its representatives in LaPaz, Bolivia, namely, Easley & Inslee, with the request that it be submitted to the Minister of Finance, and with the further request that they endeavor to have the Minister of Finance sign that statement and cable back the entire text to you?

Mr. HAYWARD. The cable requests our representative to have the statements verified by the Minister, after which they should be signed and returned to us. It is the usual practice, which I described a short time ago in the preparation of all foreign circulars.

The CHAIRMAN. Was this statement quite accurate: "The Bolivian Government has met all obligations appertaining to the public debt in the last half century"?

Mr. HAYWARD. I am informed that is correct. We never found anything to the contrary. The Bolivians were very careful in meeting their obligations, and I know of no case in which they defaulted until 1931.

Mr. PECORA. The cable you sent to Easley & Inslee, down in LaPaz, Bolivia, was dated January 28, 1927, was it not?

Mr. HAYWARD. That is correct.

Mr. PECORA. It contains the following opening statement:

As basis for circular public offering bonds we require letter signed by Finance Minister addressed to us in form below. Please arrange with Minister to sign if possible tomorrow cabling back entire text to us our expense.

Mr. HAYWARD. That is correct.

Mr. PECORA. Did you say that was the usual custom?

Mr. HAYWARD. Oh, I think so, in foreign loans. The circular must be written in the English language. It must be written in a form suitable to this market. It would be impossible to have a prospectus which had been actually written and composed by a citizen of another country who did not use our language and was not accustomed to our methods of practice. I am afraid that if we did that, we would have nothing but patriotic orations.

Mr. PECORA. So, you first got the information——

Mr. HAYWARD. From the representatives of the Government in New York.

Mr. PECORA. From the representatives and other sources available to you; and then prepared a statement to be embodied in the prospectus, and had that cabled for submission to the Finance Minister, with the request that the Finance Minister approve the same in the textual form in which it was prepared by your firm.

Mr. HAYWARD. After he had verified the accuracy of the statements, of course.

Mr. PECORA. Assuming, of course, that he verified the statements?

Mr. HAYWARD. Yes.

Mr. PECORA. That was the practice you referred to as being the usual one?

Mr. HAYWARD. That is correct.

Mr. PECORA. When you say it was usual, do you mean it was the usual practice for your firm, or the common practice generally?

Mr. HAYWARD. I think it is very frequently done by all banking houses; not in every instance, of course.

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Mr. PECORA. Did you receive a reply to this cable of January 28, 1927, from Easley & Inslee?

Mr. HAYWARD. I am informed, Mr. Pecora, that the Minister made a few minor changes, then it was cabled back to us, and we, in due course, received a letter which contained the statement as a whole.

Mr. PECORA. Now, did you receive a cable reply from Easley & Inslee to this cable of January 28, 1927?

Mr. HAYWARD. I will see if we have it here.

Mr. PECORA. See if you received one under date of January 28, 1927.

Mr. HAYWARD. Have you such a cable, Mr. Pecora? It might save time if I looked at it.

(Mr. Pecora hands a paper to the witness.)

Mr. HAYWARD. Yes; I remember that cable.

Mr. PECORA. Will you read the cable which you received in reply from Easley & Inslee on the same date, namely, January 28, 1927?

Mr. HAYWARD. This is a cable dated January 28, 1927, addressed to Dillon, Read & Co., sent by Easley & Inslee, LaPaz, Bolivia:

Letter will be signed. Minister has requested me to express to you strong desire Government contract should be signed as quickly as possible, preferably by tomorrow. States possibility of cabinet changes makes desirable for Government. Request you collaborate.

INSLEE.

Mr. PECORA. Do you know what the occasion was for speeding up this negotiation?

Mr. HAYWARD. I know nothing more, so far as I recall, than just what this cable says there. Apparently there was some possibility of Cabinet changes and they wanted the matter concluded before some other officer came in. I have never heard that such changes took place.

Mr. PECORA. Was there a fear that Cabinet changes were imminent at that date which if made would have disturbed the negotiations for this loan that had already been practically concluded?

Mr. HAYWARD. I should think that would be indicated by this cable. These gentlemen had been working on the thing for a great many months, and I believe there is nothing more to this than the fact that they wanted to get it through and done before there were other personalities coming into office.

Mr. PECORA. When you received in reply to your cable to Easley & Inslee of January 28, 1927, from the Finance Minister a cable embodying the text or substantially the text of the information that you put in your prospectus offering this issue, did the Finance Minister by any chance tell you that at that time there was outstanding an obligation incurred by his Government the preceding year in favor of Armstrong & Vickers, Ltd., of London, England, for the purchase of war supplies?

Mr. HAYWARD. No. That matter was never mentioned.

Mr. PECORA. And at the time that you had the negotiations for this $14,000,000 issue did you know of the existence of that obligation?

Mr. HAYWARD. My best information is that that obligation did not then exist. It became effective on the 1st of April, 1927, which would have been several months after this loan was brought out.

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Mr. PECORA. Was not the obligation contracted for prior to January 1927?

Mr. HAYWARD. I understand not, Mr. Pecora. It was in the situation then of perhaps a memorandum contract. I have never seen it. I do not know what it was. But the agreement with Vickers was ratified, and therefore became an obligation of Bolivia, according to our information, on the 1st of April, 1927. Therefore they could not have mentioned it at that time as an obligation, because I believe it did not then constitute one.

I can show you, Mr. Pecora, the Fifth Annual Report of the Permanent Fiscal Commission; that is the Permanent Fiscal Commission headed by an American appointed by the Equitable Trust Co., dated November 10, 1928, in which he gives a table of the outstanding funded obligations of the Bolivian Government. In that the Vickers contract is listed and the date of the law of authorization is stated correctly, I understand it to be, the 1st of April, 1927.

Mr. PECORA. Let me refer you on that point, Mr. Hayward, to a letter received by your firm dated June 27, 1928, signed by J. A. Arguido, A-r-g-u-i-d-o——

Mr. HAYWARD. d-a-s.

Mr. PECORA. Arguidas?

Mr. HAYWARD. Yes.

Mr. PECORA. Signed by J. A. Arguidas, Financial Commissioner of the Republic of Bolivia, in which in reply to a certain question propounded to him by your firm in a cable dated June 27, 1928, concerning this so-called "Armstrong-Vickers contract", he said among other things, as follows:

> It is a loan contract executed October 9, 1926, and ratified by a supplementary contract signed in London on April 1, 1927.

Does not that indicate that this Armstrong-Vickers obligation had first been incurred under a contract executed in October 1926, which was prior to the conclusion of your negotiations for this $14,000,000 loan?

Mr. HAYWARD. I understand not, Mr. Pecora. This contract with Vickers was for the purchase of miscellaneous equipment for the Army. It was expressed in Bolivia to be for strengthening the home defense forces. The Vickers Co. had for some time been negotiating with the Bolivian authorities, and unquestionably some sort of memorandum or tentative contract was entered into in 1926. But as I understand it, before that became law and became an obligation of the Bolivian Government it had to be ratified by the Cabinet. That agreement was to be specifically secured by the pledge of certain taxes, and some of those taxes even did not come into existence and were not created by Bolivian law until February 1927.

The CHAIRMAN. What was the amount of that Armstrong contract?

Mr. HAYWARD. The original amount, Senator, was in the neighborhood of 1,900,000 pounds. It did not enter into these discussions, but it did come up in connection with the loan of Bolivia the following year.

Mr. PECORA. That is the $23,000,000 loan?

Mr. HAYWARD. Yes. At that time, as will be subsequently developed, I have no doubt, a settlement was made with Vickers, pro-

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viding for a substantial reduction in the amount of this material to be delivered, and a reduction in the price in consideration for a cash payment, so that the bond of the Bolivian Government which Vickers had was retired and canceled out of the proceeds of the 1928 loan. And that effected a saving to Bolivia of some three million dollars. About three million dollars.

The CHAIRMAN. Was Bolivia at war with Paraguay then?

Mr. HAYWARD. No; the hostilities with Paraguay did not break out, I believe, until 1932. That was a long time after that. I understand this had nothing whatever to do with that situation.

Mr. PECORA. I will go into certain features of the $23,000,000 loan subsequently. But I think that will conclude the examination of the witness with regard to this $14,000,000 issue, Mr. Chairman.

The CHAIRMAN. The committee stands adjourned until 10 o'clock tomorrow morning.

(Thereupon, at 4:10 p.m., Thursday, Oct. 12, 1933, an adjournment was taken until 10 a.m. the next day, Friday, Oct. 13, 1933.)

COMMITTEE EXHIBIT NO. 26, OCTOBER 12, 1933, UNITED STATES OF BRAZIL WITH DILLON, READ & CO.

CONTRACT, MAY 27, 1921

Contract, dated as of May 27, 1921, made by United States of Brazil, hereinafter termed the "obligor", acting by His Excellency A. de Alencar, its Ambassador to the United States, thereunto duly empowered, and Dillon, Read & Co., a copartnership of the city of New York, State of New York, United States of America, hereinafter sometimes termed the "bankers."

ARTICLE I

The obligor covenants with the bankers as follows:

SECTION 1. The obligor will issue its external gold loan bonds bearing interest at the rate of 8 percent per annum (hereinafter termed, collectively, the "bonds"), for the aggregate principal amount of $25,000,000, all dated June 1, 1921, and payable on June 1, 1941, in which bonds the obligor will covenant to pay the principal and the interest on said principal sum and the sinking fund payments herein provided, in the city of New York, State of New York, United States of America, in gold coin of the United States of the standard existing June 1, 1921, without deduction for any tax or taxes now or at any time hereafter imposed by the obligor or by any taxing authority thereof or therein. The bonds shall be substantially in the form set forth in schedule A hereto attached, and shall be signed in behalf of the obligor and be countersigned by Central Union Trust Co. of New York (or its successor designated for the purpose by the bankers) as in said schedule A attached.

SEC. 2. The bonds shall bear interest at the rate aforesaid from the date thereof until the principal sum thereof shall have been paid, or until they shall be purchased by the sinking fund herein provided. Such interest shall be payable semiannually on the 1st day of December and the 1st day of June in each year. For the collection of such interest the bonds shall have attached coupons substantially in the form set forth in said schedule A.

SEC. 3. The bonds shall be issuable in the denominations of $1,000 and $500 and the text thereof shall be in the English language, and if so requested by the bankers, shall be printed from engraved plates in a manner conforming to the requirements of the New York Stock Exchange for quotation; but until such time as such bonds in definitive form shall have been prepared for delivery, one or more temporary or provisional bonds for the aggregate principal amount of $25,000,000 without coupons shall be issued. The obligor will deliver in the said city of New York definitive bonds in exchange for the temporary bonds, without charge or expense to the bankers or other persons entitled to receive the definitive bonds. The obligor hereby designates Central Union Trust Co.

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of New York, in the Borough of Manhattan, New York City, as registrar of the bonds; and so long as any of the bonds are outstanding the obligor will register, or cause to be registered by said registrar (or a successor duly appointed by the bankers for such purpose) as to principal, but as to principal only, any of the bonds upon presentation for such purpose, pursuant to such reasonable regulation as the bankers may prescribe.

Such registration shall be noted on the bonds by the registrar so appointed, after which registration and notation thereof on the bond no transfer shall be valid unless made at the office of said registrar by the registered holder in person, or by his attorney, duly authorized, and similarly noted on the bonds; but the same may be discharged from registry by being in like manner transferred to bearer, after which it shall again be transferable by delivery. Successive registrations and transfers may be made from time to time as desired. Such registration shall not affect the negotiability of the coupons belonging to any bond, but every such coupon shall continue to pass by delivery and shall remain payable to bearer as therein provided. The bonds of the several denominations shall be interchangeable. Upon surrender by the holders at said registry office of bonds of one or more denominations, with all unmatured coupons thereto attached, with the request that there be issued in exchange therefore bonds of the same aggregate principal amount but of other denominations, the obligor will effect such exchange. In case of any exchange of bonds, the obligor may, with the approval of the bankers, make a reasonable charge for the bonds issued in exchange for outstanding bonds and for the expense of such service. No charge, however, shall be made for any exchange of temporary bonds for definitive bonds.

The bonds and coupons and all payments thereon shall be exempt from any and all taxes, imposts, stamp dues and assessments, now or at any time hereafter imposed or levied by the obligor or by any taxing authority thereof or therein.

In case of loss or destruction of any bond, or coupon, a duplicate will be issued upon proof of such loss or destruction and upon receipt by the obligor of proper indemnity.

SEC. 4. Without intending to limit or lessen the obligations assumed by the obligor under the bonds or elsewhere under this contract, the obligor covenants and agrees that its obligations hereunder and under the bonds together with its obligations under an additional amount of bonds to be issued by the obligor herein described (such additional amount not exceeding $25,000,000 face amount) shall at all times be and constitute a special and first charge on the revenues received by the obligor from the consumption tax (consumo) and stamp tax (sello) as now existing or as in the future the same may exist levied by the obligor or with its authority, and covenants and agrees that all the proceeds of said consumo and sello and all taxes and exactions levied in substitution therefor or amendment thereof shall, so long as the obligor shall not have fulfilled all its obligations then due hereunder and under said additional bonds and under the contract under which the same are to be issued, be specially set apart and used for the fulfillment of the obligations of the obligor hereunder and under said additional bonds and said contract (pro rata and without discrimination as to any of the bonds issued hereunder and said additional bonds) shall not be used for or devoted to any other purpose.

The obligor further covenants and agrees that in like manner the obligations hereunder and under the bonds issued hereunder and under said additional bonds and said contract shall be a special charge on all customs duties and customs taxes now or hereafter levied or received by the obligor (not subject and subsidiary to all the charges now existing) and that the proceeds thereof shall in like manner be especially set apart and used for the fullfillment of the obligations of the obligor then due hereunder and under said additional bonds and said contract (pro rata and without discrimination as to any of the bonds, issued hereunder and said additional bonds) and shall not be devoted or used for any other purposes.

SEC. 5. The bankers shall have exclusive authority to issue the bonds through a syndicate which they have formed or may form for such purpose. The obligor hereby ratifies and approves the syndication and disposal thereof heretofore accomplished by the bankers. On such date not later than June 6, 1921, as the bankers shall designate, the obligor will deliver to the bankers in the city of New York temporary or provisional bonds in such denominations as the bankers shall request, dated June 1, 1921, and bearing interest from June 1, 1921, for the aggregate principal amount of $25,000,000, and there-

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upon the bankers will make payment therefor as provided in article III, section 2, of this contract.

SEC. 6. Pending the delivery of the definitive bonds, the bankers may deliver to subscribers for or purchasers of the bonds a receipt or other writing in their name, evidencing the right of the holder to receive an amount of such bonds specified in such receipt or writing.

SEC. 7. The obligor will deposit with the bankers at their office in the city of New York, at least 1 month in advance of the maturity respectively of the interest and sinking-fund installments payable on the bonds, funds sufficient to pay in United States gold coin the amount of such instalments.

ARTICLE II

The obligor further covenants with the bankers for the benefit of the holders, severally and respectively, of the bonds, as follows:

SECTION 1. The bonds are not, prior to maturity, subject to call or redemption either as to the whole amount or any part.

SEC. 2. So long as any of the bonds shall be outstanding, the obligor will pay to the bankers on or before the first day of November and the first day of May in each year, until and including the first day of May 1941 as a semi-annual sinking fund an amount which shall be equal to 105 percent of one fortieth of the aggregate principal amount of $25,000,000 plus an amount equal to 4 percent of said one fortieth. Each such payment shall constitute a sinking fund to be held and applied by the bankers as sinking-fund trustees in the purchase of bonds as in this article provided.

SEC. 3. All moneys received by the bankers by any such sinking-fund payments may be, from time to time, applied by the bankers to the purchase of bonds in the market at such price or prices, not exceeding 105 percent and accrued interest by private or public purchase without inviting or advertising for tenders of bonds. It is intended that the times, manner, and price of such purchases shall be determined by the bankers in their absolute discretion as they may, from time to time, deem for the best interest of the obligor. All bonds so purchased for the sinking-fund together with all unmatured coupons annexed thereto at the time of purchase shall be canceled by the bankers and delivered to the obligor and no bonds shall be issued in lieu thereof.

SEC. 4. If, 6 months from the date on which a sinking fund payment is due under section 2 of this article (or, if such payment is not made on or before the due date, then 6 months from the date it is made), such payment or any part thereof has not been applied to the purchase of the bonds, such payment or the unapplied part thereof shall revert to the obligor and be paid to the obligor. The bankers shall not, excepting on express instruction from the obligor, by the use of any single semiannual sinking-fund payment in their hands acquire more than one fortieth of the total face amount of bonds issued hereunder. In case they shall out of any such sinking fund payment have purchased such amount of bonds, to wit, one fortieth, the unused balance of such sinking-fund payment in their hand shall immediately be paid to the obligor (even if such 6 months shall not have expired).

SEC. 5. In case the obligor shall fail to make any sinking-fund payment as in this article provided, or any interest payment as provided in article I, when and as the same shall become payable under section 7 of article I, and such default shall continue for a period of 60 days, Dillon, Read & Co., as representative of the holders of the bonds, may declare to be forthwith due and payable by the obligor the principal sum of the bonds and the interest accrued to the date of such declaration, and thereupon such sums shall become and be forthwith due and payable by the obligor, and the obligor covenants to pay the same at the place for the payment of the bonds in the city of New York.

SEC. 6. Dillon, Read & Co. may act as the representative of the holders of the bonds in all matters arising under this contract. For this service they will receive no compensation from the obligor.

ARTICLE III

SECTION 1. The obligor agrees to sell to the bankers, and, subject to the conditions herein specified, the bankers agree to purchase from the obligor, the said $25,000,000 principal sum of bonds at the price of 90 percent of the principal sum thereof, plus accrued interest from the date of the bonds to date of payment therefor.

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SEC. 2. Upon delivery to the bankers as provided in article I of this contract of the temporary or provisional bonds for the aggregate sum of $25,000,000, the bankers will make payment therefor by crediting to the account of the obligor in New York City 90 percent of the principal amount, plus accrued interest from the date of the bonds to the date of such credit.

SEC. 3. The bankers have, with the authority of the obligor, offered the bonds for public subscription and sale and are hereby authorized to offer the bonds for public subscription at such times and in such amounts and at such prices as the bankers shall determine, except that such prices shall be over 95 percent of the principal amount plus the amount of any interest accrued from the date of the bonds to the date of payment of the subscription.

ARTICLE IV

SECTION 1. The obligor hereby authorizes the bankers in behalf of the obligor to make arrangements for the payment of the principal and interest at the places where such sums are payable. Accounts between the obligor and the bankers concerning such payments, and concerning the administration of the sinking fund and all other expenses and charges, will be kept by the bankers in the city of New York in terms of United States money; and such accounts, of which transcripts will be sent to the obligor, may at any time be inspected by duly authorized representatives of the obligor. The obligor will pay the cost and expense of engraving, printing, and delivering the bonds, both temporary and definitive, and the transmission and execution of the contract, and of the bonds and of the issue thereof, including the reasonable charges for countersignature of the bonds and the fees of legal counsel for the bankers in connection with this contract and the performance hereof and the issue and sale of bonds hereunder in the United States, and will reimburse the bankers for the cost of preparing and delivering any receipts deliverable by them to subscribers for the bonds pending the issue of definitive bonds.

All expenses not herein specified as being payable by the obligor will be paid by the bankers. The obligor further covenants that it will reimburse the bankers for any and all expenses incurred by them in the course of their proceedings as fiscal agents (including their expenses in administration of the sinking fund) and that it will pay them for their services as such a commission of 1 percent of the amount of all moneys disbursed by them for account of the obligor.

SEC. 2. The obligor also will indemnify and save harmless the bankers against and from any loss, cost, or expense which they may sustain by reason of any delay or default in the performance by the obligor of any of the agreements of the obligor herein set forth or which they may sustain by reason of their acting as agents or depositaries of the obligor in accordance with the terms of their agency or with instructions of the obligor.

SEC. 3. The bankers shall not be answerable for the default or misconduct of any agent or attorney appointed by them to carry out any of the provisions of this contract, if such agent or attorney shall have been selected with reasonable care and with the consent of the obligor. If the bankers shall be in doubt in any instance as to their rights or obligations or the rights of bondholders under this contract, they may advise with legal counsel selected by them, and anything done or suffered in good faith by the bankers in accordance with the opinion of such counsel shall be conclusive in their favor as against any claim or demand by the obligor in the premises.

SEC. 4. The obligor and the bankers may deem and treat the bearer of any bond which shall not at the time be registered as to principal as herein provided, and the bearer of any coupon for interest on any bond whether or not such bond shall be so registered, as the absolute owner of such bond or coupon, as the case may be, for the purpose of receiving payment thereof, and for all other purposes, and neither the obligor nor the bankers shall be affected by any notice to the contrary. The obligor and the bankers may deem and treat the person in whose name any bond shall be registered as to principal as aforesaid as the absolute owner thereof for the purpose of receiving payment of or on account of the principal thereof, and for all other purposes to receive payment of interest represented by outstanding coupons.

SEC. 5. The bankers may become the owners of any or all of the bonds, with the same rights as any other bondholders. All notices from the bankers to the obligor in connection with this contract, including the declaration under article II, section 5, may be given by written communication, or by cable, ad-

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dressed to the Minister of Finance, Rio de Janeiro, Brazil. All notices from the obligor to the bankers may similarly be given, addressed to Dillon, Read & Co., city of New York, United States of America.

SEC. 6. The obligor will comply with the reasonable requests of the bankers for such information concerning the United States of Brazil, its laws, revenues, etc., as reasonably may be deemed useful both in aid of the issue and sale of the bonds in the United States, and so that the bankers may continue to be informed as to such matters and as to the security pledged hereby for the bonds; and the obligor authorizes and instructs its representatives to sign in its name appropriate circulars in connection with the issue of the bonds.

SEC. 7. Whenever in the bonds or in this contract the term "United States gold coin" is used, it is intended to mean gold coin of the United States of America of the standard of weight and fineness existing at the date of the bonds.

SEC. 8. This contract shall bind and shall inure to the benefit of the copartnership of Dillon, Read & Co., as now organized, or as hereafter organized, and also any successor of the firm. The English text of this agreement shall govern in the interpretation of its terms.

Witnesses:

J. DE SOUSA-LEAO,
For United States of Brazil.
AS TO A. DE ALENCAR,
Ambassador to the United States.
ROBERT O. HAYWARD,
AS TO DILLON, READ & CO.
HOMERO BAPTISTA.

SCHEDULE A

(Form of $1,000 Definitive bond)

UNITED STATES OF BRAZIL 20-YEAR EXTERNAL GOLD LOAN 8-PERCENT BOND

United States of Brazil, hereinafter termed "The Obligor" for value received, promises to pay to bearer, or if this bond be registered as herein provided, to the registered holder hereof, on the 1st day of June, 1941, the principal sum of $1,000, and to pay interest on such principal sum at the rate of 8 percent per annum semiannually, on the 1st day of December and on the 1st day of June in each year, until such principal sum shall have been paid, but only upon presentation and surrender of the coupons for such interest hereto attached as they severally mature. Such principal sum and interest and the sinking-fund payments herein provided, will be paid in the city of New York, State of New York, United States of America, at the office of Dillon, Read & Co., in gold coin of the United States of America, of the standard of weight and fineness existing on June 1, 1921, without deduction for any taxes now, or at any time hereafter imposed by United States of Brazil, or by any taxing authority thereof or therein.

This bond is not subject to call or redemption prior to maturity.

In and by a contract dated as of May 27, 1921, made by the obligor with said Dillon, Read & Co., as bankers, pursuant to which contract this bond is issued as one of a series of like bonds of an aggregate principal amount of $25,000,000, the obligor covenants to pay to said Dillon, Read & Co., on or before the 1st day of November and on or before the 1st day of May in each year until and including the 1st day of May, 1941, as a semiannual sinking fund an amount which shall be equal to 105 percent of one fortieth of said aggregate principal amount of $25,000,000 plus an amount equal to 4 percent of said one fortieth. Each such payment shall constitute a sinking fund to be held and applied by said Dillon, Read & Co. as sinking fund trustees in the purchase of bonds of said series at prices which shall not exceed 105 percent and accrued interest in the manner and on the conditions and terms provided in said contract.

In the manner provided by said contract the obligor pledges the proceeds of certain taxes, including the consumption tax (consumo) and stamp tax (sello), for the pro rata benefit of said series of bonds presently issued under said contract to the aggregate face amount of $25,000,000 and also for pro rata benefit of a further additional amount of bonds of the obligor to an aggregate

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face amount of not to exceed $25,000,000 which may be hereafter issued as described in said contract.

Dillon, Read & Co. may act as the representative of the holder of this bond in all matters arising under the said contract. In case the obligor shall fail to make any interest or sinking fund payment when and as the same shall become payable, and such default shall continue for a period of 60 days, Dillon, Read & Co., as representative of the holders of the bonds, may declare to be forthwith due and payable the principal sum of the bonds and the interest accrued to the date of such declaration.

This bond shall pass by delivery, unless it is registered in the owner's name at the office of Central Union Trust Co. of New York or other registrar in the Borough of Manhattan, city of New York, appointed by Dillon, Read & Co. for the purpose, and such registration is noted hereon by such registrar. After such registration no transfer shall be valid unless made by the registered owner in person or by attorney, and similarly noted hereon by such registrar; but this bond may be discharged from registry and its transferability by delivery be restored by like transfer to bearer noted hereon, after which it may again from time to time be registered or made transferable to bearer as before. Such registration, however, shall not affect the negotiability of the coupons which shall continue to be transferable by delivery.

This bond shall not be valid for any purpose until countersigned by _____ or its successor duly appointed by Dillon, Read & Co., for such purpose.

Dated, _____, 1921.

UNITED STATES OF BRAZIL,

By _____ _____.

Countersigned:

_____

By _____ _____.

(Form of coupon)

No. _____ $40

On the _____ day of _____, 19__, United States of Brazil promises to pay to bearer, in the city of New York, State of New York, United States of America, at the office of Dillon, Read & Co., $40, gold coin of the United States of America, without deduction for Brazilian taxes, present or future, being 6 months' interest then due on United States of Brazil 20-year external gold loan 8 percent bond no. _____.

UNITED STATES OF BRAZIL,

By _____ _____.

GOVERNMENT EXHIBIT No. 27, OCTOBER 12, 1933

Agreement, dated as of May 27, 1921, made by United States of Brazil, hereinafter termed the obligor, acting by His Excellency A. de Alencar, its Ambassador to the United States, thereunto duly empowered, and Dillon, Read & Co., a copartnership of the city of New York, State of New York, United States of America, hereinafter termed the bankers.

SECTION 1. This agreement is a part of a main agreement between the same parties bearing the same date hereinafter termed the main agreement. The covenants and conditions contained in main agreement are the consideration for the covenants herein contained; and this agreement is governed by the terms and conditions in such main agreement provided.

SEC. 2. The obligor covenants that it will create and, at all times while any of the bonds issued under the said main agreement are outstanding, maintain with the bankers a deposit of not less than $500,000.

SEC. 3. Without intending to limit or lessen any of the obligations assumed by the obligor, the obligor hereby irrevocably authorizes the bankers to retain and apply, out of the payment to be made by them under article III, section 2, of the main agreement, and out of any other moneys which may be from time to time on deposit with the bankers to the credit of the obligor, an amount or amounts sufficient to fulfill any and all the obligations of the obligor with re-

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gard to the bonds and sinking-fund payments thereon and, in general, with regard to commissions, expenses, and all other charges, which become payable by the obligor to the bankers, when and as such obligations mature.

SEC. 4. Proceeds of the loan and moneys on deposit with Dillon, Read & Co., which the obligor is entitled to withdraw, will be subject to drafts payable at sight. Such moneys shall from time to time bear interest at a rate which shall not be less than the average current rate then generally allowed by responsible banks and trust companies in the city of New York on similar deposits.

SEC. 5. The bankers shall have an irrevocable option to purchase from the obligor an additional $25,000,000 principal amount of bonds to be issued on the same terms (including price) and secured by the same security as secures the issue of bonds described in the main agreement. Such option shall extend for 4 months from the date hereof, and may within that time be exercised by notice to the obligor which may be by cable or in writing. The bankers shall have exclusive authority to attempt to form a syndicate to issue and to market such additional bonds, and the obligor shall not until the expiration of such option issue or sell or offer for sale or market any issue of its bonds or obligations in the United States or any other country outside of Brazil. On such date, not later than 2 weeks from the notification of the exercise of the option, as the bankers shall request, the obligor and the bankers will execute an agreement so far as may be identical in substance and form with the main agreement and the obligor will make delivery of such bonds in the manner provided for in article I, section 5, of the main agreement against payment by the bankers therefor.

SEC. 6. The obligor hereby appoints the bankers its purchasing agents in the United States for all such part of the proceeds of the bonds issued under the main agreement (and such additional $25,000,000 of bonds therein described on which the bankers hold an option) so far as such proceeds are to be employed in the United States and covenants that it will pay the bankers for their services as such a commission of 2 percent of the amount of purchases made by them and will reimburse them for any and all expenses incurred by them in the course of such agency. This appointment as purchasing agent is not revocable so long as any of the bonds are outstanding. The obligor hereby appoints the bankers its fiscal agent for the purposes of the main agreement during the life of the loan created thereby. This appointment is not revocable so long as any of the bonds are outstanding.

SEC. 7. The obligor hereby appoints the bankers its general fiscal agents in the United States, but such appointment is revocable by the obligor at any time on 30 days' notice by cable or in writing.

UNITED STATES OF BRAZIL,
By A. DE ALENCAR,
Ambassador to the United States.

Witness:
J. DE SOUSA-LOAO.

DILLON, READ & CO.
HOMERO BAPTISTA.

Witness:
ROBERT O. HAYWARD.

COMMITTEE EXHIBIT NO. 28, OCTOBER 12, 1933, UNITED STATES OF BRAZIL WITH DILLON, READ & CO.

CONTRACT MAY 28, 1921

Contract, dated as of May 28, 1921, made by United States of Brazil, hereinafter termed the "obligor", acting by His Excellency A. de Alencar, its Ambassador to the United States, thereunto duly empowered, and Dillon, Read & Co., a copartnership of the city of New York, State of New York, United States of America, hereinafter sometimes termed the "Bankers."

Pursuant to a contract between the parties dated as of May 27, 1921, the obligor has caused to be issued and sold to the bankers its first series of external gold loan bonds to the principal amount of $25,000,000. That contract contemplated and made provision for the issue of and security for a second series of such bonds of a like aggregate principal amount. This contract makes provision for the issue of such second series.

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ARTICLE I

The obligor covenants with the bankers as follows:

SECTION 1. The obligor will issue its external gold loan bonds bearing interest at the rate of 8 percent per annum (hereinafter termed, collectively, the "bonds"), for the aggregate principal amount of $25,000,000, all dated June 1, 1921, and payable on June 1, 1941, in which bonds the obligor will covenant to pay the principal and the interest on said principal sum and the sinking fund payments herein provided in the City of New York, State of New York, United States of America, in gold coin of the United States of the standard existing June 1, 1921, without deduction for any tax or taxes now or at any time hereafter imposed by the obligor or by any taxing authority thereof or therein. The bonds shall be substantially in the form set forth in schedule A hereto attached, and shall be signed in behalf of the obligor and be countersigned by Central Union Trust Co. of New York (or its successor designated for the purpose by the bankers) as in said schedule A indicated.

SEC. 2. The bonds shall bear interest at the rate aforesaid from the date thereof until the principal sum thereof shall have been paid, or until they shall be purchased by the sinking fund herein provided. Such interest shall be payable semiannually on the 1st day of December and the 1st day of June in each year. For the collection of such interest the bonds will have attached coupons substantially in the form set forth in said schedule A.

SEC. 3. The bonds shall be issuable in the denominations of $1,000 and $500 and the text thereof shall be in the English language, and if so requested by the bankers, shall be printed from engraved plates in a manner conforming to the requirements of the New York Stock Exchange for quotation; but until such time as such bonds in definitive form shall have been prepared for delivery, one or more temporary or provisional bonds for the aggregate principal amount of $25,000,000 without coupons shall be issued. The obligor will deliver in the said city of New York definitive bonds in exchange for the temporary bonds, without charge or expense to the bankers or other persons entitled to receive the definitive bonds. The obligor hereby designates Central Union Trust Co. of New York, in the Borough of Manhattan, New York City, as registrar of the bonds; and so long as any of the bonds are outstanding the obligor will register, or cause to be registered by said registrar (or a successor duly appointed by the bankers for such purpose) as to principal, but as to principal only, any of the bonds upon presentation for such purpose pursuant to such reasonable regulation as the bankers may prescribe. Such registration shall be noted on the bonds by the registrar so appointed, after which registration and notation thereof on the bond no transfer shall be valid unless made at the office of said registrar by the registered holder in person, or by his attorney, duly authorized, and similarly noted on the bond; but the same may be discharged from registry by being in like manner transferred to bearer, after which it shall again be transferable by delivery.

Successive registrations and transfers may be made from time to time as desired. Such registration shall not affect the negotiability of the coupons belonging to any bond, but every such coupon shall continue to pass by delivery and shall remain payable to bearer as therein provided. The bonds of the several denominations shall be interchangeable. Upon surrender by the holder at said registry office of bonds of one or more denominations, with all unmatured coupons thereto attached, with the request that there be issued in exchange therefor bonds of the same aggregate principal amount but of other denominations, the obligor will effect such exchange. In case of any exchange of bonds, the obligor may, with the approval of the bankers, make a reasonable charge for the bonds issued in exchange for outstanding bonds and for the expense of such service. No charge, however, shall be made for any exchange of temporary bonds for definitive bonds.

The bonds and coupons and all payments thereon shall be exempt from any and all taxes, imposts, stamp dues and assessments, now or at any time hereafter imposed or levied by the obligor or by any taxing authority thereof or therein.

In case of loss or destruction of any bond or coupon, a duplicate will be issued upon proof of such loss or destruction and upon receipt by the obligor of proper indemnity.

SEC. 4. Without intending to limit or lessen the obligations assumed by the obligor under the bonds or elsewhere under this contract, the obligor covenants and agrees that its obligations hereunder and under the bonds (together with its obligations under the first series of bonds hereinbefore referred to issued by

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the obligor pursuant to said contract between the parties dated as of May 27, 1921, of an aggregate principal amount of $25,000,000, and under said contract pursuant to which such first series were issued) shall at all times be and constitute a special and first charge on the revenues received by the obligor from the Consumption Tax (Consumo) and Stamp Tac (Sello) as now existing or as in the future the same may exist levied by the obligor or with its authority, and covenants and agrees that all the proceeds of said Consumo and Sello and all taxes and exactions levied in substitution therefor or amendment thereof shall, so long as the obligor shall not have fulfilled all its obligations then due hereunder and under the bonds and in the said contract dated May 27, 1921, and the first series of bonds issued thereunder, be specially set apart and used for the fulfillment of all such obligations (pro rata and without discrimination as to any of the bonds issued hereunder and bonds of said first series) and shall not be used for or devoted to any other purpose. The obligor further covenants and agrees that in like manner the obligations hereunder and under the bonds issued hereunder and under said first series of bonds and said contract dated as of May 27, 1921, under which they were issued shall be a special charge on all customs duties and customs taxes now or hereafter levied or received by the obligor (but subject and subsidiary to all the charges now existing) and that the proceeds thereof shall in like manner be especially set apart and used for the fulfillment of all said obligations then due (pro rata and without discrimination as to any of the bonds issued hereunder and bonds of said first series) and shall not be devoted or used for any other purposes.

SEC. 5. The bankers shall have exclusive authority to issue the bonds through a syndicate which they have formed or may form for such purpose. The obligor hereby ratifies and approves the syndication and disposal thereof heretofore accomplished by the bankers. On such date, not later than September 20, 1921, as the bankers shall designate, the obligor will deliver to the bankers in the city of New York temporary or provisional bonds in such denominations as the bankers shall request, dated June 1, 1921, and bearing interest from June 1, 1921, for the aggregate principal amount of $25,000,000, and thereupon the bankers will make payment therefor as provided in article III, section 2, of this contract.

SEC. 6. Pending the delivery of the definitive bonds, the bankers may deliver to subscribers for or purchasers of the bonds a receipt or other writing in their name, evidencing the right of the holder to receive an amount of such bonds specified in such receipt or writing.

SEC. 7. The obligor will deposit with the bankers at their office in the city of New York, at least 1 month in advance of the maturity, respectively, of the interest and sinking fund installments payable on the bonds, funds sufficient to pay in United States gold coin the amount of such installments.

ARTICLE II

The obligor further covenants with the bankers for the benefit of the holders, severally and respectively, of the bonds, as follows:

SECTION 1. The bonds are not, prior to maturity, subject to call or redemption either as to the whole amount or any part.

SEC. 2. So long as any of the bonds shall be outstanding, the obligor will pay to the bankers on or before the first day of November and the first day of May, in each year, until and including the first day of May 1941, as a semi-annual sinking fund an amount which shall be equal to 105 percent of one fortieth of the aggregate principal amount of $25,000,000, plus an amount equal to 4 percent of said one fortieth. Each such payment shall constitute a sinking fund to be held and applied by the bankers as sinking fund trustees in the purchase of bonds as in this article provided.

SEC. 3. All moneys received by the bankers by any such sinking fund payment may be from time to time applied by the bankers to the purchase of bonds in the market at such price or prices, not exceeding 105 percent and accrued interest by private or public purchase without inviting or advertising for tenders of bonds. It is intended that the times, manner, and price of such purchases shall be determined by the bankers in their absolute discretion as they may from time to time deem for the best interest of the obligor. All bonds so purchased for the sinking fund together with all unmatured coupons annexed thereto at the time of purchase shall be canceled by the bankers and delivered to the obligor and no bonds shall be issued in lieu thereof.

SEC. 4. If, 6 months from the date on which a sinking fund payment is due under section 2 of this article (or, if such payment is not made on or before

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the due date, then 6 months from the date it is made), such payment or any part thereof has not been applied to the purchase of the bonds, such payment or the unapplied part thereof shall revert to the obligor. The bankers shall not, excepting on express instruction from the obligor, by the use of any single semiannual sinking-fund payment in their hands acquire more than one fortieth of the face value of bonds issued hereunder. In case they shall, out of any such sinking-fund payment, have purchased such amount of bonds, to wit, one fortieth, the unused balance of such sinking-fund payment in their hands shall immediately be paid to the obligor (even if such 6 months shall not have expired).

SEC. 5. In case the obligor shall fail to make any sinking-fund payment as in this article provided, or any interest payment as provided in article I, when and as the same shall become payable under section 7 of article 1, and such default shall continue for a period of 60 days, Dillon, Read & Co., as representative of the holders of the bonds, may declare to be forthwith due and payable by the obligor the principal sum of the bonds and the interest accrued to the date of such declaration, and thereupon such sums shall become and be forthwith due and payable by the obligor, and the obligor covenants to pay the same at the place for the payment of the bonds in the city of New York.

SEC. 6. Dillon, Read & Co. may act as the representative of the holders of the bonds in all matters arising under this contract. For this service they will receive no compensation from the obligor.

ARTICLE III

SECTION 1. The obligor agrees to sell to the bankers, and, subject to the conditions herein specified, the bankers agree to purchase from the obligor, the said $25,000,000 principal sum of bonds at the price of percent of the principal sum thereof, plus accrued interest from the date of the bonds to the date of payment therefor.

SEC. 2. Upon delivery to the bankers as provided in article I of this contract of the temporary or provisional bonds for the aggregate sum of $25,000,000, the bankers will make payment therefor by crediting to the account of the obligor in New York City percent of the principal amount, plus accrued interest from the date of the bonds to the date of such credit.

SEC. 3. The bankers have, with the authority of the obligor, offered the bonds for public subscription and sale and are hereby authorized to offer the bonds for public subscription at such times and in such amounts and at such prices as the bankers shall determine, except that such prices shall be over 95 percent of the principal amount plus the amount of any interest accrued from the date of the bonds to the date of payment of the subscription.

ARTICLE IV

SECTION 1. The obligor hereby authorizes the bankers in behalf of the obligor to make arrangements for the payment of the principal and interest at the places where such sums are payable. Accounts between the obligor and the bankers concerning such payments, and concerning the administration of the sinking fund, and all other expenses and charges, will be kept by the bankers in the city of New York in terms of United States money, and such accounts, of which transcripts will be sent to the obligor, may at any time be inspected by duly authorized representatives of the obligor. The obligor will pay the cost and expense of engraving, printing, and delivering the bonds, both temporary and difinitive, and the transmission and execution of the contract, and of the bonds and of the issue thereof, including the reasonable charges for countersignature of the bonds and the fees of legal counsel for the bankers in connection with this contract and the performance hereof and the issue and sale of bonds hereunder in the United States, and will reimburse the bankers for the cost of preparing and delivering any receipts deliverable by them to subscribers for the bonds pending the issue of definitive bonds. All expenses not herein specified as being payable by the obligor will be paid by the bankers. The obligor further covenants that it will reimburse the bankers for any and all expenses incurred by them in the course of their proceedings as fiscal agents (including their expenses in the administration of the sinking fund) and that it will pay them for their services as such a commission of 1 percent of the amount of all moneys disbursed by them for the account of the obligor.

SEC. 2. The obligor also will indemnify and save harmless the bankers against and from any loss, cost, or expense which they may sustain by reason

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of any delay or default in the performance by the obligor of any of the agreements of the obligor herein set forth or which they may sustain by reason of their acting as agents or depositaries of the obligor in accordance with the terms of their agency or with instructions of the obligor.

SEC. 3. The bankers shall not be answerable for the default or misconduct of any agent or attorney appointed by them to carry out any of the provisions of this contract, if such agent or attorney shall have been selected with reasonable care and with the consent of the obligor. If the bankers shall be in doubt in any instance as to their rights or obligations or the rights of bondholders under this contract, they may advise with legal counsel selected by them, and anything done or suffered in good faith by the bankers in accordance with the opinion of such counsel shall be conclusive in their favor as against any claim or demand by the obligor in the premises.

SEC. 4. The obligor and the bankers may deem and treat the bearer of any bond which shall not at the time be registered as to principal as herein provided, and the bearer of any coupon for interest on any bond whether or not such bond shall be so registered, as the absolute owner of such bond or coupon, as the case may be, for the purpose of receiving payment thereof, and for all other purposes, and neither the obligor nor the bankers shall be affected by any notice to the contrary. The obligor and the bankers may deem and treat the person in whose name any bond shall be registered as to principal as aforesaid as the absolute owner thereof for the purpose of receiving payment of or on account of the principal thereof, and for all other purposes except to receive payment of interest represented by outstanding coupons.

SEC. 5. The bankers may become the owners of any or all of the bonds, with the same rights as any other bondholders. All notices from the bankers to the obligor in connection with this contract, including the declaration under article II, section 5, may be given by written communication, or by cable, addressed to the Minister of Finance, Rio de Janeiro, Brazil. All notices from the obligor to the bankers may similarly be given, addressed to Dillon, Read & Co., city of New York, United States of America.

SEC. 6. The obligor will comply with the reasonable requests of the bankers for such information concerning the United States of Brazil, its laws, revenues, etc., as reasonably may be deemed useful both in aid of the issue and sale of the bonds in the United States, and so that the bankers may continue to be informed as to such matters and as to the security pledged hereby for the bonds; and the obligor authorizes and instructs its representatives to sign in its name appropriate circulars in connection with the issue of the bonds.

SEC. 7. Whenever in the bonds or in this contract the term "United States gold coin" is used, it is intended to mean gold coin of the United States of America of the standard of weight and fineness existing at the date of the bonds.

SEC. 8. This contract shall bind and shall enure to the benefit of the copartnership of Dillon, Read & Co., as now organized, or as hereafter organized, and also any successor of the firm. The English text of this agreement shall govern in the interpretation of its terms.

Witness:

J. De Sousa Leao,
For United States of Brazil.

A. de Alencar,
Ambassador to United States.

As to
J. P. Cotton.

As to
D. R. & Co.

SCHEDULE A

(Form of $1,000 Definitive Bond)

United States of Brazil 20-year External gold loan 8-percent bond

United States of Brazil, hereinafter termed "the obligor", for value received, promises to pay to bearer, or if this bond be registered as herein provided, to the registered holder hereof, on the 1st day of June 1941, the principal sum of $1,000, and to pay interest on such principal sum at the rate of 8 percent per annum semiannually, on the 1st day of December and on the 1st day of June in each year, until such principal sum shall have been paid, but only upon

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presentation and surrender of the coupons for such interest hereto attached as they severally mature.

Such principal sum and interest and the sinking-fund payments herein provided will be paid in the city of New York, State of New York, United States of America, at the office of Dillon, Read & Co., in gold coin of the United States of America, of the standard of weight and fineness existing on June 1, 1921, without deduction for any taxes now, or at any time hereafter, imposed by United States of Brazil, or by any taxing authority thereof or therein.

This bond is not subject to call or redemption prior to maturity.

In and by a contract dated as of May 28, 1921, made by the obligor with said Dillon, Read & Co., as bankers, pursuant to which contract this bond is issued as one of a series of like bonds of an aggregate principal amount of $25,000,000, the obligor covenants to pay to said Dillon, Read & Co., on or before the first day of November and on or before the first day of May in each year and including the first day of May 1941, as a semiannual sinking fund an amount which shall be equal to 105 percent of one fortieth of said aggregate principal amount of $25,000,000 (plus an amount equal to 4 percent of said one fortieth). Each such payment shall constitute a sinking fund to be held and applied by said Dillon, Read & Co. as sinking fund trustees in the purchase of bonds of said series at prices which shall not exceed 105 percent and accrued interest in the manner and on the conditions and terms provided in said contract.

In the manner provided by said contract the obligor pledges the proceeds of certain taxes, including the consumption tax (consumo) and stamp tax (sello), for the pro rata benefit of said series of bonds presently issued under said contract to the aggregate face amount of $25,000,000 and also for the pro rata benefit of another series of bonds of the obligor of even date herewith to an aggregate face amount of $25,000,000, which bonds are more fully described in said contract.

Dillon, Read & Co. may act as the representative of the holder of this bond in all matters arising under the said contract. In case the obligor shall fail to make any interest or sinking fund payment when and as the same shall become payable, and such default shall continue for a period of 60 days, Dillon, Read & Co., as representative of the holders of the bonds, may declare to be forthwith due and payable the principal sum of the bonds and the interest accrued to the date of such declaration.

This bond shall pass by delivery, unless it is registered in the owner's name at the office of Central Union Trust Co. of New York or other registrar in the Borough of Manhattan, city of New York, appointed by Dillon, Read & Co. for the purpose, and such registration is noted hereon by such registrar. After such registration no transfer shall be valid unless made by the registered owner in person or by attorney, and similarly noted hereon by such registrar; but this bond may be discharged from registry and its transferability by delivery be restored by like transfer to bearer noted hereon, after which it may again from time to time be registered or made transferable to bearer as before. Such registration, however, shall not affect the negotiability of the coupons, which shall continue to be transferable by delivery.

This bond shall not be valid for any purpose until countersigned by Central Union Trust Co. of New York or its successor duly appointed by Dillon, Read & Co. for such purpose.

Dated June 1, 1921.

UNITED STATES OF BRAZIL,
By ——— ———.

Countersigned:

CENTRAL UNION TRUST CO. OF NEW YORK,
By ——— ———.

———

(Form of coupon)

No. ------ $40

On the ------ day of ----------, 19--, United States of Brazil promises to pay to bearer, in the City of New York, State of New York, United States of America, at the office of Dillon, Read & Co., $40, gold coin of the United States of America, without deduction for Brazilian taxes present or future, being 6 months' interest then due on United States of Brazil 20-year external gold loan 8 percent bond number ------.

UNITED STATES OF BRAZIL,
By ——— ———

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COMMITTEE EXHIBIT NO. 29—OCTOBER 12, 1933

$25,000,000 United States of Brazil 20-year 8% (non-callable) External Gold Bonds, dated June 1, 1921. Due June 1, 1941. Interest payable June 1 and December 1

Principal and interest payable in New York City in United States gold coin at the office of Dillon, Read & Co., fiscal agents of Brazil in the United States. Coupon bonds of $1,000 and $500 denominations, registerable as to principal. Exempt from all Brazilian taxes, present or future.

THE BONDS ARE NOT CALLABLE IN WHOLE OR IN PART

As a sinking fund, the Brazilian Government agrees to provide a sum sufficient to buy $625,000 principal amount of bonds semiannually during the life of the loan, which payments will be applied by Dillon, Read & Co., to the purchase of bonds in the market at or below 105 and accrued interest. Any balance unexpended at the end of 6 months reverts to the Brazilian Government.

DIRECT LIEN ON GOVERNMENT TAXES

These bonds, when issued, will be a direct obligation of the United States of Brazil, and will be specifically secured by a first charge on the consumption tax (Consumo) and stamp tax (Sello), which yielded, at the average rate of exchange in 1920, approximately $58,963,000 last year, and according to present estimates will yield $60,000,000 in 1921; also by a second charge on the Government's receipts from customs' duties. The total receipts from all the above taxes in 1920 were $127,759,000, on part of which there was a prior charge amounting to $4,035,271. Receipts from the above taxes are pledged by the Government to secure a total issue of $50,000.000 bonds, of which the present offering is a part.

PURPOSE

The proceeds of this loan are to be employed in part for the purchase in the United States of materials required by the Government.

DEBT

On December 31, 1920, the national debt of Brazil, both external and internal (converted into dollars at par of exchange), was approximately 1 billion dollars, of which $565,000,000 was external. A large part of this debt was incurred for the construction of Government railways, steamships, and other revenue-producing undertakings. On the basis of the latest estimate of population, this represents a total indebtedness of about $33 per capita and carries an annual per capita charge of $1.85. This compares with the per capita debt of other nations as follows:

Denmark, $83.65; Switzerland, $92.71; Argentina, $111.90; United States, $227.83; Canada, $275.08; Australia, $324.29; Great Britain, $827.29; France, $1,107.95.

The present issue is the first offering of Brazilian Government bonds in the United States, previous Brazilian external loans having been issued in London and Paris.

REVENUE

The principal revenues of the Government are derived from duties on imports, consumption taxes, income taxes, and the revenue from national railways and steamship lines.

NATURAL WEALTH

The area of Brazil is 3,300,000 square miles, covering nearly half of South America. It is larger than continental United States, the United Kingdom, and France combined. Its population of approximately 30,000,000 represents half the total population of the South American continent. Brazil has vast natural wealth, and the increasing investment of foreign and local capital is rapidly bringing out the nation's resources. Brazil is said to contain the world's greatest reserves of timber and iron ore and has large deposits of other essential minerals. It produces 70 percent of the world's coffee and supplies some of the finest grades of rubber which cannot be grown in the East.

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FOREIGN TRADE

The volume of Brazil's foreign trade has increased rapidly and the balance in favor of exports increased from $52,000,000 in 1911 to $211,000,000 in 1919. Exports in 1920 were larger in volume than in any previous year, although the total value was less than in 1919 on account of the general fall in commodity prices. The United States is Brazil's best customer, supplying about 48 percent of her imports and taking about 42 percent of her exports. Coffee makes up approximately 50 percent of Brazil's exports at the present time, and of this the United States has been taking about one half in recent years. The Central European nations are now purchasing coffee in increasing quantity. Other important exports are rubber, cocoa, meat, tobacco, and sugar. The largest packing plant in South America has recently been completed in Brazil. Exports of meat, hides, and skins increased from $8,075,250 in 1913 to $73,000,000 in 1919.

We offer the above bonds for delivery when, as, and if issued and received by us, subject to the approval of legal proceedings by counsel.

Price, 97½ and interest; to net 8¼ percent.

DILLON, READ & CO.
BLAIR & CO., INC.
WHITE, WELD & CO.
UNION TRUST CO., PITTSBURGH.
ILLINOIS TRUST & SAVINGS BANK.
HALSEY, STUART & CO., INC.
CONTINENTAL & COMMERCIAL TRUST & SAVINGS BANK.
UNION TRUST CO., CLEVELAND.

The information contained in this circular has been obtained partly by cable, from official, and other sources. While not guaranteed, it is accepted by us as accurate.

MAY 1921.

COMMITTEE EXHIBIT NO. 30, OCTOBER 12, 1933

$25,000,000 United States of Brazil, 20-year 8 percent (non-allable) external gold bonds, dated June 1, 1921, due June 1, 1941, interest payable June 1 and December 1

Principal and interest payable in New York City in United States gold coin at the office of Dillion, Read & Co., fiscal agents of Brazil in the United States. Coupon bonds of $1,000 and $500 denominations, registerable as to principal. Exempt from all Brazilian taxes, present or future.

THE BONDS ARE NOT CALLABLE IN WHOLE OR IN PART

As a sinking fund, the Brazilian Government agrees to provide a sum sufficient to buy $625,000 principal amount of bonds semiannually during the life of the loan, which payments will be applied by Dillon, Read & Co. to the purchase of bonds in the market at or below 105 and accrued interest. Any balance unexpended at the end of 6 months reverts to the Brazilian Government.

DIRECT LIEN ON GOVERNMENT TAXES

These bonds are the remaining offering of a total of $50,000,000, of which $25,000,000 were sold in the United States in May 1921. They will be a direct obligation of the United States of Brazil and will be specifically secured by a first charge on the consumption tax (consumo) and stamp tax (sello), which yielded approximately $58,963,000 last year and according to estimates will yield $60,000,000 in 1921; also by a second charge on the Government's receipts from customs' duties. The total receipts from all the above taxes in 1920 were approximately $127,759,000, on part of which there was a prior charge amounting to $4,035,271. Receipts from the above taxes are pledged by the Government to secure the total of $50,000,000 20-year 8-percent gold bonds, due June 1, 1941, of which the present issue forms a part.

PURPOSE

The proceeds of this loan are to be employed in part for the purchase in the United States of materials required by the Government.

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DEBT

On December 31, 1920, the national debt of Brazil, both external and internal (converted into dollars at par of exchange), was approximately $1,000,000,000, of which $565,000,000 was external. A large part of this debt was incurred for the construction of Government railways, steamships, and other revenue-producing undertakings. On the basis of the latest estimate of population, this represents a total indebtedness of only about $33 per capita and carries an annual per capita charge of $1.85. These figures are exceptionally low in comparison with those for the principal countries of the world.

The 20-year 8-percent gold bonds, due June 1, 1941, are the only bonds of the Brazilian Government issued in the United States, previous Brazilian external loans having been issued in London and Paris.

REVENUE

The principal revenues of the Government are derived from duties on imports, consumption taxes, income taxes, and the revenue from national railways and steamship lines.

NATURAL WEALTH

The area of Brazil is 3,300,000 square miles, covering nearly half of South America. It is approximately equal to the combined area of continental United States, the United Kingdom, and France. Its population of approximately 30,000,000 represents half the total population of the South American Continent. Brazil has vast natural wealth, and the increasing investment of foreign and local capital is rapidly bringing out the Nation's resources. Brazil is said to contain the world's greatest reserves of timber and iron ore and has large deposits of other essential minerals. It produces 70 percent of the worlds' coffee and supplies some of the finest grades of rubber which cannot be grown in the East.

FOREIGN TRADE

The volume of Brazil's foreign trade has increased rapidly, and the balance in favor of exports increased from $52,000,000 in 1911 to $211,000,000 in 1919. Exports in 1920 were larger in volume than in any previous year, although the total value was less than in 1919 on account of the general fall in commodity prices. The United States is Brazil's best customer, supplying about 48 percent of her imports and taking about 42 percent of her exports. Coffee makes up approximately 50 percent of Brazil's exports at the present time, and of this the United States has been taking about one half in recent years. The Central European nations are now purchasing coffee in increasing quantity. Other important exports are rubber, cocoa, meat, tobacco, and sugar. The largest packing plant in South America has recently been completed in Brazil.

All amounts shown above indicating revenues and trade have been converted into dollars at the rate of 25 cents per milreis.

We offer the above bonds for delivery when, as, and if issued and received by us, subject to the approval of legal proceedings by counsel.

Price, 98½ and interest; to net about 8.15 percent.

DILLON, READ & Co.	CONTINENTAL & COMMERCIAL TRUST & SAVINGS BANK.
LEE, HIGGINSON & Co.	HALSEY, STUART & Co., INC.
BLAIR & Co., INC.	ILLINOIS TRUST & SAVINGS BANK.
WHITE, WELD & Co.	UNION TRUST Co., CLEVELAND.
THE UNION TRUST Co., PITTSBURGH.	

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AUGUST 1921.

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COMMITTEE EXHIBIT No. 31, OCTOBER 12, 1933

$25,000,000 United States of Brazil (Central Railway of Brazil Electrification Loan), 30-Year 7 Percent Gold Bonds, Dated June 1, 1922, Due June 1, 1952, Interest Payable June 1 and December 1

Principal and interest payable in New York City in United States gold coin at the office of Dillon, Read & Co., fiscal agents of Brazil in the United States. Coupon bonds of $1,000 and $500 denominations, with provision for registration of principal. Exempt from all Brazilian taxes, present or future. Noncallable for 15 years. Callable thereafter only for the sinking fund at 102 and interest.

The Brazilian Government covenants to make semiannual sinking fund payments sufficient to retire the loan by maturity at 102 and interest.

The bonds are to be the direct obligation of the Government of the United States of Brazil and specifically secured by a first charge on the gross revenues of the Central Railway of Brazil.

PURPOSE OF ISSUE

The proceeds of the loan are to be used to provide for the electrification of the suburban division of the railway which is owned by the Government of Brazil and is without bonded debt.

CENTRAL RAILWAY OF BRAZIL

The Central Railway is the principal railway system of Brazil, operating approximately 1,563 miles of lines serving the important States of Rio de Janeiro, Sao Paulo, and Minas Geraes.

SINKING FUND

The sinking fund payments during the first 15 years of the life of the loan are to be sufficient to purchase each 6 months one sixtieth of the total authorized loan if bonds are obtainable in the open market at or below par. Thereafter sinking fund payments are to be sufficient to retire the entire outstanding issue, in equal semiannual installments, either by purchase in the market up to 102 and interest or by call by lot at that price, thus assuring holders who retain their bonds payment at 102 and accrued interest.

NATURAL WEALTH

The area of Brazil is 3,300,000 square miles, covering nearly half of South America. It is approximately equal to the combined area of continental United States, the United Kingdom, and France. Its population of approximately 30,000,000 represents half of the total population of the South American continent. Brazil has vast natural wealth, and the increasing investment of foreign and local capital is rapidly bringing out the Nation's resources. Brazil is said to contain the world's greatest reserves of timber and iron ore and has large deposits of other essential minerals. It produces 70 percent of the world's coffee and supplies some of the finest grades of rubber which cannot be grown in the East.

We offer the above bonds for delivery when, as, and if issued and received by us, subject to the approval of legal proceedings by counsel. It is expected that interim receipts of Dillon, Read & Co. or temporary bonds of the United States of Brazil will be ready for delivery about June 22, 1922.

Price, 96½ and interest; to net about 7.30 percent.

DILLON, READ & CO.	BONBRIGHT & CO., INC.
LEE, HIGGINSON & CO.	HALSEY, STUART & CO., INC.
WHITE, WELD & CO.	CASSATT & CO.
BLAIR & CO., INC.	GRAHAM, PARSONS & CO.
CONTINENTAL & COMMERCIAL TRUST & SAVINGS BANK.	THE UNION TRUST CO., PITTSBURGH.
ILLINOIS TRUST & SAVINGS BANK.	THE UNION TRUST CO., CLEVELAND.

The information contained in this advertisement has been obtained partly from cable and other official sources. While not guaranteed, it is accepted by us as accurate.

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COMMITTEE EXHIBIT No. 32, OCTOBER 12, 1933

Advance proof. Subject to revision

$25,000,000 United States of Brazil. (Central Railway electrification loan of 1922.) 30-year 70 percent gold bonds, dated June 1, 1922, due June 1, 1952, interest payable June 1 and December 1

Principal, interest, and sinking fund payable in New York City in United States gold coin at the office of Dillon, Read & Co., fiscal agents of Brazil in the United States. Coupon bonds of $1,000 and $500 denominations, with provision for registration of principal. Exempt from all Brazilian taxes, present or future.

Application will be made in due course to list these bonds on the New York Stock Exchange noncallable for 15 years. Callable thereafter only for the sinking fund at 102 and interest. The Brazilian Government covenants to make semiannual sinking-fund payments sufficient to retire the loan by maturity at 102 and interest.

The bonds are to be the direct obligation of the Government of the United States of Brazil and specifically secured by a first charge on the gross operating revenues of the Central Railway of Brazil.

PURPOSE OF ISSUE

The proceeds of the loan are to be used in part to provide for the electrification of the suburban division of the railway which is owned by the Government of Brazil and is without bonded debt.

CENTRAL RAILWAY OF BRAZIL

The Central Railway is the principal railway system of Brazil, operating approximately 1,563 miles of line, serving the important States of Rio de Janeiro, Sao Paulo, and Minas Geraes.

SINKING FUND

The sinking-fund payments during the first 15 years of the life of the loan are to be sufficient to purchase each 6 months, one-sixtieth of the total authorized loan if bonds are obtainable in the open market at or below par. If not so obtainable any balance unexpended at the end of 6 months reverts to the Government. Thereafter sinking-fund payments are to be sufficient to retire the entire outstanding issue, in equal semiannual installments, either by purchase in the market up to 102 and interest or by call by lot at that price, thus assuring holders who retain their bonds payment at 102 and accrued interest.

NATURAL WEALTH

The area of Brazil is 3,300,000 square miles, covering nearly half of South America. It is approximately equal to the combined area of continental United States, the United Kingdom, and France. Its population of approximately 30,000,000 represents half the total population of the South American Continent. Brazil has vast natural wealth, and the increasing investment of foreign and local capital is rapidly bringing out the nation's resources. Brazil is said to contain the world's greatest reserves of timber and iron ore, and has large deposits of other essential minerals. It produces 70 percent of the world's coffee, and supplies some of the finest grades of rubber which cannot be grown in the East.

We offer the above bonds for delivery when, as, and if issued and received by us, subject to the approval of legal proceedings by counsel. It is expected that interim receipts of Dillon, Read & Co. or temporary bonds of the United States of Brazil will be ready for delivery on or about June 22, 1922.

Price 96½ and interest. To net about 7.3 percent.

DILLON, READ & CO.	HALSEY, STUART & CO., INC.
LEE, HIGGINSON & CO.	BONBRIGHT & CO., INC.
BLAIR & CO., INC.	ILLINOIS TRUST & SAVINGS BANK.
WHITE, WELD & CO.	THE UNION TRUST CO., PITTSBURGH.
CONTINENTAL & COMMERCIAL TRUST & SAVINGS BANK.	THE UNION TRUST CO., CLEVELAND.
	CASSATT & CO.

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JUNE 1922.

COMMITTEE EXHIBIT NO. 33, OCTOBER 12, 1933

UNITED STATES OF BRAZIL WITH DILLON, READ & CO.

(Contract dated as of May 31, 1922)

Central Railway Electrification Loan of 1922, $25,000,000 30-year 7 percent gold bonds

Contract dated as of May 31, 1922, made by United States of Brazil, hereinafter termed the "obligor", acting by the Honorable the Consul General of United States of Brazil in the city of New York, thereunto duly empowered, and Dillon ,Read & Co., a copartnership of the city of New York, State of New York, United States of America, hereinafter sometimes termed the "bankers."

ARTICLE I

The obligor covenants with the bankers as follows:

SECTION 1. The obligor will issue its external gold-loan bonds, bearing interest at the rate of 7 percent per annum (hereinafter termed, collectively, the "Bonds"), for the aggregate principal amount of $25,000,000, all dated June 1, 1922, and payable on June 1, 1952, in which bonds the obligor will covenant to pay the principal and the interest on said principal sum and the sinking-fund payments herein provided in the city of New York, State of New York, United States of America, in gold coin of the United States of America of the standard existing June 1, 1922, without deduction for any tax or taxes now or at any time hereafter imposed by the obligor or by any taxing authority thereof or therein. The bonds shall be substantially in the form set forth in schedule A hereto attached and shall be signed in behalf of the obligor and be countersigned by Central Union Trust Co. of New York (or its successor designated for the purpose by the bankers) as in said schedule A indicated.

SEC. 2. The bonds shall bear interest at the rate aforesaid from the date thereof until the principal sum thereof shall have been paid, or until they shall be purchased or redeemed through the sinking fund as herein provided. Such interest shall be payable semiannually on the 1st day of December and the 1st day of June in each year. For the collection of such interest the bonds will have attached coupons substantially in the form set forth in said schedule A.

SEC. 3. The bonds shall be issuable in the denominations of $1,000 and $500 and the text thereof shall be in the English language and shall be printed from engraved plates in a manner conforming to the requirements of the New York Stock Exchange for listing; but until such time as such bonds in definitive form shall have been prepared and be ready for delivery one or more temporary or provisional bonds for the aggregate principal amount of $25,000,000 without coupons shall be issued. The obligor will deliver in the said city of New York at the office of the bankers or at an agency designated by them definitive bonds in exchange for the temporary bonds, without charge or expense to the bankers or other persons entitled to receive the definitive bonds. The obligor hereby designates Central Union Trust Co. of New York, in the Borough of Manhattan, New York City, as registrar of the bonds; and so long as any of the bonds are outstanding the obligor will register, or cause to be registered by said registrar (or a successor duly appointed by the bankers for such purpose) as to principal, but as to principal only, any of the bonds upon presentation for such purpose, pursuant to such reasonable regulation as the bankers may prescribe.

Such registration shall be noted on the bonds by the registrar so appointed, after which registration and notation thereof on the bond no transfer shall be valid unless made at the office of said registrar by the registered holder in person, or by his attorney, duly authorized, and similarly noted on the bond; but the same may be discharged from registry by being in like manner trans-

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ferred to bearer, after which it shall again be transferable by delivery. Successive registrations and transfers may be made from time to time as desired. Such registration shall not affect the negotiability of the coupons belonging to any bond, but every such coupon shall continue to pass by delivery and shall remain payable to bearer as therein provided. The bonds of the several denominations shall be interchangeable. Upon surrender by the holder at said registry office of bonds of one or more denominations, with all unmatured coupons thereto attached with the request that there be issued in exchange therefor bonds of the same aggregate principal amount but of other denominations, the obligor will effect such exchange. In case of any exchange of bonds the obligor may, with the approval of the bankers, make a reasonable charge for the bonds issued in exchange for outstanding bonds and for the expense of such service. No charge, however, shall be made for any exchange of temporary bonds for definitive bonds.

The bonds and coupons and all payments thereon shall be exempt from any and all taxes, imposts, stamp dues, and assessments now or at any time hereafter imposed or levied by the obligor or by any taxing authority thereof or therein. The bonds and coupons and all payments thereon shall be payable in time of war as well as in time of peace and whether the holders of the bonds and coupons are at the time subjects of a state friendly or hostile to the obligor.

In case of loss, mutilation, or destruction of any bond or coupon a duplicate will be issued upon proof of such loss or destruction and upon receipt by the obligor of proper indemnity.

SEC. 4. The obligor covenants that its obligations under the bonds and elsewhere under this contract constitute a direct liability and obligation of the obligor, and the obligor represents and covenants that the issue and sale of the bonds and the execution of this contract have been duly and legally authorized by its proper governmental authorities.

SEC. 5. Without intending to limit or lessen the obligations assumed by the obligor under the bonds or elsewhere under this contract, the obligor covenants and agrees that its obligations hereunder and under the bonds shall at all times be and constitute a special and first charge on the gross operating revenues, receipts, rents, and income of Central Railway of Brazil and every division and part thereof, as such railway property now exists, or as in the future the same may exist; and the obligor covenants and represents that all such gross operating revenues, receipts, rents, and income are entirely free from any other charge or commitment of the obligor whatsoever. The obligor further covenants that all such gross operating revenues, receipts, rents, and income shall, so long as the obligor shall not have fulfilled all its obligations then due hereunder and under the bonds, be specially set apart and used for the fulfillment of the obligations of the obligor hereunder and under the bonds (pro rata and without discrimination as to any of the bonds issued hereunder) and shall not be used for or devoted to any other purpose.

SEC. 6. The bankers shall have exclusive authority to issue the bonds through a syndicate which they have formed or may form for such purpose. The obligor hereby ratifies and approves the syndication and disposal thereof heretofore accomplished by the bankers. On such date not later than June 30, 1922, as the bankers shall designate, the obligor will deliver to the bankers in the city of New York temporary or provisional bonds in such denominations as the bankers shall request, dated June 1, 1922, and bearing interest from June 1, 1922, for the aggregate principal amount of $25,000,000, and thereupon the bankers will make payment therefor as provided in article III, section 2, of this contract.

SEC. 7. Pending the delivery of the definitive bonds, the bankers may deliver to subscribers for or purchasers of the bonds a receipt or other writing in their name, evidencing the right of the holder to receive an amount of such bonds specified in such receipt or writing.

SEC. 8. The obligor will deposit with the bankers at their office in the city of New York, at least 1 month in advance of the maturity respectively of the interest and sinking-fund installments payable on the bonds, funds sufficient to pay in United States gold coin the amount of such installments.

SEC. 9. The obligor covenants and agrees that the proceeds of this loan are to be used for the electrification of the suburban division of Central Railway of Brazil and for other necessities of such railway.

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ARTICLE II

The obligor further covenants with the bankers for the benefit of the holders, severally and respectively, of the bonds, as follows:

SECTION 1. The bonds are not, prior to maturity, subject to call or redemption either as to the whole amount or any part, except through operation of the sinking fund after November 1, 1937, as in this article provided.

SEC. 2. The obligor will pay to the bankers on or before the 1st day of November 1922, and on or before the 1st day of each May and November thereafter up to and including the 1st day of May 1937, as a semiannual sinking fund an amount which shall be equal to one sixtieth of the aggregate principal amount of $25,000,000, plus an amount equal to 3½ percent of said one sixtieth. Each such payment shall constitute a sinking fund to be held and applied by the bankers as sinking fund trustees in the purchase of bonds as in this article provided.

SEC. 3. All moneys received by the bankers as a sinking fund payment in accordance with section 2 of this article may be from time to time applied by the bankers to the purchase of bonds in the market at not exceeding the principal amount thereof and accrued interest by private or public purchase and with or without inviting or advertising for tenders of bonds. It is intended that the times, manner and price of such purchases shall be determined by the bankers in their absolute discretion as they may from time to time deem for the best interest of the obligor.

SEC. 4. If 6 months from the date on which a sinking-fund payment is due under section 2 of this article (or, if such payment is not made on or before the due date, then 6 months from the date it is made), such payment or any part thereof has not been applied to the purchase of the bonds, such payment or the unapplied part thereof shall revert to the obligor and be paid to the obligor. The bankers shall not, excepting on express instructions from the obligor, by the use of any single seminnaul sinking-fund payment due under section 2 of this article acquire more than one sixtieth of the total face amount of bonds issued hereunder. In case they shall, out of any such sinking-fund payment, have purchased such amount of bonds, to wit, one sixtieth, the unused balance of such sinking-fund payment in their hands shall immediately be payable to the obligor (even if such 6 months shall not have expired).

SEC. 5. The obligor will pay to the bankers on or before the 1st day of November 1937, and on or before the 1st day of each May and November thereafter up to and including the 1st day of May 1952, as a semiannual sinking fund, an amount which shall be equal to 102 percent of one thirtieth of the aggregate principal amount of bonds of this series outstanding on the 1st day of November 1937, plus an amount equal to 3½ percent of said one thirtieth. Each such payment shall constitute a sinking fund to be applied by the bankers as sinking-fund trustees in the purchase or redemption of bonds as hereafter in this article provided.

SEC. 6. All moneys received by the bankers as a sinking fund payment in accordance with the provisions of section 5 of this article may be from time to time applied by the bankers in the purchase of bonds in the market at not exceeding 102 percent and accrued interest by private or public purchase and with or without inviting or advertising for tenders of bonds. It is intended that the times, manner, and price of such purchases shall be determined by the bankers in their absolute discretion as they may from time to time deem for the best interest of the obligor.

SEC. 7. If 3 months from the date on which a sinking fund payment is made under section 5 of this article such payment or any part thereof has not been applied to the purchase of the bonds, then the bankers shall proceed to select by lot, in any usual manner, so many of said bonds then outstanding as the said sinking fund payment will suffice to purchase on the next interest date at the price of 102 percent and accrued interest, and shall give notice by publication not less than four times in two daily newspapers of general circulation published in the Borough of Manhattan, city of New York (the first publication to be at least 60 days prior to the date fixed for such redemption) that the bonds so selected will be redeemed through the operation of the sinking fund, such notice to specify the serial numbers of the bonds so to be redeemed and the date of such proposed redemption, which shall be the next interest payment date. Such notice having been given the said bonds so specified shall cease to draw interest from the redemption date and the coupons for interest subsequent to that date shall be void.

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The amounts paid by the obligor to the bankers and not used for the redemption of bonds under this section 7 on said redemption dates shall be held by the bankers for account of the holders thereof as follows: Such funds (without interest) shall be from time to time paid to such holders on presentation and surrender of such bonds with all coupons maturing on and after such redemption date. In case any of such bonds so called for redemption shall not have been so presented within one year from such redemption date, the bankers may repay such funds so held on account thereof to the obligor and at the end of three years shall so pay such funds. The bankers are authorized to hold such funds for redemption after such redemption date in any bank or trust company of good standing in the city of New York.

SEC. 8. All bonds purchased or redeemed as in this article provided, together with all unmatured coupons annexed thereto at the time of purchase or redemption, shall be cancelled by the bankers and shall be delivered to the obligor or at the option of the obligor shall be incinerated in the presence of a representative of the obligor, and no bonds of this loan shall be issued in lieu thereof.

SEC. 9. In case the obligor shall fail to make any sinking-fund payment as in this article provided, or any interest payment as provided in article I, when and as the same shall become payable under section 8 of article I, and such default shall continue for a period of 3 months, Dillon, Read & Co., as representative of the holders of the bonds, may declare to be forthwith due and payable by the obligor the principal sum of the bonds and the interest accrued to the date of such declaration, and thereupon such sums shall become and be forthwith due and payable by the obligor, and the obligor covenants to pay the same at the place for the payment of the bonds in the city of New York.

SEC. 10. Dillon, Read & Co. may act as the representative of the holders of the bonds in all matters arising under this contract. For this service they will receive no compensation from the obligor.

ARTICLE III

SECTION 1. The obligor agrees to sell to the bankers and, subject to the conditions herein specified, the bankers agree to purchase from the obligor the said $25,000,000 principal sum of bonds at the price of 91 percent of the principal sum thereof, plus accrued interest from the date of the bonds to the date of payment therefor.

SEC. 2. Upon delivery to the bankers as provided in article I of this contract of the temporary or provisional bonds for the aggregate sum of $25,000,000, the bankers will make payment therefor by placing to the credit of the Bando do Brazil, for account of the obligor, in New York City, 91 percent of the principal amount, plus accrued interest from the date of the bonds to the date of such delivery.

SEC. 3. The bankers have, with the authority of the obligor, offered the bonds for public subscription and sale and are hereby authorized to offer the bonds for public subscription at such times and in such amounts and at such prices as the bankers shall determine.

ARTICLE IV

SEC. 1. The obligor hereby authorizes the bankers in behalf of the obligor to make arrangements for the payment of the principal and interest at the places where such sums are payable. Accounts between the obligor and the bankers concerning such payments, and concerning the administration of the sinking fund and all other expenses and charges, will be kept by the bankers in the city of New York in terms of United States money; and such accounts, of which transcripts will be sent to the obligor, may at any time be inspected by duly authorized representatives of the obligor.

The obligor will pay the cost and expense of engraving, printing and delivering the bonds, both temporary and definitive, and the transmission and execution of the contract, and of the bonds and of the issue thereof, including the reasonable charges for countersignature of the bonds; the obligor will pay all expenses in connection with listing the bonds on the New York Stock Exchange and will reimburse the bankers for the cost of preparing and delivering any receipts deliverable by them to subscribers for the bonds pending the issue of definitive bonds. The obligor further covenants that it will reimburse the bankers for any and all expenses incurred by them in the course of their pro-

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ceedings as fiscal agents (including their expenses in administration of the sinking fund) and that it will pay them for their services as such a commission of 1 percent of the amount of all moneys disbursed by them in payment of interest and in the purchase and redemption of bonds for account of the obligor.

SEC. 2. The obligor also will indemnify and save harmless the bankers against and from any loss, cost, or expense which they may sustain by reason of any delay or default in the performance by the obligor of any of the agreements of the obligor herein set forth or which they may sustain by reason of their acting as agents or depositaries of the obligor in accordance with the terms of their agency or with instructions of the obligor.

SEC. 3. The bankers shall not be answerable for the default or misconduct of any agent or attorney appointed by them to carry out any of the provisions of this contract, if such agent or attorney shall have been selected with reasonable care and with the consent of the obligor. The bankers shall not be in anywise responsible for the disposition by the obligor of the proceeds of the bonds. If the bankers shall be in doubt in any instance as to their rights or obligations or the rights of bondholders under this contract, they may advise with legal counsel selected by them, and anything done or suffered in good faith by the bankers in accordance with the opinion of such counsel shall be conclusive in their favor as against any claim or demand by the obligor in the premises.

SEC. 4. The obligor and the bankers may deem and treat the bearer of any bonds which shall not at the time be registered as to principal as herein provided, and the bearer of any coupon for interest on any bond whether or not such bond shall be so registered, as the absolute owner of such bond or coupon, as the case may be, for the purpose of receiving payment thereof, and for all other purposes, and neither the obligor nor the bankers shall be affected by any notice to the contrary. The obligor and the bankers may deem and treat the person in whose name any bond shall be registered as to principal as aforesaid as the absolute owner thereof for the purpose of receiving payment of or on account of the principal thereof, and for all other purposes except to receive payment of interest represented by outstanding coupons.

SEC. 5. The bankers may become the owners of any or all of the bonds, with the same rights as any other bondholders. All notices from the bankers to the obligor in connection with this contract, including the declaration under article II, section 9, may be given by written communication, or by cable, addressed to the Minister of Finance, Rio de Janeiro, Brazil. All notices from the obligor to the bankers may similarly be given, addressed to Dillon, Read & Co., city of New York, United States of America.

SEC. 6. The obligor will comply with the reasonable requests of the bankers for such information concerning the United States of Brazil, its laws, revenues, etc., and the Central Railway of Brazil, its revenues, financial position, etc., as reasonably may be deemed useful both in aid of the issue and sale of the bonds in the United States, and so that the bankers may continue while any of the bonds are outstanding to be informed as to such matters and as to the security pledged hereby for the bonds.

SEC. 7. Whenever in the bonds or in this contract the term "United States gold coin" is used, it is intended to mean gold coin of the United States of America of the standard of weight and fineness existing at the date of the bonds.

SEC. 8. This contract shall bind and shall enure to the benefit of the copartnership of Dillon, Read & Co., as now organized, or as hereafter organized, and also any successor firm or firms. The English text of this agreement shall govern in the interpretation of its terms.

HELIO LOBO,
Consul General of United States of Brazil
in the City of New York.
(For United States of Brazil.)

Witnesses:
DAVID ARONOW.
PAULO DE SOUZA DANTAS.

DILLON, READ & CO.

Witnesses:
BOYKIN WRIGHT.
HENRY D. LAWTON.

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SCHEDULE A

(Form of $1,000 definitive bond)

UNITED STATES OF BRAZIL (CENTRAL RAILWAY ELECTRIFICATION LOAN OF 1922) 30-YEAR 7 PERCENT GOLD BOND

United States of Brazil, hereinafter termed the "obligor", for value received, promises to pay to bearer, or if this bond be registered as herein provided, to the registered holder hereof, on the first day of June 1952 the principal sum of $1,000, and to pay interest on such principal sum at the rate of 7 percent per annum semiannually, on the first day of December and on the first day of June in each year, until such principal sum shall have been paid, but only upon presentation and surrender of the coupons for such interest hereto attached as they severally mature. Such principal sum and interest and the sinking fund payments herein provided, will be paid in the Borough of Manhattan, City of New York, State of New York, United States of America, at the office of Dillon, Read & Co., in gold coin of the United States of America, of the standard weight and fineness existing on June 1, 1922, without deduction for any taxes now, or at any time hereafter, imposed by United States of Brazil, or by any taxing authority thereof or therein.

In and by a contract dated as of May 31, 1922, made by the obligor with said Dillon, Read & Co., pursuant to which contract this bond is issued as one of an issue of like bonds of an aggregate principal amount of $25,000,000, the obligor covenants to pay to said Dillon, Read & Co., on or before the first day of November 1922 and on or before the first day of each May and November thereafter, up to and including the first day of May 1937 as a semiannual sinking fund, an amount which shall be equal to one sixtieth of the aggregate principal amount of $25,000,000, plus an amount equal to 3½ percent of said one sixtieth. Each said payment shall constitute a sinking fund to be sold and applied by said Dillon, Read & Co., as sinking fund trustees, in the purchase of bonds of said issue at prices which shall not exceed the principal amount thereof and accrued interest, in the manner and on the condition and terms as in said contract provided. The obligor further covenants in said contract that it will on or before the first day of November 1937 and on or before the first day of each May and November thereafter, up to and including the first day of May 1952, pay to said Dillon, Read & Co., as a sinking fund to be applied to the purchase or redemption of bonds as in said contract, provided an amount of money which shall be equal to 102 percent of one thirtieth of the aggregate principal amount of bonds of this issue outstanding on the first day of November 1937 plus an amount equal to 3½ percent of said one thirtieth.

This bond is subject to redemption through the operation of the sinking fund, as in said contract provided, on December 1, 1937, and on any subsequent semiannual interest payment date at 102 percent of the principal amount thereof, together with accrued interest, upon 60 days' notice thereof given by publication in the borough of Manhattan, city of New York, in the manner provided in said contract.

In the manner provided by said contract the obligor allocates to the service of said issue of bonds issued under said contract to an aggregate principal amount of $25,000,000, the gross operating revenues, receipts, rents, and income of Central Railway of Brazil, for the pro rata benefit of said issue of bonds.

As provided in said contract, bonds 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, may be exchanged for an equal aggregate principal amount of bonds of the other denomination of the same issue, of numbers not contemporaneously outstanding, with all unmatured coupons attached.

Dillon, Read & Co. may act as the representative of the holder of this bond in all matters arising under said contract. In case the obligor shall fail to make any interest or sinking-fund payment when and as the same shall become payable, and such default shall continue for a period of 3 months, Dillon, Read & Co., as representative of the holders of the bonds, may declare to be forthwith due and payable the principal sum of the bonds and the interest accrued to the date of such declaration.

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This bond shall pass by delivery, unless it is registered in the owner's name at the office of Central Union Trust Co. of New York or other registrar in the Borough of Manhattan, city of New York, appointed by Dillon, Read & Co. for the purpose, and such registration is noted hereon by such registrar. After such registration no transfer shall be valid unless made by the registered owner in person or by attorney, and similarly noted hereon by such registrar; but this bond may be discharged from registry and its transferability by delivery be restored by like transfer to bearer noted hereon, after which it may again from time to time be registered or made transferable to bearer as before. Such registration, however, shall not affect the negotiability of the coupons which shall continue to be transferable by delivery.

This bond shall not be valid for any purpose until countersigned by Central Union Trust Co. of New York or its successor duly appointed by Dillon, Read & Co. for such purpose.

Dated June 1, 1922.

UNITED STATES OF BRAZIL,
By ——— ———

Countersigned:

CENTRAL UNION TRUST CO. OF NEW YORK,
By ——— ———

(Form of coupon.)

No. -------. $35

On the —— day of ————, 19—, unless the bond hereinafter mentioned shall have been called for previous redemption, United States of Brazil promises to pay to bearer, in the Borough of Manhattan, City of New York, State of New York, United States of America, at the office of Dillon, Read & Co., $35, gold coin of the United States of America, without deduction for Brazilian taxes, present or future, being 6 months' interest then due on United States of Brazil (Central Railway Electrification Loan of 1922) 30-year 7 percent gold bond no. ———.

UNITED STATES OF BRAZIL,
By ——— ———.

Contract dated as of May 31, 1922, made by United States of Brazil, hereinafter termed the "Obligor", acting by the honorable, the consul general of United States of Brazil in the city of New York, thereunto duly empowered, and Dillon, Read & Co., a copartnership of the city of New York, State of New York, United States of America, hereinafter termed the "Bankers."

SECTION 1. This contract is part of a main contract between the same parties bearing the same date hereinafter termed the "Main contract." The covenants and conditions contained in the main contract are the consideration for the covenants herein contained; and this contract is governed by the terms and conditions in such main contract provided.

SEC. 2. The obligor covenants that it will create and, at all times while any of the bonds shall be outstanding, maintain with the bankers a deposit of not less than $500,000. Without intending to limit or lessen any of the obligations assumed by the obligor, the obligor hereby irrevocably authorizes the bankers to retain and apply out of such deposit and out of any other moneys which may be from time to time on deposit with the bankers to the credit of Banco do Brazil for account of the obligor an amount or amounts sufficient to fulfill any and all of the obligations of the obligor with regard to the bonds and the sinking-fund payments thereon and in general with regard to commissions, expenses, and all other charges which become payable by the obligor to the bankers when and as such obligations mature.

SEC. 3. The proceeds of the loan on deposit with Dillon, Read & Co. shall be held to the credit of the Banco do Brazil for account of the obligor and except as to the special deposit of $500,000 referred to in section 2 hereof, shall be subject to withdrawal by the Banco do Brazil. Such proceeds and other moneys on deposit with Dillon, Read & Co., which Banco do Brazil is entitled to withdraw, and moneys received for sinking-fund purposes until used or set aside by the bankers for such purposes, shall from time to time bear interest at a rate which shall not be less than the average current rate then generally allowed by responsible banks and trust companies in the city of New York on similar deposits. The special deposit of $500,000 referred to in section 2 hereof shall bear interest at a rate of 1 percent per annum in excess of the rate from time to time allowed on other moneys referred to in this section 3, provided that the rate of interest to be allowed on such special deposit shall not at any time exceed 5 percent per annum nor be less than 3 percent per annum.

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SEC. 4. The obligor hereby appoints the bankers its fiscal agents for the purposes of the main contract during the life of the loan created thereby. This appointment is not revocable so long as any of the bonds are outstanding.

SEC. 5. The obligor hereby agrees that in case during the life of this loan it shall determine to make in the United States a further sale of bonds or other financial operation in order to provide for the future financial necessities of Central Railway of Brazil, it will give the bankers reasonable notice of such determination and will offer to make such financial operation with the bankers, and further that it will not conclude any such financial operation with anyone else without first having afforded the bankers an opportunity to undertake such financial operation on the same terms and conditions and at the same price.

Witnesses:

DAVID ARONOW,
PAULO DE SOUZA DANTAS,
For United States of Brazil.
By HELIO LOBO,
As to Consul General of United States of Brazil in the City of New York.
BOYKIN WRIGHT
HENRY D. LAWTON,
As to DILLON, READ & CO.

COMMITTEE EXHIBIT No. 34, OCTOBER 12, 1933

Contract, made the 11th day of October 1927, between the Government of the Republic of United States of Brazil, hereinafter termed the "Government", acting by Dr. Oscar Bormann, thereunto duly empowered, and Dillon, Read & Co., of the city of New York, State of New York, United States of America, hereinafter sometimes termed the "bankers."

Whereas (1) these presents are supplemental to a general bond, dated October 11, 1927, by virtue of which and of the legislative decree therein recited, to which such general bond is supplemental, the Government has created a loan called "United States of Brazil 6½ percent loan of 1927" to be represented by $41,500,000 principal amount of 6½ percent external sinking fund bonds of 1927 (herein called "the dollar bonds") and £8,750,000 principal amount of 6½ percent sterling bonds of 1927 (herein called "the sterling bonds"), the dollar bonds and sterling bonds being hereinafter collectively called "the bonds".

(2) Contemporaneously herewith the Government is entering into a contract (herein called the "British contract") with N. M. Rothschild & Sons, Baring Brothers & Co., Ltd., and J. Henry Schroder & Co. (herein called the "British Bankers") providing for the issue by the Government and the sale to the British bankers of said £8,750,000 principal amount of sterling bonds.

Now it is hereby agreed as follows:

ARTICLE I

The Government covenants with the bankers for the benefit of the holders, severally and respectively, of the bonds to be issued under the general bond, as follows:

SECTION 1. The Government will fully and completely perform all the obligations, undertakings, and covenants assumed and made by the Government in the general bond, which general bond is by reference made a part hereof.

SEC. 2. The dollar bonds and coupons shall be substantially in the form set forth in schedule A hereto attached and by reference made a part hereof. Temporary dollar bonds, if issued, shall be substantially in the form set forth in schedule A, with appropriate omissions, insertions, and variations, as may be required, with or without coupons. The dollar bonds, temporary and definitive, shall be prepared in the city of New York, and the Government authorizes the bankers for the Government's account to have such preparation commenced forthwith.

ARTICLE II

SECTION 1. The Government agrees to sell to the bankers, and subject to the conditions herein specified, the bankers agree to purchase from the Government $41,500,000 principal amount of dollar bonds at the price of 88 percent of the

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principal amount thereof, plus accrued interest thereon from the date of the dollar bonds to the date of payment therefor as hereinafter provided.

SEC. 2. On such date, not later than November 1, 1927, as the bankers shall designate, the Government will deliver to the bankers in the Borough of Manhattan, city of New York, temporary dollar bonds, in such denominations as the bankers shall request, for the aggregate principal amount of $41,500,000, and thereupon the bankers will make payment therefor by crediting to the account of the Government in the city of New York the amount of the purchase price of the dollar bonds hereinbefore provided for. The Government will deliver in the Borough of Manhattan, city of New York, on or before March 31, 1928, or on or before such later date as may be approved in writing by the bankers, definitive dollar bonds in exchange for such temporary dollar bonds without charge or expense to the bankers or other persons entitled to receive the definitive dollar bonds.

SEC. 3. The bankers shall have exclusive authority to distribute said $41,500,000 principal amount of dollar bonds through a syndicate or syndicates which they have formed or caused to be formed, or may form, or cause to be formed for such purpose in the United States or England or elsewhere. The Government hereby ratifies and approves any syndication and disposal of the dollar bonds heretofore accomplished by the bankers.

SEC. 4. Pending the delivery of the definitive dollar bonds the bankers may at the expense of the Government deliver to subscribers for or purchasers of the dollar bonds a receipt or other writing in their name, evidencing the right of the holder to receive an amount of the dollar bonds specified in such receipt or writing.

SEC. 5. Without intending to limit or lessen any of the obligations of the Government hereunder, the Government hereby irrevocably authorizes the bankers to retain and apply, out of the payment to be made by them under section 2 of this article II the sum of $100,000, to be applied by the bankers to the fulfillment of any and all of the obligations of the Government with regard to all costs and expenses which may be or become payable by the Government in connection with this contract and the general bond.

SEC. 6. Moneys on deposit with the bankers, which the Government is entitled to withdraw, shall be subject to drafts payable at sight. Such moneys shall from time to time bear interest at a rate which shall not be less than the average current rate then generally allowed by responsible banks and trust companies in the Borough of Manhattan, City of New York, on similar deposits.

ARTICLE III

SECTION 1. The Government hereby confirms the designation and appointment of Dillon, Read & Co. and its successors as agent of the Government for the payment of interest on and redemption of the dollar bonds (Dillon, Read & Co., or its successor, in such capacity being hereinafter sometimes called "the American fiscal agent"), and such designation and appointment shall not be revocable by the Government so long as any of the dollar bonds are outstanding. In case Dillon, Read & Co. or its sucessor should resign, or for any reason be incapable of acting as such agent of the Government, the Government agrees to appoint and maintain at all times so long as any of the dollar bonds are outstanding an agent for the payment of interest thereon and redemption thereof, approved by Dillon, Read & Co. or its successor. The Government hereby authorizes the American fiscal agent, on behalf of the Government, from time to time to designate the agent in London of the Government for the payment of the principal of and interest on the dollar bonds (such agent being hereinafter sometimes called "the British paying agent") and to make arrangements for the payment of the principal and interest on the dollar bonds at the places where such sums are payable.

Accounts between the Government and the bankers concerning such payments and concerning the administration of the sinking fund and all other expenses and charges, will be kept by the bankers in the city of New York in terms of United States money; and such accounts, of which transcripts shall be sent to the Government from time to time, may at any time be inspected by duly authorized representatives of the Government. The Government will pay the cost and expense of engraving, printing, and delivering the dollar bonds, both temporary and definitive, and the cost and expense of the preparation, execution, and transmission, by cable or otherwise, of this contract and the general bond and the cost and expenses of the execution of the dollar bonds and of the issue thereof, including the reasonable charges for countersignature of the dollar

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bonds and the fees of legal counsel for the bankers in connection with this contract and the general bond and the performance hereof and thereof and the issue and sale of dollar bonds hereunder and thereunder in the United States and elsewhere. The Government covenants that it will pay all costs in connection with the listing of temporary and definitive dollar bonds on the New York Stock Exchange.

The Government further covenants that it will reimburse the bankers for any and all expenses incurred by them in the course of their proceedings as American fiscal agent (including without limitation of the foregoing all expenses in connection with the transmission of funds to the British paying agent and all expenses and publication charges in connection with the redempt on of dollar bonds through the operation of the sinking fund), and the Government will pay the bankers for their services as such American fiscal agent a commission of one half of 1 percent of the amount of all moneys disbursed by the bankers, whether as American fiscal agent or through the British paying agent, for the account of the Government in connection with the payment of interest on the dollar bonds and one quarter of 1 percent of the amount of all moneys disbursed by the bankers, whether as American fiscal agent or through the British paying agent for account of the Government in connection with the payment of the principal of the dollar bonds whether upon redemption of dollar bonds through the operation of the sinking fund or at maturity. The Government will also pay any and all expenses incurred by the Brit'sh paying agent, including, without limitation of the foregoing, all expenses in connection with the transmission of dollar bonds and/or coupons to the American fiscal agent upon payment thereof by the British paying agent and any retransmission of funds to the Amer'can fiscal agent. The Government will also pay the compensation and expenses of the registrar both for registering and countersigning the dollar bonds. All expenses in connection w'th the sale and distribution of the dollar bonds by the bankers or by any syndicate or syndicates formed by the bankers shall be borne by the bankers or such syndicate or syndicates and the Government will not be responsible therefor. The Government covenants to pay all Brit'sh taxes, if any, payable in connection with this contract or the general bond or the execution hereof or thereof.

SEC. 2. The Government will indemnify and save harmless the bankers against and from any loss, cost, or expense which they may sustain by reason of any delay or default in the performance by the Government of any of the agreements of the Government herein set forth or which the bankers may sustain by reason of their acting as agents or depositaries of the Government in accordance with the terms of any agency or by reason of their acting in accordance with instructions of the Government.

SEC. 3. The bankers, as American fiscal agent, the British paying agent, and the registrar, shall not be answerable for the default or misconduct of any agent or attorney appointed by them or any of them to carry out any of the provisions of this contract or the general bond, if such agent or attorney shall have been selected with reasonable care and with the consent of the Government. The bankers shall not be in any wise responsible for the disposition by the Government of the proceeds of the dollar bonds. If the bankers shall be in doubt in any instance as to their rights or obligations in any capacity or the rights of the holders of dollar bonds under this contract or the general bond, they may advise with legal counsel selected by them, and anything done or suffered to be done in good faith by the bankers in accordance with the opinion of such counsel, shall be conclusive in their favor as against any claim or demand by the Government in the premises.

SEC. 4. The bankers may become the owner of any or all of the bonds with the same rights as any other holders of bonds. All notices from the bankers to the Government in connection with this contract and the general bond may be given by written communication, or by cable, addressed to the Minister of Finance, Rio de Janeiro, Brazil. All notices from the Government to the bankers may similarly be given, addressed to Dillon, Read & Co., City of New York, United States of America.

SEC. 5. The Government will comply with the reasonable requests of the bankers for such information concerning the United States of Brazil, its laws, revenues, etc., as reasonably may be deemed useful both in aid of the sale and distribution of the dollar bonds in the United States, or elsewhere, and so that the bankers may continue to be informed as to such matters and as to the security pledged hereunder for the bonds; and the Government authorizes and instructs its representatives to sign in its name appropriate circulars in con-

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nection with the issue, sale, and distribution of the dollar bonds. The Government will indemnify and hold harmless the bankers and any syndicate or syndicates formed pursuant hereto against all liabilities, claims, and demands arising from any incorrect or improper statements contained in any such circular or circulars.

The Government will upon request of the bankers at any time promptly make proper application to list the dollar bonds on the New York Stock Exchange, and the Government will endeavor in every way, by furnishing such information, executing such documents, and doing such acts and things as may be necessary to obtain the listing of the dollar bonds on said New York Stock Exchange.

SEC. 6. The bankers agree to use their best efforts to form a syndicate or syndicates to purchase the dollar bonds to be purchased by the bankers as provided in section 1 of article II, but anything herein to the contrary notwithstanding the bankers shall not be obligated to take up and pay for the dollar bonds unless the bankers shall have succeeded in their endeavor to form a syndicate or syndicates for the purchase of the dollar bonds, and neither the bankers nor any syndicate or syndicates formed by the bankers shall be obligated to take up and pay for the dollar bonds if, in the sole judgment of the bankers, financial conditions existing in the United States or elsewhere shall at the time be such as in the judgment of the bankers to make it undesirable or inadvisable to complete the purchase and distribution of the dollar bonds as contemplated by this contract, or if the British bankers shall fail to take up and pay for the sterling bonds in accordance with the terms of the British contract.

SEC. 7. This contract shall bind and shall inure to the benefit of the joint-stock association of Dillon, Read & Co., as now or hereafter organized, and also any successor of said joint-stock association.

SEC. 8. This contract shall be construed as a New York contract and shall be interpreted in accordance with, and governed by, the laws of the State of New York.

Executed in duplicate.

OSCAR BORMAN.

Witness as to signatory of Government:
CLIFTON MURPHY.

DILLON, READ & Co.

Witness as to Dillon, Read & Co.:
CLIFTON MURPHY.

SCHEDULE A

(Form of $1,000 definitive bond)

No. ------ $1,000.

United States of Brazil 6½ percent external sinking-fund bond of 1927. Due October 15, 1957

United States of Brazil, hereinafter termed the "Government", for value received promises to pay to the bearer, or if this bond be registered, to the registered owner hereof, on the 15th day of October 1957 (unless before said date this bond shall have been duly called for redemption and payment of the redemption price made in accordance with the provisions hereof), the principal sum of $1,000 in gold coin of the United States of America, of or equal to the standard of weight and fineness existing on October 15, 1927, at the principal office of Dillon, Read & Co., in the borough of Manhattan, city and State of New York, United States of America, or, at the option of the bearer or the registered owner hereof, the equivalent of said principal sum in sterling money of the United Kingdom of Great Britain and Ireland at the fixed rate of exchange of $4.8665 in said gold coin of the United States of America to the pound sterling, at the office of N. M. Rothschild & Sons, the agency for such purpose of the Government, in the city of London, England, and to pay interest on said principal sum at the rate of 6½ percent per annum in like gold coin at said office of Dillon, Read & Co., or, at the option of the respective bearers of the attached interest coupons, in said sterling money at said fixed rate of exchange, at said agency in the city of London, England, semi-annually on the 15th day of October and the 15th day of April in each year until said principal sum shall

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be paid, but only upon presentation and surrender of the attached interest coupons as they severally mature.

Said principal sum and said interest coupons shall be paid as well in time of war as in time of peace, whether the bearer or registered owner hereof, or the bearer of said interest coupons, is the subject of a friendly or hostile power, without deduction for any taxes now or at any time hereafter imposed by United States of Brazil or by any taxing authority thereof or therein.

Principal of, and interest on, this bond shall also be collectible, at the option of the bearer or registered owner hereof, in Amsterdam, Holland, or Zurich, Switzerland, or Stockholm, Sweden, at the offices of paying agents in said cities to be nominated by Dillon, Read & Co. and N. M. Rothschild & Sons jointly, in the respective local currencies, at bankers' buying rate in Amsterdam or Zurich or Stockholm, as the case may be, for sight exchange on New York City.

This bond is one of a duly authorized issue of bonds (herein called the bonds) of the Government, known as its 6½ percent external sinking fund bonds of 1927, limited to an aggregate principal amount of $41,500,000 issued or to be issued pursuant and subject to a general bond of the Government, dated October 11, 1927. The bonds, together with an issue of bonds (herein called sterling bonds) of the Government, known as its 6½ percent sterling bonds of 1927, limited to an eggregate principal amount of £8,750,000 sterling, issued or to be issued pursuant and subject to said general bond, constitute the Government's 6½ percent loan of 1927.

For a statement of the nature and extent of the security, the rights of the holders of the bonds in respect thereof, and the terms and conditions upon which the bonds are issued and secured, to all of which the holder hereof assents by acceptance of this bond, reference is hereby made to said general bond.

The bonds are issuable under the authority of article 12 of legislative decree no. 5108 of December 18, 1926.

The bonds may be issued in denominations of $1,000 and $500 each and, as provided in said general bond, bonds of either denomination at any time outstanding, when surrendered with all unmatured coupons attached at the office of the registrar of the bonds in the Borough of Manhatten, city of New York, may be exchanged for an equal aggregate principal amount of bonds of the other denomination, of numbers not contemporaneously outstanding, with all unmatured coupons attached.

In accordance with, and subject to the provisions of, said general bond, the bonds and the sterling bonds are to be redeemed by operation of an accumulative sinking fund calculated to provide for the redemption of all the bonds and sterling bonds by the 15th day of October 1957, by semiannual call by lot at 100 percent of the principal amount thereof. The bonds shall be redeemed through the operation of said sinking fund only after notice published at least twice in a daily newspaper of general circulation published in the English language, in the Borough of Manhattan, city and State of New York, the first publication to be at least 30 days before the redemption date specified in such notice and the second publication to be not less than 7 days after the first publication. The bonds and the sterling bonds are not subject to call for redemption prior to maturity except through the operation of said sinking fund.

In the manner, and to the extent provided in said general bond, the Government has pledged thereunder certain taxes, including income taxes, taxes on invoices (Contas Assignadas Duplicatas), consumption taxes (Imposto do Consumo), and import duties and import taxes for the prorata benefit of the bonds and the sterling bonds issued or to be issued under and pursuant to said general bond.

Dillon, Read & Co. may act as the representative of the holder of this bond in all matters arising under said general bond.

This bond shall pass by delivery, unless registered as to principal in the owner's name at the office of The National City Bank of New York, in the Borough of Manhattan, city of New York, registrar of the bonds (or at the office of its successor from time to time duly appointed for such purpose), and such registration noted hereon by such registrar. After such registration no transfer hereof shall be valid unless made by the registered owner in person or by duly authorized attorney, and similarly noted hereon by such registrar; but this bond may be discharged from registry and its transferability by delivery be restored by like transfer to bearer noted hereon, after which this bond may again from time to time be registered or made transferable to bearer as before. Such registration, however, shall not affect the negotiability of the interest

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coupons which shall continue to be transferable by delivery and shall remain payable to bearer.

This bond shall not be valid for any purpose until countersigned by the National City Bank of New York, or its successor from time to time duly appointed for such purpose.

Dated October 15, 1927.

UNITED STATES OF BRAZIL,
By ——— ———

Countersigned:

THE NATIONAL CITY BANK OF NEW YORK.
By ——— ———

FORM OF COUPON FOR $1,000 BOND

No_____ $32.50

On the ____ day of _____, 19__, unless the bond hereinafter mentioned shall have been called for prior redemption, United States of Brazil promises to pay to bearer $32.50 in gold coin of the United States of America, at the office of Dillon Read & Co., in the Borough of Manhattan, City and State of New York, United States of America, or, at the option of the bearer, the equivalent thereof in sterling money of the United Kingdom of Great Britain and Ireland at the fixed rate of exchange of $4.8665 in said gold coin of the United States of America to the pound sterling, at the office of N. M. Rothschild & Sons, the agency for such purpose of the United States of Brazil, in the City of London, England, as well in time of war as in time of peace, whether the bearer is the subject of a friendly or hostile power, without deduction for Brazilian taxes, present or future, being 6 months interest then due on United States of Brazil 6½ percent external sinking fund bond of 1927, no _____

UNITED STATES OF BRAZIL,
By ——— ———

On back of above contract the following title is printed:

UNITED STATES OF BRAZIL AND DILLON, READ & CO.

CONTRACT FOR THE ISSUE AND SALE OF $41,500,000 6½-PERCENT EXTERNAL SINKING-FUND BONDS OF 1927

COMMITTEE EXHIBIT NO. 35, OCTOBER 12, 1933

NEW YORK TIMES, FEBRUARY 2, 1927

New issue Republic of Bolivia $14,000,000 7 percent external secured gold bonds; to be dated January 1, 1927; to mature July 1, 1958

Total authorized issue $14,000,000. Interest payable January 1 and July 1. Coupon bonds in denominations of $1,000 and $500 registerable as to principal only. Principal and interest payable in United States gold coin of the present standard of weight and fineness, in New York City at the principal office of Dillon, Read & Co., without deduction for any Bolivian taxes, present or future. Redeemable as a whole, or in part by lot, at 102½ and interest, on any interest payment date on 30 days' notice. Central Union Trust Co. of New York, countersigning agent.

An accumulative sinking fund is provided for, beginning October 1927, calculated to redeem all the bonds by maturity, which will be used to purchase bonds up to 102½ and interest or, if not so obtainable, to call bonds by lot, semi-annually, at 102½ and interest.

The following information has been furnished us by His Excellency Zacarias Benavides, Minister of Finance of the Republic of Bolivia:

THE ISSUE

The bonds will be the direct obligation of the Republic of Bolivia, and will be issued under authority of the laws of November 18, 1925, March 31, 1926, December 24, 1926, and January 5, 1927. In addition, the Government has agreed that it will pledge, by a first or a second charge, certain revenues to secure

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payment of interest, amortization, and principal, and that the proceeds of such revenues available for the service of the bonds shall be maintained at not less than one and one half times the amount required for such service. Included in the revenues upon which the service of the bonds will constitute a first charge are the newly created royalties of the Government from the exploitation of the oil lands in the Department of Chuquisaca, in which Department important oil properties have been located. The Republic proposes to employ the proceeds of the bonds to commence the construction of a railroad from Cochabamba to Santa Cruz, to carry on the construction of the Potosi-Sucre Railway, and for other purposes.

ECONOMIC CONDITIONS

The Republic of Bolivia, situated in the central-western portion of South America, has an area of approximately 514,400 square miles, and a population of approximately 2,800,000. The Republic was founded in 1825, the present constitution having been adopted in 1880. Bolivia's wealth is now derived principally from the production of tin, silver, antimony, tungsten, bismuth, and rubber. Approximately one quarter of the world's tin is produced in Bolivia, the country being second only to the Malay Peninsula as a source of supply. Extensive oil fields have been located in the Department of Chuquisaca, and foreign capital is now being invested in their development. In these activities American oil interests have a predominant position. Bolivia's exports have exceeded imports in each year except 1921 of the 10-year period ended December 31, 1925. Figures for the first 9 months of 1926 show a like excess.

FINANCES

The Bolivian Government has met all obligations appertaining to the public debt incurred during the last half century. The total national debt of Bolivia on December 31, 1926, was approximately $43,700,000, or less than $16 per capita (excluding this issue). This debt has been incurred principally for the construction of railroads and other public works. Revenues of the government have exceeded expenditures, other than capital expenditures, in each of the past 3 years. Bolivian currency is based on the gold standard, the notes of the Banco de la Nacion Boliviana having a gold cover in excess of 40 percent.

(Conversions of Bolivian currency into United States currency have been made at 33⅓ cents to the boliviano, approximately the present rate of exchange, parity being 38.93 cents to the boliviano.)

The Republic of Bolivia has agreed to make application to list these bonds on the New York Stock Exchange.

Statements above are in no event to be construed as representations by us and have been received by us partly by cable.

We offer these bonds for delivery if, when, and as issued and accepted by us, subject to the approval of all legal matters by our counsel Messrs. Root, Clark, Howland & Ballantine, and Messrs. Schuster & Feuille. It is expected that temporary bonds, or interim receipts of Dillon, Read & Co. will be ready for delivery on or about February 17, 1927.

A portion of this issue has been withdrawn for offering in Europe by Mendelssohn & Co. Amsterdam, Nederlandsche Handle Maatschappij, Pierson & Co., and others.

Price 98½ and interest. To yield 7.12 percent to maturity.

The above is subject to a circular, containing further information, which may be obtained upon request.

DILLON, READ & Co.

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STOCK EXCHANGE PRACTICES

FRIDAY, OCTOBER 13, 1933

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

The subcommittee met, pursuant to adjournment on yesterday, at 10 a.m. in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Norbeck, Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; George S. Franklin, Wallace P. Zachry, Warren Leslie, Walter G. Dunnington, Clifton Murphy, John T. Cahill, and Bernhard Knollenberg, counsel for Dillon, Read & Co.; Root, Clark, Buckner & Ballantine, George H. Murphy of counsel, counsel for United States & Foreign Securities Corporation and United States & International Securities Corporation; Bernhard Knollenberg, attorney for James V. Forrestal, Old Westbury, Long Island, a partner of Dillon, Read & Co.

The CHAIRMAN. The subcommittee will come to order. Proceed, Mr. Pecora. Is Mr. Hayward present?

Mr. PECORA. No. I will take Mr. Forrestal this morning. He is one of the partners of Dillon, Read & Co.

The CHAIRMAN. Come forward, Mr. Forrestal, hold up your right hand and be sworn. You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee, so help you God.

Mr. FORRESTAL. I do.

The CHAIRMAN. Just have a seat over there at the committee table.

TESTIMONY OF JAMES V. FORRESTAL, OLD WESTBURY, LONG ISLAND

Mr. PECORA. Mr. Forrestal, will you give your full name and address to the committee reporter for the purpose of the record?

Mr. FORRESTAL. James V. Forrestal, Old Westbury, Long Island.

Mr. PECORA. Are you connected in any way with the firm or joint stock association called Dillon, Read & Co.?

Mr. FORRESTAL. Yes.

Mr. PECORA. How long have you been connected with that firm?

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Mr. FORRESTAL. I have been with that firm and its precedessor since 1915.

Mr. PECORA. In what capacity are you now connected with Dillon, Read & Co.?

Mr. FORRESTAL. I am a vice president.

Mr. PECORA. And also a shareholder?

Mr. FORRESTAL. Yes.

Mr. PECORA. And do you recall in 1924 a transaction by means of which 500,000 shares of the common stock of United States & Foreign Securities Corporation were transferred by that corporation to Dillon, Read & Co. for $100,000?

Mr. FORRESTAL. I recollect the formation of the company, Mr. Pecora, and I think the substance of what you say is correct, although I haven't refreshed myself as to the details.

Mr. PECORA. Now, after the transfer of those 500,000 shares of the capital common stock of United States & Foreign Securities Corporation was made, was there a distribution of any of that stock among the various partners or associates of the firm of Dillon, Read & Co.?

Mr. FORRESTAL. I think there was.

Mr. PECORA. Did you participate in such distribution?

Mr. FORRESTAL. I must have, as a member of the association.

Mr. PECORA. How many shares of that stock were transferred to you as a result of that distribution?

Mr. FORRESTAL. I think it was about 37,000 shares, but I would have to inquire in order to be sure.

Mr. PECORA. Well, that would be approximately the correct number, wouldn't it?

Mr. FORRESTAL. I think so. But may I consult my associate?

Mr. PECORA. You may refer to any records you wish in order to refresh your recollection.

Mr. FORRESTAL. I am informed, Mr. Pecora, that at the outset I received 7,500 shares, and in subsequent or additional distributions apparently made to me it raised that total in the final end to the sum of 37,000 shares.

Mr. PECORA. Thereafter did you sell or transfer any of those shares to any person or corporation?

Mr. FORRESTAL. There were certain of those shares transferred to the Beekman Co., Ltd.

Mr. PECORA. When was the Beekman Co., Ltd., organized?

Mr. FORRESTAL. It was either at the end of 1928 or at the beginning of 1929.

Mr. PECORA. Who caused it to be organized?

Mr. FORRESTAL. Well, I must, obviously, have caused it to be organized. But as to the inception of it, whether it came from myself or any other source I do not recollect.

Mr. PECORA. Under the laws of what State or jurisdiction was it organized?

Mr. FORRESTAL. It was organized under the laws of Canada.

Mr. PECORA. And where is the office or place of business of the Beekman Co., Ltd.?

Mr. FORRESTAL. In Ottawa, Canada. [After consulting an associate.] No; I think I am wrong about that. I think it is in Toronto, Canada.

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Mr. PECORA. Well, it is somewhere in Canada, at any rate?

Mr. FORRESTAL. Yes, sir.

Mr. PECORA. Either at Ottawa or Toronto, or some other city in Canada?

Mr. FORRESTAL. No; I am quite certain now it is Toronto.

Mr. PECORA. Who are the stockholders of the Beekman Company, Ltd.?

Mr. FORRESTAL. The stock of the Beekman Co., Ltd., was owned by the Beekman Corporation of Delaware.

Mr. PECORA. And who caused the Beekman Corporation of Delaware to be organized?

Mr. FORRESTAL. That was organized simultaneously with the formation of the Beekman Co., Ltd., of Canada.

Mr. PECORA. Did you cause it to be organized?

Mr. FORRESTAL. Yes.

Mr. PECORA. Does the Beekman Corporation of Delaware own all of the capital stock of the Beekman Co., Ltd.?

Mr. FORRESTAL. Yes.

Mr. PECORA. Now, who owns the capital stock of the Beekman Corporation of Delaware?

Mr. FORRESTAL. I own 70 percent and my wife owns 30 percent.

Mr. PECORA. You have stated that some of those shares of the capital common stock of United States & Foreign Securities Corporation, which you had acquired between 1924 and 1928, were transferred by you at some time to the Beekman Co., Ltd.

Mr. FORRESTAL. That is right.

Mr. PECORA. That is the Canadian corporation you have spoken of?

Mr. FORRESTAL. That is right.

Mr. PECORA. When was that transfer made?

Mr. FORRESTAL. I would have to check the exact date, because it was handled by——

Mr. PECORA (interposing). If you will do that, Mr. Forrestal.

Mr. FORRESTAL. In July of 1929 I understand, and subsequently some of it in August.

Mr. PECORA. In August of 1929?

Mr. FORRESTAL. That is right.

Mr. PECORA. How many shares were transferred to that Canadian corporation in July of 1929?

Mr. FORRESTAL. May I verify that?

Mr. PECORA. Refer to any records at any time, Mr. Forrestal, that will enable you to answer any questions put to you.

Mr. FORRESTAL. Thank you.

Mr. PECORA. All right, now, if you are ready to answer that question.

Mr. FORRESTAL. There were 15,000 shares transferred in July and 5,000 shares in August.

Mr. PECORA. Can you give me a specific date in July when the 15,000 shares were transferred to it?

Mr. FORRESTAL. July 3.

Mr. PECORA. July 3, 1929?

Mr. FORRESTAL. Yes.

Mr. PECORA. And on what date in August were the 5,000 shares transferred to it?

Mr. FORRESTAL. August 10.

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Mr. PECORA. Did you make the transfer of those two blocks of stock to that company?

Mr. FORRESTAL. Well, all the details of this company and its operations have been handled by my assistant, Mr. Strieffler, but I authorized it to be made; that is right.

Mr. PECORA. Now, what consideration, if any, did you receive from the Beekman Co., Ltd., for the 15,000 shares of stock which you transferred to it on July 3, 1929?

Mr. FORRESTAL. I will have to ask about that.

Mr. PECORA. All right.

Mr. FORRESTAL (after consulting with his associate). I received no consideration.

Mr. PECORA. What consideration, if any, did you receive on August 10, 1929, for the 5,000 shares which you transferred to that Beekman Co., Ltd., on August 10, 1929?

Mr. FORRESTAL. The same answer applies to that question.

Mr. PECORA. That is, no consideration, or if anything it was a nominal one?

Mr. FORRESTAL. None.

Mr. PECORA. None at all?

Mr. FORRESTAL. None.

The CHAIRMAN. Who were the stockholders in the Canadian Beekman Co.?

Mr. PECORA. He says it was the Beekman Corporation of Delaware, but that he and his wife were the stockholders of the Beekman Corporation of Delaware, in the proportions of 70 percent to himself and 30 percent to his wife.

Mr. FORRESTAL. That is right.

The CHAIRMAN. Was it the same as to the Canadian corporation?

Mr. FORRESTAL. All of the stock of the Canadian corporation was owned by the Delaware company, and the Delaware company was owned by——

The CHAIRMAN (interposing). It was not so owned until it was transferred to it, was it?

Mr. FORRESTAL. No. But the Canadian company and the Delaware company were organized simultaneously, at the end of 1928 or the beginning of 1929.

The CHAIRMAN. All right.

Mr. PECORA. Now, Mr. Forrestal, did all the owners of the joint-stock company, Dillon, Read & Co., participate in the distribution of the 500,000 shares I have referred to?

Mr. FORRESTAL. I presume they did, but I would want to check that for the record in order to be accurate.

Mr. PECORA. I wish you would check it.

Mr. FORRESTAL (after consulting an associate). The answer is "Yes."

Mr. PECORA. Now, who are the officers of the Beekman Co., Ltd., the Canadian corporation, which has been referred to?

Mr. FORRESTAL. Mr. Strieffler is the president of it and the treasurer, and Mr. John Vincent is the vice president and secretary.

Mr. PECORA. Who is Mr. Strieffler?

Mr. FORRESTAL. He is my assistant, and has handled, in addition to other duties, all of my financial transactions, all tax matters for me.

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Mr. PECORA. Is Mr. Strieffler an employee of Dillon, Read & Co.?

Mr. FORRESTAL. He is.

Mr. PECORA. In what capacity is he employed by Dillon, Read & Co.?

Mr. FORRESTAL. In a general capacity, but more specifically he has been an assistant to me in my work.

Mr. PECORA. What is the nature of his duties as an employee of Dillon, Read & Co.? Is he an accountant, a bookkeeper, or what?

Mr. FORRESTAL. He has been in many departments. He was in the bookkeeping department at one time, and in the cages as we call them; and at the present time I should say that I have unloaded on him all the details of anything coming before me for my attention that I possibly could.

Mr. PECORA. Do you mean by that to say that Mr. Strieffler, in addition to whatever duties he performs generally for the firm of Dillon, Read & Co., is especially assigned to you to assist you in the dispatch of whatever work you undertake for Dillon, Read & Co. as one of its partners?

Mr. FORRESTAL. Well, I may have appropriated him, Mr. Pecora, rather than he having been assigned to me. I wanted him to help me always as much as he could.

Mr. PECORA. Then you have appropriated him for the purpose of assisting you in the manner that has been indicated by you?

Mr. FORRESTAL. That is correct.

Mr. PECORA. Did you ask Mr. Strieffler to become president and treasurer of the Beekman Co., Ltd.?

Mr. FORRESTAL. No; I cannot recall that I did. Mr. Strieffler came to me, after he had consulted with my counsel, as to the formation of the company, and asked me for permission to proceed with it, in reply to which I said he might proceed with it providing he was thoroughly satisfied himself first, and that it had been fully discussed with my counsel. And he was elected president, and I do not recall, speaking quite frankly, that I asked him to take the position.

Mr. PECORA. Has Mr. Strieffler any beneficial interest in the Beekman Co., Ltd., or in the Beekman Corporation of Delaware?

Mr. FORRESTAL. No.

Mr. PECORA. Who is Mr. John Vincent, the gentleman you stated is vice president and secretary of the Beekman Co., Ltd.?

Mr. FORRESTAL. He has been a personal friend of mine and a member of the firm of Lord, Day & Lord.

Mr. PECORA. Is that a firm of New York attorneys?

Mr. FORRESTAL. That is correct; 25 Broadway. He has acted as my counsel.

Mr. PECORA. He has acted as your personal legal adviser?

Mr. FORRESTAL. My personal counsel.

Mr. PECORA. Does Mr. Strieffler receive any salary for his services as president and treasurer of the Beekman Co., Ltd.?

Mr. FORRESTAL. Yes.

Mr. PECORA. What salary does he receive for that?

Mr. FORRESTAL. $100 a month.

Mr. PECORA. Does Mr. Vincent receive any salary as vice president and secretary of the Beekman Co., Ltd.?

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Mr. FORRESTAL. I do not think he ever has been paid a salary.

Mr. PECORA. Have these two gentlemen, Messrs. Strieffler and Vincent, functioned as officers of the Beekman Co., Ltd., since that company was incorporated?

Mr. FORRESTAL. I believe they have; yes.

Mr. PECORA. Now, let us pass on to the Beekman Corporation of Delaware. Who is the president of that company?

Mr. FORRESTAL. The same officers. Mr. Strieffler is president.

Mr. PECORA. Mr. Streiffler likewise is president, as well as treasurer, of the Beekman Corporation of Delaware?

Mr. FORRESTAL. That is right.

Mr. PECORA. And is Mr. John Vincent likewise vice president and secretary of the Beekman Corporation of Delaware?

Mr. FORRESTAL. Yes.

Mr. PECORA. Have these two gentlemen held those offices since the incorporation of the Beekman Corporation of Delaware?

Mr. FORRESTAL. That is correct.

Mr. PECORA. Does either one of them receive any salary from the Beekman Corporation of Delaware for his services as an officer?

Mr. FORRESTAL. Mr. Strieffler receives a nominal salary. I would have to check to see what it is.

Mr. PECORA. In addition to the salary of $100 a month that Mr. Strieffler receives as president and treasurer of the Beekman Co., Ltd., and the nominal salary, whatever it be, that he receives as president and treasurer of the Beekman Corporation of Delaware, is he also compensated for his services to the firm of Dillon, Read & Co.?

Mr. FORRESTAL. He is.

Mr. PECORA. Is that compensation substantially greater than the compensation received by him as president and treasurer of these Beekman companies?

Mr. FORRESTAL. Yes.

Mr. PECORA. What was the purpose you had in mind when you caused the Beekman Co., Ltd., and the Beekman Corporation of Delaware to be incorporated, either in December 1928 or the early part of 1929, whenever it was?

Mr. FORRESTAL. As I recall it, either I, myself, had heard of the incorporation of companies in Canada with some advantages in the handling of taxes, or Mr. Strieffler had mentioned it to me. Which of those two is correct I do not recall, but in any event that was the basis for the inception of it, and from that there flowed the conversation with Mr. Vincent, and subsequently, through him and Mr. Knollenberg, who was his associate on taxation.

Mr. PECORA. What had you heard about the advantages of organizing a company in Canada with respect to tax matters?

Mr. FORRESTAL. I had heard, very frankly, nothing specific, Mr. Pecora, and I had never followed taxation myself in any detail.

Mr. PECORA. What were the advantages in tax matters that you had heard about in connection with Canadian companies?

Mr. FORRESTAL. I had heard nothing.

Mr. PECORA. You said that the thing that prompted you, or one of the things that prompted you to cause the Beekman Co., Ltd., and the Beekman Corporation, of Delaware to be incorporation was

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because you had heard something about the advantages accruing therefrom in tax matters. Don't you recall what those advantages were?

Mr. FORRESTAL. I am sorry I cannot be more specific than that, because that is all that I recall. I may add to that, that I had never—in previous years, or in that year—I never had myself known anything on taxes except the total amount of taxes that I paid, which, naturally, I was interested in knowing.

Mr. PECORA. When you caused these two companies to be organized after some one said something to you about advantages in tax matters to be derived therefrom, did you cause them to be organized with the hope of obtaining some advantage with regard to your income tax?

Mr. FORRESTAL. I frankly only—I knew nothing about the details of taxes. I knew that my counsel, Mr. Vincent, who acted not only as counsel, but with whom I had a personal relationship—I had complete confidence in him, and when this suggestion was made to me, whether it was made by my assistant or by somebody else, I instructed him to go to Mr. Vincent, lay the whole matter before him, and to follow exactly and specifically whatever suggestions or whatever advice of any kind my counsel gave.

Mr. PECORA. Who made that suggestion to you that caused you to do what you said you did?

Mr. FORRESTAL. I have already said, Mr. Pecora, I am not sure where it came from. Mr. Strieffler, I think, made the suggestion, but I am not certain that he did.

Mr. PECORA. What was the specific suggestion he made to you that prompted you to act upon it?

Mr. FORRESTAL. I cannot recall anything more in detail than that—that it was desirable.

Mr. PECORA. What was it, in substance?

Mr. FORRESTAL. I will say this: It was desirable to look into the matter.

Mr. PECORA. To what end?

Mr. FORRESTAL. Undoubtedly there must have been a consideration of taxes involved in it.

Mr. PECORA. Just what consideration of taxes? Did you hope to be able in some fashion within the law to minimize your income-tax payments?

Mr. FORRESTAL. My natural desire was to pay the minimum taxes that were legally proper for me to pay.

Mr. PECORA. And, that being your desire, did the suggestion that you received from somebody cause you to bring about the organization and incorporation of the Beekman Co., Ltd., of Canada and the Beekman Corporation of Delaware?

Mr. FORRESTAL. It undoubtedly must have, Mr. Pecora.

The CHAIRMAN. What was the result, based on what actually took place, as to your taxes?

Mr. FORRESTAL. I know I paid a total, I think—I will have to check it again—in 1929, of $300,000 in taxes. The actual result of the formation of this company upon my taxes I do not know; I mean how much greater they would have been. I do know—I am informed now that I would pay substantial taxes in the event of

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liquidating that company this year, which I want to do, which I guess would run around $50,000, possibly; but the difference, whatever difference there was in taxes, I do not know, sir.

The CHAIRMAN. You paid $300,000 before this company was formed?

Mr. FORRESTAL. No; I paid it for that year, 1929, the year in which this transfer of stock was made.

The CHAIRMAN. What have you paid since?

Mr. FORRESTAL. I do not think I paid anything, because I had no income.

Mr. PECORA. Mr. Forrestal, did the Beekman Co., Ltd., sell any of these 15,000 shares of the common stock of the United States & Foreign Securities Corporation which you turned over to it on July 3, 1929?

Mr. FORRESTAL. Yes.

Mr. PECORA. How much of those 15,000 shares did it sell?

Mr. FORRESTAL. May I check that?

Mr. PECORA. Certainly.

Mr. FORRESTAL (after conferring with an associate). I sold that 15,000 shares.

Mr. PECORA. All of it?

Mr. FORRESTAL. Yes.

Mr. PECORA. Did the Beekman Co., Ltd., sell any part, or all, of the 5,000 shares of that same stock which you turned over to it on August 10, 1929?

Mr. FORRESTAL. The Beekman Corporation sold an additional 1,700 shares.

Mr. PECORA. That is, in addition to the 15,000, it sold another 1,700.

Mr. FORRESTAL. Yes.

Mr. PECORA. Did that come out of the block of 5,000 shares that you transferred to the Beekman Co., Ltd., on August 10, 1929?

Mr. FORRESTAL. The 1,700 came out of that block of 5,000 shares, yes.

Mr. PECORA. When did the Beekman Co., Ltd., sell——

Mr. FORRESTAL. Mr. Pecora, may I interrupt?

Mr. PECORA. Certainly.

Mr. FORRESTAL. I said I paid $300,000. I think that included all taxes, both State and Federal. I do not want to have any misapprehension on the matter.

Mr. PECORA. For the year 1929.

Mr. FORRESTAL. Yes.

Mr. PECORA. When did the Beekman Co., Ltd., sell this total of 16,700 shares of the capital common stock of the United States & Foreign Securities Corporation?

Mr. FORRESTAL. July 10 on part and August 10 on the balance.

Mr. PECORA. Were those 16,700 shares that were so sold by the Beekman Co., Ltd., sold in connection with the operation of those two joint accounts which, according to the evidence before this committee introduced in the last few days, were organized some time in 1929, with Dominick & Dominick as managers?

Mr. FORRESTAL. My recollection is that those shares were sold in connection with the second syndicate.

Mr. PECORA. With the second joint account.

Mr. FORRESTAL. Yes.

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Mr. PECORA. As I remember it, that second joint account was entered into in July 1929.

Mr. FORRESTAL. I will have to take your statement for it, Mr. Pecora.

Mr. PECORA. I may be wrong. I am simply trusting to recollection.

Mr. FORRESTAL. I am informed that is correct.

Mr. PECORA. How much did the Beekman Co., Ltd., receive for those 16,700 shares of the common stock of the United States & Foreign Securities Corporation that were sold in July and August 1929?

Mr. FORRESTAL. My recollection is it received something over $800,000. Subsequently I think it repurchased, at around $63, some 2,500 of those shares.

Mr. PECORA. As a matter of fact, did not the Beekman Co., Ltd., cause to be sold 16,788 shares of the capital common stock of the United States & Foreign out of the 20,000 shares that you had transferred to the Beekman Co., Ltd.?

Mr. FORRESTAL. Sixteen thousand seven hundred and eighty-eight?

Mr. PECORA. Sixteen thousand seven hundred and eighty-eight.

Mr. FORRESTAL. That is correct.

Mr. PECORA. And did not the Beekman Co., Ltd., receive a total consideration of $896,410.65 for those 16,788 shares?

Mr. FORRESTAL. I am informed that the amount was $892,000, and the difference, I think, between that and your figures was some premium on exchange between Canada and New York.

Mr. PECORA. So that the total proceeds received from the sale of that stock by the Beekman Co., Ltd., were $896,410.65?

Mr. FORRESTAL. Yes; that is correct.

The CHAIRMAN. How much is that per share?

Mr. FORRESTAL. I think it was at $53. I know there was a difference of 10 points between that price and the price at which I purchased some of the stock later.

The CHAIRMAN. You had paid 20 cents.

Mr. FORRESTAL. I think that is not correct for all of it, Mr. Pecora. That was on the initial stock. Subsequent amounts, I think, were on the books at $10 a share.

Mr. PECORA. The initial allotment to you in 1924 out of this block of 500,000 shares of the United States & Foreign common stock that were acquired by Dillon, Read & Co., was of 7,500 shares.

Mr. FORRESTAL. Yes.

Mr. PECORA. For that you paid 20 cents a share.

Mr. FORRESTAL. Yes.

Mr. PECORA. The balance of the shares that were subsequently distributed or transferred to you out of that 500,000 block, you say you acquired at $10 a share?

Mr. FORRESTAL. I purchased them at 75 cents for 17,000 shares, and at $10 a share for the balance.

Mr. PECORA. Do you know how the Beekman Co., Ltd., set up on its books the 20,000 shares of the stock of the United States & Foreign which you turned over to it on July 3, 1929, and on August 10, 1929?

Mr. FORRESTAL. I do not, Mr. Pecora, because everything of that character is handled by Mr. Strieffler.

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Mr. PECORA. Haven't you been able to inform yourself on that at any time since then?

Mr. FORRESTAL. I have not, but I can now, because I can get it right here from Mr. Strieffler.

Mr. PECORA. If you will.

Mr. FORRESTAL (after consulting an associate). Fifteen thousand shares at $60; 5,000 shares at $63.50; and the total net sum was approximately $1,200,000.

Mr. PECORA. The total net sum was what?

Mr. FORRESTAL. $1,200,000.

Mr. PECORA. The total net sum was $1,217,500, was it not?

Mr. FORRESTAL. That is correct.

Mr. PECORA. Now, to be specific, on July 3, 1929, when you turned over the 15,000 shares to Beekman Co., Ltd., those shares were set up on its books at $60 a share, or a total of $900,000?

Mr. FORRESTAL. Yes.

Mr. PECORA. And on August 10, 1929, when you transferred to the Beekman Co., Ltd., the block of 5,000 shares, those shares were set up on its books at $317,500.

Mr. FORRESTAL. Yes.

Mr. PECORA. That makes a total of $1,217,500, which was the value given to the stock by the Beekman Co., Ltd., on its books at the time that you transferred the stock to that company.

Mr. FORRESTAL. Yes; that was the market price at the time.

Mr. PECORA. Now, the 16,788 shares of that stock which you say the Beekman Co., Ltd., sold through Dominick & Dominick in July and in August 1929, was stock that was set up on its books at a total valuation of $1,013,538, was it not?

Mr. FORRESTAL. The figure was what?

Mr. PECORA. $1,013,538.

Mr. FORRESTAL. That is correct. It was sold to Dillon, Read & Co., I think.

Mr. PECORA. That figure of $1,013,538 was arrived at in this way, was it not: 15,000 shares of those 16,788 shares were set up at a valuation of $60 a share, or $900,000; and the 1,788 shares were set up at a valuation of $63.50 per share?

Mr. FORRESTAL. Yes, that is correct.

Mr. PECORA. And those 16,788 shares, as you have already testified, were sold through Dominick & Dominick, in July and August of 1929, for a total consideration——

Mr. FORRESTAL. I am informed, Mr. Pecora, they were sold to Dillon, Read & Co.

Mr. PECORA. Sold by Dillon, Read & Co.?

Mr. FORRESTAL. Sold to Dillon, Read & Co.

Mr. PECORA. Sold to Dillon, Read & Co. by the Beekman Co., Ltd.?

Mr. FORRESTAL. Yes.

Mr. PECORA. They were sold in the open market through Dominick & Dominick, as a matter of fact, were they not?

Mr. FORRESTAL. Yes.

Mr. PECORA. And they were so sold through Dominick & Dominick in the open market for this total consideration of $896,410.65?

Mr. FORRESTAL. Yes.

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Senator TOWNSEND. And Dillon, Read & Co. were the purchasers of the stock?

Mr. FORRESTAL. Yes.

Mr. PECORA. Did you mean to say just now, in answer to Senator Townsend's qeustion, that these 16,788 shares were first sold by the Beekman Co., Ltd., to Dillon, Read & Co.?

Mr. FORRESTAL. May I find out? I am not sure.

Mr. PECORA. What was the answer you made to Senator Townsend's question?

Mr. FORRESTAL. I said "to."

Mr. PECORA. Sold to Dillon, Read & Co. Is that so, Mr. Forrestal?

Mr. FORRESTAL. I think the correct answer is that it was sold to the account through Dillon, Read & Co. acting as agents for Beekman Co.

Mr. PECORA. That is, these 16,788 shares were sold to the joint account that was managed by Dominick & Dominick?

Mr. FORRESTAL. That is correct.

Mr. PECORA. Through Dillon, Read & Co. acting as agents for the Beekman & Co., Ltd., is that correct?

Mr. FORRESTAL. Yes. And may I just check to be sure? [After consulting associates.] That is our interpretation of it.

Mr. PECORA. What if anything did the Beekman Corporation of Delaware pay for the issuance to it of the entire capital stock of the Beekman Co., Ltd.?

Mr. FORRESTAL [after consulting associates]. The stock in the Canadian company was first issued to me, and I then transferred it to the Delaware corporation in exchange for its stock.

Mr. PECORA. I see. Was the entire capital stock of the Beekman Co., Ltd., issued to you in return for these 20,000 shares of the common stock of the United States & Foreign Securities Corporation?

Mr. FORRESTAL. I don't think so.

Mr. PECORA. What did you pay the Beekman Co., Ltd., for its entire capital stock?

Mr. FORRESTAL. Well, you see, the Beekman Co., Ltd., was organized, as I said, at the end of '28 or the beginning of '29, and at that time I received its stock I think in exchange for securities or assets which were transferred to it.

Mr. PECORA. Did those securities or assets include any of these common shares of the United States & Foreign Securities Corporation?

Mr. FORRESTAL. None, no.

Mr. PECORA. What were the securities that you turned over to the Beekman Co., Ltd., in return for its capital stock.

Mr. FORRESTAL. There were 15 miscellaneous securities.

Mr. PECORA. An assortment of 15 different issues?

Mr. FORRESTAL. Yes.

Mr. PECORA. And what was their market value at the time of the exchange?

Mr. FORRESTAL (after consulting associates). It was a substantial amount, I think around $300,000, but I don't recollect the figure.

Mr. PECORA. That is the market value?

Mr. FORRESTAL. Yes.

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Senator COUZENS. Was there any profit on that?

Mr. FORRESTAL (after consulting associates). I am informed that under the law there was no profit on those stocks.

Mr. PECORA. Well, in fact was there any profit, apart from the legal consideration of it?

Mr. FORRESTAL. Oh, there must have been, because the market at that time must have been higher than what I paid for the stocks.

Mr. PECORA. What you mean when you say that under the law there was no profit is just simply this, isn't it, that you turned over securities that then had a market value of around $300,000 to the Beekman Co., Ltd., in return for the issuance by it to you of all of its capital stock?

Mr. FORRESTAL. Yes; that is right.

Mr. PECORA. And those securities that you exchanged for the capital stock of the Beekman Co., Ltd., which had a market value at the time of such exchange of about $300,000, had previously been acquired by you at prices less than $300,000?

Mr. FORRESTAL. I am sure that must be the case, although I will have to check it.

Mr. PECORA. And because you received payment for those securities having then a market value of about $300,000 in the form of the capital stock of the Beekman Co., Ltd., any profit accruing to you therefrom was not a taxable profit under the tax laws of this country? Is that what you meant to say when you said that under the laws there was no profit?

Mr. FORRESTAL. That is right; yes.

Mr. PECORA. But there was in fact a profit?

Mr. FORRESTAL. Yes.

The CHAIRMAN. How many shares were there in the Beekman Co., Ltd.?

Mr. FORRESTAL. Its capitalization was 100 shares.

Mr. PECORA. When you acquired all of the capital stock of the Beekman Co., Ltd., you transferred that stock to the Beekman Corporation of Delaware in return for its capital stock, didn't you?

Mr. FORRESTAL. Yes, that and some other securities.

Mr. PECORA. With this difference, that you received from the Beekman Corporation of Delaware not all of its capital stock; you received only 70 percent thereof and your wife received the other 30 percent?

Mr. FORRESTAL. Whether or not that was the case at the beginning, I may have and probably did own the hundred percent of that Delaware company. I think the transfer to my wife was made subsequently. I would have to check the records on that.

Senator COUZENS. Do you know whether the Internal Revenue Bureau investigated that transaction at the time they audited your income-tax return?

Mr. FORRESTAL. I do not know whether they did or not. [After conferring with associates.] I am told they looked, Senator, at my personal returns of 1929 but not at the company returns.

Mr. PECORA. Did the Beekman Co., Ltd., file any income-tax return for the year 1929?

Mr. FORRESTAL. None.

Mr. PECORA. Did it file any for the year 1930?

Mr. FORRESTAL. No.

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Mr. PECORA. Or for the year 1931?
Mr. FORRESTAL. No.
Mr. PECORA. Or for the year 1932?
Mr. FORRESTAL. No.
Mr. PECORA. Has it filed any for the current year?
Mr. FORRESTAL. It has for the current year.
Mr. PECORA. When did it file a return for the current year?
Mr. FORRESTAL. There was a return for the year 1932. I assume that is what you mean when you say the current year.
Mr. PECORA. Yes; for the year 1932.
Mr. FORRESTAL. Yes; there was a return filed.
Mr. PECORA. When was it filed?
Mr. FORRESTAL. In May or June, I think.
Mr. PECORA. June 16, 1933, wasn't it?
Mr. FORRESTAL. That is approximately right.
Mr. PECORA. And do you know the circumstances that caused the Beekman Co., Ltd., to file on June 16, 1933 an income tax return for the calendar or tax year of 1932 and 1929?
Mr. FORRESTAL. Yes; I do.
Mr. PECORA. And what were those circumstances?
Mr. FORRESTAL. Mr. Strieffler, I think, came to me some time in April or May and said that—I am not certain; I may have raised the question with him, but I am not certain whether it was at my instance or his—but in any event he said that he thought there were certain transactions which he had overlooked and made a mistake in returns of 1932 or 1929, I have forgotten which, and I then said that he should communicate with Mr. Knollenberg and if there was any question in his mind as to the accuracy of the returns that were filed that he should have Mr. Knollenberg immediately survey all of those returns, going back to the inception of the company. Two or three days afterward Mr. Knollenberg had looked at them, and at his suggestion, and my own wish also, a complete return of all the transactions of the company was filed.
Mr. PECORA. As a matter of fact, Mr. Forrestal, weren't you and Mr. Strieffler prompted to do these things and cause this return to be filed by the Beekman Co., Ltd., on June 16, 1933, because shortly previous to that date you had heard or read of certain testimony introduced before this committee during the months of May and June with respect to income-tax returns filed in behalf of members of another banking firm?
Mr. FORRESTAL. Undoubtedly; I am sure that was the case. I mean that was undoubtedly the reason for surveying all of the transactions that had taken place.
Mr. PECORA. And when you became familiar with that testimony introduced before this committee in May or June of this year you concluded to look into the matter of income taxes pertaining either to yourself or the Beekman Co., Ltd.?
Mr. FORRESTAL. I asked Mr. Knollenberg to look into any transactions of any kind that we had where taxes were involved.
Mr. PECORA. And so Mr. Knollenberg pursuant to your request then looked into it and caused this income-tax return for the year 1929 to be filed on June 16, 1933, on behalf of the Beekman Co., Ltd.?
Mr. FORRESTAL. And subsequent years.

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Mr. PECORA. And for years subsequent to 1933?

Mr. FORRESTAL. Yes.

Senator COUZENS. Did the filing of these returns require you to pay any income tax?

Mr. FORRESTAL. Yes.

Senator COUZENS. How much?

Mr. FORRESTAL. I think it was $6,000, Senator.

Mr. PECORA. Was that tax paid by you individually or by the Beekman Co., Ltd.?

Mr. FORRESTAL. By the Beekman Co., Ltd., I think. Yes.

Senator COUZENS. So that is a contribution to the expense of this committee, at least, isn't it?

Mr. FORRESTAL. Yes, sir.

Mr. PECORA. Do you know why the Beekman Co., Ltd., did not file any return for the year 1929 until June 16, 1933?

Mr. FORRESTAL. I don't know; no.

Mr. PECORA. Can you tell the committee what the cost to you was originally of the 16,788 shares which formed part of the shares, part of the two 20,000 shares that you transferred to the Beekman Co., Ltd.? I am referring to the charges of the common stock of United States & Foreign Securities Corporation.

Mr. FORRESTAL. You want an average price?

Mr. PECORA. No; the actual consideration.

Mr. FORRESTAL. There was 7,500 shares. I think I have already given that figure.

Mr. PECORA. There was 7,500 shares that cost you 20 cents a share?

Mr. FORRESTAL. Yes.

Mr. PECORA. That is $1,500, isn't it?

Mr. FORRESTAL. Yes. Seven thousand five hundred at 20 cents a share and 17,500 at 75 cents a share, and the difference, which was 12,500 shares, at $10 a share.

Mr. PECORA. The calculation that we have made based upon those unit prices would show that these 16,788 shares cost you originally $28,539.60. Is that right?

Mr. FORRESTAL. Yes.

Mr. PECORA. And they were sold, as has already been developed, in 1929 by the Beekman Co., Ltd., through Dominick & Dominick for $896,410.65?

Mr. FORRESTAL. Yes.

Mr. PECORA. Now, what was done by the Beekman Co., Ltd., with the proceeds, amounting to nearly $900,000, arising from the sale of these 16,788 shares?

Mr. FORRESTAL. I do not know specifically, except that it was invested in various securities. I think about $180,000 of it was used for the subsequent repurchase of around 16,000 shares of United States & Foreign stock at about $63 a share.

Mr. PECORA. The proceeds of nearly $900,000 arising from the sale of these shares at first went into the treasury of the Beekman Co., Ltd., didn't they?

Mr. FORRESTAL. Yes.

Mr. PECORA. And were thereafter expended either in whole or in part in the purchase or acquisition of other securities?

Mr. FORRESTAL. Yes.

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Mr. PECORA. Well, was all of that cash expended in the purchase of other securities, or did the greater part of it remain to the credit and account of the Beekman Co., Ltd.?

Mr. FORRESTAL. I don't think the greater amount did, but I don't know, frankly, Mr. Pecora.

Mr. PECORA. Was any of that cash at any time transferred by the Beekman Co., Ltd., to the Beekman Corporation of Delaware?

Mr. FORRESTAL. I am informed that it was not.

Mr. PECORA. Were any of the securities that were purchased with any of the proceeds of the sale of the stocks by the Beekman Co., Ltd., through Dominick & Dominick transferred thereafter to the Beekman Corporation of Delaware?

Mr. FORRESTAL (after consulting associates). There were some securities sold, I am informed, by the Beekman Corporation of Delaware acting as agent for the Beekman Co., Ltd., but I am told that there were no stocks of these involved.

Mr. PECORA. No sales made as agent?

Mr. FORRESTAL. No.

Mr. PECORA. Did you ever borrow any money from the Beekman Co., Ltd., at any time after the sale for nearly $900,000 of these 16,788 shares of the United States & Foreign stock?

Mr. FORRESTAL. I think I did.

Mr. PECORA. When for the first time did you borrow any sum of money following that sale from the Beekman Co., Ltd.?

Mr. FORRESTAL. I don't know, Mr. Pecora.

Mr. PECORA. Was it some time in 1929?

Mr. FORRESTAL. Must have been, I am sure.

Mr. PECORA. What was the amount of the loan that was made to you by the Beekman Co., Ltd., the loan or loans?

Mr. FORRESTAL. Around $500,000.

Mr. PECORA. As a matter of fact, did they not aggregate, during the year 1929, for that portion thereof, subsequent to the sale of the stock, the sum of $589,331.89?

Mr. FORRESTAL. I am informed that that is right.

Mr. PECORA. In the year 1930, did you obtain any loans individually from the Beekman Co., Ltd.?

Mr. FORRESTAL. I do not know.

Mr. PECORA. Will you please inform yourself from your records?

Mr. FORRESTAL. We can get that. All we have is the tax return.

Senator COUZENS. Did you pay those loans back?

Mr. FORRESTAL. Yes.

Senator COUZENS. In the form of cash or securities?

Mr. FORRESTAL. Cash, I think, and securities, both; yes, sir.

Mr. PECORA. According to our examination of the records, the loans that were made to you during the year 1930 by the Beekman Co., Ltd., aggregated $185,000. Can you confirm that?

Mr. FORRESTAL. I imagine your figures are correct. My own records are not here.

Mr. PECORA. Can any of your associates inform you or give you any confirmation of that?

Mr. FORRESTAL. They cannot, because the records are not here; but your assistant saw the books, and I assume those figures must be correct.

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Mr. PECORA. Then, subject to correction, you are willing to let those figures stand?

Mr. FORRESTAL. Yes, sir.

Mr. PECORA. All right. That would make an aggregate of $774,331.89 which you borrowed from the Beekman Co., Ltd., during the years 1929 and 1930, subsequent to the making of those sales of 16,788 shares by Beekman Co., Ltd.?

Mr. FORRESTAL. Yes; it is a matter of addition.

Mr. PECORA. Did you repay those loans, you say?

Mr. FORRESTAL. Yes.

Mr. PECORA. When?

Mr. FORRESTAL. Sometime, I am informed, in 1930.

Mr. PECORA. Did you borrow any moneys from the Beekman Corporation of Delaware to enable you to repay those loans to the Beekman Co., Ltd.?

Mr. FORRESTAL. I do not know about that.

Mr. PECORA. Don't you know how you repaid the loan?

Mr. FORRESTAL. I am sorry, but I have not my records here, and I do not personally know. Your question was as to the date of the repayment, was it, Mr. Pecora?

Mr. PECORA. No. I asked you if, in order to enable you to repay those loans, you borrowed moneys from the Beekman Corporation of Delaware.

Mr. FORRESTAL. I am informed that I sold certain securities to the Beekman Co. of Canada.

Mr. PECORA. The Beekman Co., Ltd.?

Mr. FORRESTAL. Yes.

Mr. PECORA. And from the proceeds of the sale of those securities to Beekman Co., Ltd., did you repay those loans?

Mr. FORRESTAL. Yes.

Mr. PECORA. In whole?

Mr. FORRESTAL. Yes.

Mr. PECORA. When?

Mr. FORRESTAL. Some time in 1930.

Mr. PECORA. Did you ever borrow any moneys from the Beekman Corporation of Delaware?

Mr. FORRESTAL. Yes.

Mr. PECORA. How much did you borrow from that corporation during the year 1929?

Mr. FORRESTAL. I do not think there are any records here on that; but if your men have seen those figures, I am willing to accept it, subject to correction, whatever the figure is.

Mr. PECORA. Did the Beekman Corporation of Delaware borrow any moneys from the Beekman Co., Ltd., subsequent to the sale of these 16,788 shares?

Mr. FORRESTAL. I think they did.

Mr. PECORA. Do you know how much was loaned to the Beekman Corporation of Delaware by the Beekman Co., Ltd.?

Mr. FORRESTAL. No, I do not, Mr. Pecora.

Mr. PECORA. Our examination of the books shows as follows with respect to such loans, that during the year 1929, loans were made by the Beekman Co., Ltd., to the Beekman Corporation of Delaware, aggregating $50,000; during the year 1930, such loans aggregated

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$155,000, and during the year 1931, such loans aggregated $127,000; during the year 1932, such loans aggregated $94,000.

Mr. FORRESTAL. May I accept those figures, again, subject——

Mr. PECORA. Subject to any correction you wish to make after you have had a chance to check them all. All right.

What was the purpose of making these loans to the Beekman Corporation of Delaware?

Mr. FORRESTAL. I think it was to purchase securities at different times.

Mr. PECORA. Have those loans been repaid by the Beekman Corporation of Delaware?

Mr. FORRESTAL. Not completely.

Mr. PECORA. As a matter of fact, when the Beekman Co., Ltd., which is the Canadian company, was questioned by the Internal Revenue Bureau authorities during this year to give a reason for not having filed an income-tax return for the year 1929, what reason, if any, was advanced by the Beekman Co., Ltd., for its failure to file such a return?

Mr. FORRESTAL. I am sorry; I missed the last part of your question. The reason for what?

Mr. PECORA. What reason did it give for its failure to file an income-tax return for the year 1929 when such a return should have been filed?

Mr. FORRESTAL. Mr. Knollenberg has just informed me that the reason was that it was not thought there was any payment due, because these transactions had taken place outside of the United States, with the exception of some on which tax was paid this year.

Senator COUZENS. You testified a while ago that you paid $6,000 plus in taxes?

Mr. FORRESTAL. I think so; yes.

Senator COUZENS. Are there any further claims pending against that tax return?

Mr. FORRESTAL. There have been none that have been filed yet, Senator, although it is our understanding that some may be.

Senator COUZENS. Have you any idea how much is likely to be assessed?

Mr. FORRESTAL. I think it is about——

Mr. PECORA. About $95,000?

Mr. FORRESTAL. My recollection was that it was around $100,000.

Senator COUZENS. But the assessment has not really been made, I understand?

Mr. FORRESTAL. That is correct.

Mr. PECORA. Is the matter still the subject of discussion or controversy with the Internal Revenue Department?

Mr. FORRESTAL. I do not think there has been any controversy yet, but it is my understanding that the subject is open.

The CHAIRMAN. Did the Beekman Co., Ltd., pay any taxes in Canada?

Mr. FORRESTAL. I don't think so, Senator.

Mr. PECORA. The Beekman Co., Ltd., never declared any dividends, did it?

Mr. FORRESTAL. I don't think so.

Mr. PECORA. And had any dividends been declared, they would have gone to you and your wife as the sole owners of all of the capital

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stock of the Beekman Corporation of Delaware which, in turn, owns all of the capital stock of the Beekman Co., Ltd.?

Mr. FORRESTAL. That is right.

Mr. PECORA. You know, don't you, that any such dividends paid would have been included in the taxable income of yourself and your wife?

Mr. FORRESTAL. Yes; I should think so.

Mr. PECORA. But instead of getting dividends from the Beekman Co., Ltd., you borrowed moneys amounting to almost $800,000 from the Beekman Co., Ltd., in 1929 and 1930?

Mr. FORRESTAL. Yes; which have been repaid.

Mr. PECORA. What kind of securities did you sell to the Beekman Co., Ltd., with the proceeds of which you say you repaid those loans?

Mr. FORRESTAL. I am informed that I sold some preferred stock of Dillon, Read & Co. joint stock association.

Mr. PECORA. Was there any market value for that stock? That stock, as a matter of fact, is held only by members of the firm of Dillon, Read & Co., is it not?

Mr. FORRESTAL. Yes.

Mr. PECORA. So that the ownership of that stock by the Beekman Co., Ltd., is really for your benefit?

Mr. FORRESTAL. Any ultimate beneficiaries would be myself and my wife.

The CHAIRMAN. Are those two corporations still doing business?

Mr. FORRESTAL. Yes. As I think I said, Senator Fletcher, I have considered the dissolution of the Canadian company, but it is still in existence.

The CHAIRMAN. Where is the office of the Delaware company?

Mr. FORRESTAL. In Wilmington, Del.

Mr. PECORA. Mr. Forrestal, at what valuation did the Beekman Co., Ltd., take over these shares of Dillon, Read & Co., joint stock association?

Mr. FORRESTAL. At my cost.

Mr. PECORA. At cost to you?

Mr. FORRESTAL. That is what I am informed; yes, at my cost.

Mr. PECORA. What was it?

Mr. FORRESTAL. $500,000.

Senator COUZENS. In other words, you put $500,000 into Dillon, Read & Co.?

Mr. FORRESTAL. That is correct, Senator; yes.

Mr. PECORA. That left a balance of nearly $300,000?

Mr. FORRESTAL. Yes.

Mr. PECORA. Between the payment in the form of the stock and the amount of the loans that were made to you in 1929 and 1930 by the Beekman Co., Ltd.?

Mr. FORRESTAL. About $170,000 is accounted for by the subsequent repurchase of 2,500 shares of common stock at $63 a share. I think it is about $175,000.

Mr. PECORA. How was the balance of the loans paid?

Mr. FORRESTAL. Through the sale of securities.

Mr. PECORA. What securities?

Mr. FORRESTAL. Securities I own. What they are I do not know.

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Mr. PECORA. Whom did the Beekman Co., Ltd., buy those securities from?

Mr. FORRESTAL. From myself.

Mr. PECORA. In the year 1930?

Mr. FORRESTAL. Well, during the time that the loans were outstanding.

Mr. PECORA. Would you say, fairly and reasonably, Mr. Forrestal, that the Beekman Co., Ltd., since its existence, has virtually been your alter ego?

Mr. FORRESTAL. I would not want to undertake to define its status. As I have said, it undoubtedly was owned through the ownership of Delaware company stock by myself. It was owned by me, and I profit from its assets which would accrue to me any time I dissolve it.

Mr. PECORA. It was set up or caused to be organized by you in conjunction with the Beekman Corporation of Delaware in order to act for you and for your interest, or the interests jointly of you and your wife?

Mr. FORRESTAL. Yes.

Senator COUZENS. So, in effect, all these transactions were really between yourselves, because you owned all of them; and all these transactions, no matter how the bookkeeping entries may have been made, were really, in effect, between yourselves?

Mr. FORRESTAL. Certainly for myself, Senator.

Senator COUZENS. In other words, leaving out all legal technicalities and legal entities, the fact was that you were just switching money back and forth between one pocket and another?

Mr. PECORA. Money and securities.

Senator COUZENS. Yes; money and securities?

Mr. FORRESTAL. Well, I had not thought of it in that fashion.

Mr. PECORA. As I understand your testimony, Mr. Forrestal, the net sum for your 16,788 shares of the common stock of the United States & Foreign Securities Corporation which were sold through Dominick & Dominick in the year 1929 was $892,936.01, and that the stock originally cost you an aggregate of $28,539.60, resulting in a difference of $864,396.41?

Mr. FORRESTAL. Yes.

Mr. PECORA. And if sales of those 16,788 shares of the capital common stock of the United States & Foreign had been made through Dominick & Dominick by you, instead of through the medium of the Beekman Co., Ltd., it would have resulted in a profit to you of the sum of $864,396.41, would it not?

Mr. FORRESTAL. Yes. That is the difference between the two figures.

Senator COUZENS. What would have been the taxable income on that had it been reported direct by you?

Mr. FORRESTAL. I think it was a figure of $95,000.

Mr. PECORA. That figure of $95,000 would have represented the tax on that profit if it had stood alone, if it had represented your entire taxable income for that year, would it not?

Mr. FORRESTAL. Yes.

Mr. PECORA. But you had other profits; you individually derived other profits from your business or securities transactions for the year 1929, did you not?

Mr. FORRESTAL. Yes.

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Mr. PECORA. Those profits were of a size or magnitude that required your paying individually to both the Federal Government and the State of New York sums approximating $300,000?

Mr. FORRESTAL. Yes, sir.

Mr. PECORA. So if this profit of $864,000 and odd had been included for the taxable year 1929 in your taxable income for that year, it would have placed your taxable income into still higher brackets for that year, would it not?

Mr. FORRESTAL. Yes.

Mr. PECORA. And the tax which you would have been required to pay, by virtue of this additional profit of $864,000 and odd, would have greatly exceeded $95,000 additional, would it not?

Mr. FORRESTAL. Yes.

The CHAIRMAN. What salary do you receive?

Mr. FORRESTAL. I do not receive any salary, sir. Of course I had held most of these things for over 2 years; so in any case the tax would not have exceeded 12½ percent on the bulk of those securities.

Mr. PECORA. Mr. Forrestal, you have already stated in answer to my questions that had you reported this profit of eight hundred and sixty-four thousand and odd dollars as your personal income for the year 1929 the tax thereon would have been around $95,000.

Mr. FORRESTAL. Yes.

Mr. PECORA. As a matter of fact, would not the tax thereon have been considerably more than $95,000?

Mr. FORRESTAL. Well, I frankly do not know, Mr. Pecora.

Mr. PECORA. Perhaps your legal adviser can inform you about that.

Mr. FORRESTAL. Mr. Knollenberg might be able to tell me that. I am informed it would be about one eighth of the profit.

Mr. PECORA. It would be what?

Mr. FORRESTAL. About one eighth. About 12½ percent.

Mr. PECORA. No; is that not the tax that would have been paid by a corporation? Not an individual?

Mr. FORRESTAL. You see, most of that, I am informed, was capital gain on securities that I owned for the 2 years. I know nothing about the tax, but I am told by Mr. Knollenberg that that is the case.

Mr. PECORA. Do you know that on June 3 of this year your counsel, Messrs. Lord, Day & Lord, wrote a letter to the collector of internal revenue at Baltimore, Md., in which this reference was made to the reason why the Beekman Co., Ltd., did not file an income tax return for the year 1929:

> At the time the return was due the officers of the company understood that all the income of the company was derived from Canadian sources, except certain dividends and interest, which were believed to be exempt from United States tax. It was recently discovered that such was not the case, and we were therefore instructed to prepare the necessary return for 1929 to be executed and filed by the company, which is the return enclosed herewith.

Mr. FORRESTAL. I know such a letter was written. I do not recall the exact terms.

Mr. PECORA. Which particular officer or officers of the Beekman Co., Ltd., were informed or understood that all of the income of Beekman Co., Ltd., for the year 1929, which included the proceeds from the sale of these 16,788 shares, had been derived from Canadian sources?

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Mr. FORRESTAL. I lost the first part of the question. I am sorry.

Mr. PECORA. The reporter will read the question.

(Thereupon the first portion of the pending question was read by the reporter as above recorded.)

Mr. FORRESTAL. I think Mr. Knollenberg and Mr. Strieffler together. I think the facts were developed by Mr. Strieffler and Mr. Knollenberg jointly.

Mr. PECORA. Do you know from what sources either of those gentlemen acquired their information which caused them to believe that all of the income of the Beekman Co., Ltd., for the year 1929, with certain exceptions, had been derived from Canadian sources?

Mr. FORRESTAL. No; I do not, Mr. Pecora.

Mr. PECORA. You personally knew, did you not, that the 16,788 shares of the common stock of the United States & Foreign Securities Corporation had actually been sold in this country through the medium of the joint account conducted by Dominick & Dominick?

Mr. FORRESTAL. I knew stock had been sold by them.

Mr. PECORA. And you knew that that stock had been sold here in this country?

Mr. FORRESTAL. No; I did not know that, Mr. Pecora.

Mr. PECORA. Where did you think it had been sold?

Mr. FORRESTAL. I did not think one way or the other about it, because I think that firm had offices abroad as well as here. I am not trying to imply that it was not the case.

Mr. PECORA. Mr. Forrestal, were you not familiar in 1929 with the existence of this document which has been marked in evidence here as "Committee Exhibit No. 10 of October 4, 1933", which I now show you?

Mr. FORRESTAL. I do not remember that I saw that, Mr. Pecora.

Mr. PECORA. Were you not familiar with the transaction alluded to in that letter, Committee Exhibit No. 10?

Mr. FORRESTAL. Yes. I knew that they were active in the stock.

Mr. PECORA. What did you know about it in 1929?

Mr. FORRESTAL. Well, as I remember it I think that—well, really the first I heard of it I think was when I was asked by Mr. Christie whether I wished to sell or dispose of any of my stock.

Mr. PECORA. Mr. Christie was one of the associates or partners of Dillon, Read & Co. at that time, was he not, together with yourself?

Mr. FORRESTAL. Yes.

Mr. PECORA. Go ahead.

Mr. FORRESTAL. And I think that is about the story. I think that he came to me and said that an account had been formed and asked me to indicate if I chose to sell any stock, and my recollection is that my first answer was "No", because I think that was somewhat early in the year, and subsequently I think I said that I would sell some stock, and the exact amount of course was the shares that——

Mr. PECORA. And the amount that you did sell was the 16,788 shares?

Mr. FORRESTAL. Yes.

Mr. PECORA. Do you mean by that that the Beekman Co., Ltd., turned over those shares to Dominick & Dominick under your instructions to be so sold?

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Mr. FORRESTAL. Not under specific instructions, Mr. Pecora.

Mr. PECORA. Well, you were the only one that virtually had any interest in Beekman Co., Ltd., outside of your wife?

Mr. FORRESTAL. Yes. I mean as far as the actual time when they were turned over, and how it was done, I do not know.

Mr. PECORA. You do not know how it was done?

Mr. FORRESTAL. No. I did not.

Mr. PECORA. Did not your partner, Mr. Christie, say something to you about a proposal to form a joint account with Dominick & Dominick to be managed by Dominick & Dominick for the sale in the open market here of shares of the United States & Foreign Securities Corporation?

Mr. FORRESTAL. He obviously must have. I do not recall any specific conversation in which he did, but there is no question he must have.

Mr. PECORA. Mr. Christie has testified here in substance, Mr. Forrestal, that the matter of entering into this joint account with Dominick & Dominick was discussed first as a firm proposition by the partners or associates of Dillon, Read & Co., and that the decision was then arrived at on behalf of the firm that the firm, which at that time owned 250,000 shares of the common stock of United States & Foreign Securities Corporation, was not going to enter into any such joint account.

Mr. FORRESTAL. Yes, that is right. I remember that.

Mr. PECORA. Mr. Christie further testified here in substance that after that decision by the firm he discussed with individual members of the firm who individually owned large blocks of the common stock of United States & Foreign, the proposal to enter into a joint account with Dominick & Dominick for the sale of common shares of the United States & Foreign. That, as I recall it, is in substance, some of the testimony given here before this committee by Mr. Christie.

Mr. FORRESTAL. I think that is right.

Mr. PECORA. Does that accord with your recollection of what occurred in 1929?

Mr. FORRESTAL. I think that is right. I cannot, as I say, recall any specific conversation, but that is the substance, to my recollection.

Mr. PECORA. Did you not understand as a result of those conversations that you were going to sell some of your individual holdings——

Mr. FORRESTAL. Yes.

Mr. PECORA (continuing). Of this common stock of the United States & Foreign Securities Corporation.

Mr. FORRESTAL. Yes.

Mr. PECORA. But instead of making the sale directly by you individually you made it through the Beekman Co., Ltd., in the manner that you have described here this morning?

Mr. FORRESTAL. Yes. The decision to do it in that manner I did not myself arrive at.

Mr. PECORA. Who arrived at that decision for you?

Mr. FORRESTAL. Mr. Strieffler in conjunction, I think, with Mr. Knollenberg or Mr. Vincent—I am not sure which.

Mr. PECORA. How did it happen that they made the decision for you?

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Mr. FORRESTAL. Because the company itself had been organized in the first instance—which was some time previous to this transaction—under Mr. Knollenberg's advice and guidance, and any transactions which were to take place I assume should have been visaed by him, and he should be familiar with them.

Mr. PECORA. How did you come to speak to Mr. Knollenberg at all on that subject when the proposal before you was whether or not you would enter this joint account with Dominick & Dominick and others of your partners, for the purpose of making sales of your shares of the common stock of the United States & Foreign?

Mr. FORRESTAL. Well, I did not speak to them, Mr. Pecora. Mr. Strieffler spoke to them.

Mr. PECORA. Did you have any discussion of the subject with Mr. Strieffler as the result of which Mr. Strieffler took the question up with Mr. Knollenberg?

Mr. FORRESTAL. Not that I recall, Mr. Pecora.

Mr. PECORA. Well, Mr. Strieffler was not without some request or suggestion from you consulting your attorneys, was he?

Mr. FORRESTAL. The only instruction I have ever given him was that anything of any kind that he himself was not clear upon should be taken up with my attorney.

Mr. PECORA. Did you tell Mr. Strieffler that you had decided to sell any of your shares of the common stock of the United States & Foreign at about that time?

Mr. FORRESTAL. Yes.

Mr. PECORA. And did you tell him to do anything about it?

Mr. FORRESTAL. I told him that I had authorized the sale of whatever the number of shares was involved.

Mr. PECORA. The 16,000?

Mr. FORRESTAL. Yes. I told him to handle it.

Mr. PECORA. Do you know on what basis you or the Beekman Co., Ltd., paid a tax of around $6,000 by virtue of any of these transactions since the filing of the return on June 16 of this year for the year 1929?

Mr. FORRESTAL. I do not know of any details, because the decision to make that report was arrived at by Mr. Strieffler and Mr. Knollenberg together. I do not want to inject them into this conversation, but they can give you any specific detailed reasons.

Mr. PECORA. Mr. Forrestal, communications of any kind, oral or written, between attorney and client are of a confidential character, and cannot be disclosed by the attorney without the consent of the client. Are you willing now to have your attorney, either Mr. Vincent or Mr. Knollenberg, examined and testify concerning these transactions?

Mr. FORRESTAL. Any conversations of any kind that I had with them I am quite willing to have you explore.

Mr. PECORA. Is either Mr. Knollenberg or Mr. Vincent here?

Mr. FORRESTAL. Mr. Knollenberg is here.

Mr. PECORA. And you prefer that he testify concerning these matters, in preference to Mr. Vincent?

Mr. FORRESTAL. Yes, because he is the tax——

Mr. PECORA. Then I will ask the committee to swear Mr. Knollenberg.

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(At this point Mr. Forrestal temporarily withdrew from the witness chair.)

The CHAIRMAN. Mr. Knollenberg, you solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee, so help you God?

Mr. KNOLLENBERG. I do.

TESTIMONY OF BERNHARD KNOLLENBERG, LAWYER, NEW YORK CITY

Mr. PECORA. Mr. Knollenberg, will you kindly give your full name, business or profession, and address to the committee reporter for the record?

Mr. KNOLLENBERG. The name is Bernhard Knollenberg. I am a lawyer. My business address is 25 Broadway, New York City. My residence address is 23 West Eleventh Street, New York City.

Mr. PECORA. Mr. Knollenberg, are you a member of the law firm of Lord, Day & Lord?

Mr. KNOLLENBERG. I am at present.

Mr. PECORA. And were you a member of that firm during the year 1929?

Mr. KNOLLENBERG. No. I was a member of the firm at that time of McLaughlin, Knollenberg, Royce & Leisure, which has since been dissolved.

Mr. PECORA. During the year 1929 were you acting as a legal adviser to the last witness, Mr. James V. Forrestal?

Mr. KNOLLENBERG. I was.

Mr. PECORA. How long had you been his legal adviser prior to that date?

Mr. KNOLLENBERG. I had not been his legal adviser prior to that time.

Mr. PECORA. Did you have anything to do with the organization and incorporation of a corporation called the "Beekman Co., Ltd."?

Mr. KNOLLENBERG. I was responsible for the organization of that company.

Mr. PECORA. Were you also responsible for the organization of another corporation called the "Beekman Corporation of Delaware"?

Mr. KNOLLENBERG. I was also responsible for the organization of that.

Mr. PECORA. At whose request or instance did you cause the Beekman Co., Ltd., to be organized?

Mr. KNOLLENBERG. At the direct instance of Mr. Paul Strieffler, who, I had understood, was acting on behalf of Mr. James V. Forrestal. Also in consultation with the attorney for Mr. Forrestal, Mr. John Vincent.

Mr. PECORA. Mr. John Vincent is now associated with you in the law firm of Lord, Day & Lord, is he not?

Mr. KNOLLENBERG. That is correct. I at that time, as I do for so many firms, was acting as tax counsel for Lord, Day & Lord. Since that time, after Judge McLaughlin died and our firm was dissolved, I was asked to join that firm, and am now a member of the firm of Lord, Day & Lord.

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Mr. PECORA. Have you made a special study of the income-tax laws of this country?

Mr. KNOLLENBERG. I have.

Mr. PECORA. And you practice, so to speak, as a specialist in that field of the law?

Mr. KNOLLENBERG. That is correct. I have a general practice also, you understand, but I do specialize in that.

Mr. PECORA. Yes. At whose request or instance did you confer with Mr. Strieffler with respect to the incorporation of the Beekman Co., Ltd., and the Beekman Corporation of Delaware?

Mr. KNOLLENBERG. At the instance of Mr. John Vincent, who was the attorney for Mr. Forrestal.

Mr. PECORA. You said you were responsible for these two corporations being organized?

Mr. KNOLLENBERG. Yes; immediately responsible. It was under my supervision that they were organized.

Mr. PECORA. Mr. Knollenberg, do you know for what purpose those corporations were organized?

Mr. KNOLLENBERG. I do.

Mr. PECORA. And what was that purpose?

Mr. KNOLLENBERG. It was with the intention of postponing the payment of income tax on the sale of certain securities which were going to be transferred to the Canadian corporation that we had in mind organizing. And it was the thought that thereafter the Canadian corporation which acquired those securities, would sell those securities in Canada. The Delaware company was organized because I advised Mr. Strieffler, and through him Mr. Forrestal, that there were heavy inheritance taxes in Canada whenever the stock of a Canadian corporation was owned by an individual, and that if the individual should die, then there would be heavy Canadian inheritance taxes, as well as United States inheritance taxes, payable on that stock. But that if the stock were transferred to a corporation in the United States, that then the United States corporation would, of course, continue to exist even though the individual who owned the shares in such United States corporation might himself die. And that by having the Delaware company shares owned by Mr. Forrestal, and the Canadian company shares owned by the Delaware company, then if Mr. Forrestal should unfortunately die while such corporation was still in existence, there would be no Canadian inheritance tax to pay.

The United States taxes would have to be paid, of course, because the value of the Canadian company stock would be reflected in the value of the Delaware company shares, but that this would avoid the double tax liability.

Mr. PECORA. Mr. Knollenberg, at the outset of the answer just made you stated that the purpose of these corporations was to postpone payment of income taxes.

Mr. KNOLLENBERG. Yes.

Mr. PECORA. For whose benefit did you hope by that means to postpone payment of income taxes?

Mr. KNOLLENBERG. For the benefit of Mr. Forrestal.

Mr. PECORA. How did you hope to accomplish that purpose through the organization of those two corporations?

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Mr. KNOLLENBERG. Well, under the United States income-tax law as it then existed—and you will understand that this was under the Revenue Act of 1928—the transaction having taken place in 1929, if an individual transferred property to a corporation, whether a domestic corporation or a foreign corporation, a section—and I think it is 112 (b) 5 of the old Revenue Act of 1928—provided that if the new owner of the corporation, the one that got that stock, immediately after the transfer of those securities or other property to the corporation, was in control of the corporation—and control was defined to mean ownership of 80 percent or more of the common stock—then although that stock which he got back in exchange for the property which he transferred to the corporation was of a value far in excess of what he had paid for the property that went into the corporation, and, hence, even though there were a real profit, an actual profit by reason of that exchange, nevertheless that exchange should be exempt from the Federal income tax, and he could take back those shares without tax liability at that time. And, further——

Mr. PECORA (interposing). Now, Mr. Knollenberg——

Mr. KNOLLENBERG (interposing). In order to answer your question, Mr. Pecora, I will have to go on.

Senator COUZENS. Let him finish the answer, Mr. Pecora.

Mr. PECORA. Certainly, Senator Couzens.

Mr. KNOLLENBERG. I have not really answered your question as yet. What I have said were the steps leading up to it, and then you asked me about postponing the payment of income tax.

Mr. PECORA. All right. You may proceed.

Mr. KNOLLENBERG. But when you took back those shares of stock of the corporation, even though they might be worth, we will say, a million dollars, if you had paid only $100,000 for the property that went into the corporation in exchange for the shares, you must value the stock that you got back, not at its value when acquired but at the amount that you had paid for the property that went into the corporation, the conception being, as I understand it, on the part of Congress that when you later either sold or liquidated those shares in the corporation, and took out the property that was in the corporation, at that time you would be subject to a tax on the difference between this original-cost basis and the assets that you got out of the corporation.

Senator COUZENS. Congress having in mind that they would not tax until there was a realizable profit; is that it?

Mr. KNOLLENBERG. That is correct, Senator Couzens. Of course, under certain circumstances that profit might never be realized, and——

Mr. PECORA (interposing). Pardon me right there just one moment; the original cost that you just now referred to means the original cost to the individual, does it?

Mr. KNOLLENBERG. Yes; that is correct.

Mr. PECORA. All right. You may proceed.

Mr. KNOLLENBERG. You see, that might have been some very small figure.

Mr. PECORA. As it was in the case of the stock of the United States & Foreign Securities Corporation.

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Mr. KNOLLENBERG. That was not transferred to the corporation for its stock. That was a different type of transaction, a paid-in surplus transaction.

Mr. PECORA. I mean, the original cost of that stock to Mr. Forrestal was very small.

Mr. KNOLLENBERG. Yes. And had that stock been transferred, in the first instance it would have been a striking illustration of the fact that he would have had to value the stock which he got back, not at, perhaps, a million dollars but would take $28,000 cost basis on it. So that as and when later he disposed of the stock of the company he would have to pay a tax unless the assets of the corporation were greatly depreciated in the meantime. Now, as to postponing payment of income tax, I meant he might never pay the tax, because if the individual should die then his estate having paid an inheritance tax on the value of the stock, would get a new-cost basis for itself.

Mr. PECORA. Then it was either to postpone or to avoid the payment of income tax?

Mr. KNOLLENBERG. Yes. But I do not suppose Mr. Forrestal would want to die an early death in order to avoid the payment of tax.

Mr. PECORA. Those things would be beyond his control, I presume?

Mr. KNOLLENBERG. That is correct; they would be.

The CHAIRMAN. Mr. Knollenberg, do you know of many instances of a practice of this kind being indulged in?

Mr. KNOLLENBERG. No. I do not know of any instances where it has been indulged in. It has been put up to me a great many times, it was a very common thing that people had heard suggested as a means of reducing their tax. I think the reason why it was not put into effect more often was that, at least in my case, I always advised, if they had held securities for 2 years at the time when they were thinking of forming a corporation, don't act too quickly about forming one of these Canadian corporations, for you are going to have an awful lot of mechanical difficulty, and you had better sell your property individually, if you want to sell it, and pay your 12½-percent tax and forget it. But where their property had been held for less than 2 years and they would have to pay these heavier rates of income tax—that is, if they were men whose income would bring them into the higher brackets. Then, occasionally, I recommended the formation of one of those Canadian companies, although again that was very rare. The thought I had—and I think that was true of many other tax lawyers, was that, in the first place, it might lead to many mechanical difficulties, and, in the second place, when one eventually sells or liquidates the stock of a company, he has to pay the tax anyway.

Senator COUZENS. At that point, will you tell me the difference between creating a Canadian company and creating a Delaware company?

Mr. KNOLLENBERG. The reason it was advantageous to form a Canadian corporation was that under the rulings of the Canadian income-tax authorities a Canadian corporation which acquired property was entitled to take as its cost basis, in computing the Canadian

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income tax, the value of the property at the time it was acquired by the corporation. So that if you take this United States & Foreign Securities Corporation stock for illustration, if that were sold by a Canadian corporation in Canada, then the Canadian income-tax authorities would comput the taxable profit on the sale of that property not at what Mr. Forrestal had paid for it but at its value at the time when the Canadian corporation acquired it. In the United States, on the other hand, there is a specific provision in the statute, the old section 113 (a) 6 of the Revenue Act of 1928, which is still incorporated in the 1932 act, which requires a corporation that receives property in one of these tax-exempt reorganizations, to take as its cost basis for the property not its value when acquired but the amount that the prior owner had paid for it. So that if we had transferred this stock to a Delaware company and the Delaware company had sold it, whether in Canada or in the United States, since it was a domestic corporation the Delaware company would have had to pay an income tax measured by the difference between Mr. Forrestal's cost and what the Delaware company might get for the stock. But that was not true under the Canadian rule.

The Canadian rule was the same rule that existed in the United States prior to 1924, or it might have been 1921, where you could have this same tax saving just by transferring to a domestic corporation; and that was one reason earlier why so many domestic holding corporations were incorporated, because under the earlier acts, and until the Congress legislated otherwise, even a domestic corporation was not required to take the lower-cost basis of the prior owner but might get what is generally known among tax lawyers as a stepped-up cost basis. But that had already been ruled out in the case of domestic corporations by an act of Congress which I think was enacted in 1924, or it might have been in 1921, Senator Couzens. So that it was necessary, if you wanted to effect a tax saving, to transfer property to a foreign corporation, not necessarily a Canadian one, and then have the property sold by that foreign corporation outside of the United States. That is where the question comes on this United States & Foreign stock sale now, as to whether it was in fact effected outside of the United States or whether the sale did not actually take place here.

Mr. PECORA. Mr. Knollenberg, has the Beekman Co., Ltd., to your knowledge paid any income tax to the Canadian Government as a result of the sale of the 16,788 shares of capital common stock of United States & Foreign Securities Corporation?

Mr. KNOLLENBERG. No, because under the Canadian law, as I have indicated, or I won't say under the Canadian law but under the rulings of the Canadian tax authorities, because there is no specific tax provision covering it, but under their rulings the Beekman Co., Ltd., is entitled to take as its cost basis for the United States & Foreign stock its value when acquired by the Canadian company.

Mr. PECORA. That is, its market value?

Mr. KNOLLENBERG. Its market value, without reference to what Mr. Forrestal might have paid for the stock. And, hence, that sale resulted in no taxable profit under the Canadian law. Mr. Forrestal's other stocks that he transferred to the Beekman Co., Ltd., and which

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were later sold by it, resulted in a loss. They were sold at a substantial loss. Or I think that is correct.

Mr. PECORA. It resulted in just a bookkeeping or paper loss, didn't it?

Mr. KNOLLENBERG. No. I shouldn't say that, from an accounting standpoint, and I think also, yes, I will say from a corporation standpoint. Supposing you wanted to pay dividends in the case of a Canadian corporation, the Ontario law would not permit the payment of dividends unless you had earnings. Now, in determining whether you had earnings under the Ontario law you would have to value that stock at the amount which was paid in for the stock.

Mr. PECORA. You mean the amount at which it was set up on the books originally?

Mr. KNOLLENBERG. Yes. So it would really have a legal aspect.

Mr. PECORA. Did the Canadian company, that is, the Beekman Co., Ltd., file an income-tax return to the Canadian Government for the year 1929?

Mr. KNOLLENBERG. Yes.

Mr. PECORA. And it showed no profit as a result of those 16,788 shares?

Mr. KNOLLENBERG. I will have to look that over. I think the return was prepared in our office, but I didn't actually prepare it.

Mr. PECORA. Now——

Mr. KNOLLENBERG (interposing). Do you wish that question answered now?

Mr. PECORA. Yes.

Mr. KNOLLENBERG. I can tell you in a moment by reference to the return.

Mr. PECORA. All right.

Mr. KNOLLENBERG. No. That added to the loss, but there was a loss also on other securities.

Mr. PECORA. Was it because of your advice that the Beekman Co., Ltd., did not file with the United States Government an income-tax return for the taxable year 1929?

Mr. KNOLLENBERG. It was.

Mr. PECORA. And upon what was that advice predicated?

Mr. KNOLLENBERG. There were three more stages in which I was brought into the Beckman Co., Ltd., picture, and it is necessary for me to give you those stages in order to indicate to you how the advice was given.

Mr. PECORA. All right.

Mr. KNOLLENBORG. As I say, I was first called in by Mr. Vincent, being then in his firm, to advise as to whether I thought it would be advantageous from an income-tax standpoint to organize a Canadian company, that Mr. Strieffler had talked to him about it but he did not feel that he had enough knowledge of the situation to advise. I then advised the organization of this Canadian company, and also of the Delaware company. At that time I had a long conversation with Mr. Strieffler, in fact several conversations. I stressed the fact that in the case of these Canadian corporations it was an essential part of the plan to postpone or avoid United States income taxes on these profits, that the sales of the securities must

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take place in Canada, that under the United States income-tax law if the sale took place in the United States, even though it were a foreign corporation which made the sale, and if there were a profit on the sale as computed under the terms of the United States income-tax law that profit would have to be returned to the United States Government, and a return filed and a tax paid on the profit. And it was very largely a matter, in many conversations with him, as to whether as a practical business matter the Beekman Co. could find a sale for what might be turned over to it, in Canada. Shall I wait for you, Mr. Pecora?

Mr. PECORA. No, go right ahead.

Mr. KNOLLENBERG. That it was essential to find some means of disposing of the property in Canada, because it would not avail anything if the sales were made in the United States.

Mr. PECORA. Did you advise Mr. Strieffler to see to it that any sales were made in Canada?

Mr. KNOLLENBERG. Yes; that that was essential if the taxes were to be legally avoided.

Mr. PECORA. All right.

Mr. KNOLLENBERG. He stated that they had banking connections in Canada, that he thought deals could be made whereby the securities could be sold in Canada, although they would necessarily be sold, for something less than the securities might sell at as an average on the New York Stock Exchange on that particular day if they were New York Stock Exchange securities, that some consideration would have to be given to any Canadian bank or other Canadian purchaser who bought it, but that he thought a price could be obtained in Canada which would be approximately the same as the amount that could be obtained in the United States from the sale of those securities. I stated that if that were the case, that if he felt he could find a market there, and if he took pains, and that he must take pains to see that the property was sold in Canada, I saw no reason why there would be any taxable income in the United States; and that if there were no taxable income, no returns were to be filed. But that if he found he could not dispose of the securities at any time in Canada, and wanted to sell them out, and they were sold in the United States, then the profit would be figured out under the United States income-tax law and that of course, if there was a profit, it would have to pay a tax.

I also went into the question of the investment of the funds of the corporation; that they should be invested in such manner as not to realize income from United States sources if they wished to avoid the payment of United States income taxes. That was the program, I suppose you might call it, that we worked out at that time.

The next time I was called in was again at the instance, I think, of Mr. Vincent, who was not yet my partner but was consulting me on tax matters. That was in July, just about the 1st of July of 1929.

At that time Mr. Strieffler and Mr. Vincent stated to me that Mr. Forrestal had under contemplation the sale of a substantial block of securities. Whether I knew it was United States & Foreign I do not recall. The securities may have been mentioned, but, if so, they did not make an impression until the matter came up again last spring.

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He stated that it was wondered whether, if these securities were turned in to the Canadian corporation, not in exchange for stock but just turned in as paid-in surplus without receiving anything back—two questions might arise: First, whether under the Canadian income-tax rulings the Canadian authorities would in such a case make the Canadian company take Mr. Forrestal's cost basis on that, or whether the Canadian tax authorities would permit the corporation or require the corporation to take as its cost basis the value of the securities when they were transferred to the Canadian corporation.

Naturally there was fear of Canadian income tax, because if the Canadian corporation would have to take Mr. Forrestal's cost basis, and then it sold the stock, that would render the corporation subject to a very heavy Canadian income tax, and if the corporation were later liquidated, then it would be subject to the United States income tax. So, it would be a most unfortunate transaction from the tax standpoint, if I were not certain that the Canadian income-tax authorities would permit or require the valuation at its value when acquired.

As to the first question, I answer that it was clear, under the Canadian income-tax rulings, that the corporation would be permitted or required to take as its cost basis on any property acquired as paid-in surplus, just as if it had been acquired in exchange for stock at the value of the property when it was acquired by the Canadian corporation. That was the first question that had to be solved.

The second question was whether, under the United States income-tax law, since there was no specific provision in the statute relating to paid-in surplus, as there is where you make an exchange of property for stock, putting this property into the Canadian corporation, which was indirectly controlled by Mr. Forrestal through his ownership of the stock in the Delaware company; might somehow give rise to taxable income to Mr. Forrestal, because of the appreciation which had occurred in this stock in his hands prior to its transfer to the Canadian corporation.

I advised that under the United States income tax law I saw no possible danger to Mr. Forrestal of his being subjected to income tax by reason of his transfer of the property from himself, as an individual, to the Canadian corporation.

Those were the two principal questions that were discussed. I think it was also discussed—although I cannot remember certainly whether the discussion came up then or only came up last spring—as to whether the fact that Mr. Forrestal already had in contemplation the sale of this property before he transferred it to the Canadian corporation, would affect the transaction and make the profit taxable to him rather than taxable to the Canadian corporation. I advised that in my opinion it would not make any difference, even though he had already given an option for the stock. I advised this last spring, and I think I advised it before, although that point was at least a subsidiary one if I did advise him. But if I was asked, I would have given that advice, so it might be considered as my advice.

This, now, describes the second time I was called into the picture, and I understood at that time that the sale of this stock was contemplated in Canada, that the Canadian corporation was going to make the sale of whatever the securities were in Canada.

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Mr. PECORA. From what sources did you derive that understanding?

Mr. KNOLLENBERG. From Mr. Strieffler.

Mr. PECORA. Why, during all of this consideration of the question by you, did you not consult with Mr. Forrestal himself?

Mr. KNOLLENBERG. I had only met Mr. Forrestal, I think, about 5 minutes when I first was called into this picture, and I had understood that Mr. Strieffler had been made president of the company and was in entire charge of its affairs, so as not to bother Mr. Forrestal. That was about the substance of it.

Mr. PECORA. Did you know the actual relationship of Mr. Strieffler at that time, both to Mr. Forrestal and to the firm of Dillon, Read & Co., namely, that he was an employee of Dillon, Read & Co. who assisted Mr. Forrestal in handling such details of the business of Dillon, Read & Co. as Mr. Forrestal attended to?

Mr. KNOLLENBERG. No. At that time I thought Mr. Strieffler was a private secretary of Mr. Forrestal. I thought that he was just engaged in handling Mr. Forrestal's affairs. I have since learned differently, but at that time that was my impression.

Mr. PECORA. When did you first understand that the sale or the transaction resulting in the sale of these 16,788 shares had taken place wholly without the United States?

Mr. KNOLLENBERG. I wish to go to my third stage. I think that will develop that.

Mr. PECORA. All right.

Mr. KNOLLENBERG. The third time I was called in on the situation was shortly before the date for filing income-tax returns.

Mr. PECORA. For the year 1929?

Mr. KNOLLENBERG. For the year 1929. This was shortly before March 15, 1930. Mr. Strieffler called me in to talk with him, and was apparently in a state of a good deal of perturbation, because, as he said:

> In going over my records for 1929 I have made a number of sales. When the panic came, when the break in the market came in October and November, 1929, I had to get rid of some of this stock. I could not sell it through Canada, could not find any buyer for it in that market, and so I had the Delaware Corporation, which owned the stock of the Canadian Co., sell a lot of the stock (as he assumed, as agent—and I think that is correct—for the Canadian Co.).

And he said, "I am terribly afraid that I have spoiled this Beekman tax plan," because he had apparently had the understanding that if any transactions took place in the United States, that might subject the entire income of the company to United States income taxes, and not just the profit, if any, that was derived from those sales. I do not know how he had gotten that misimpression, but he had thought that that might be the case, and his alarm was that Mr. Forrestal, as the ultimate owner of the stock of this corporation, was going to be critical of his carelessness, if it was carelessness, in having failed to carry out the method of sale that I had described as necessary.

I immediately said to him, as I remember—

> Well, are you sure that these sales that were made in the United States did result in a taxable profit, even if you took Mr. Forrestal's cost basis?

Because, having been told that the sales had been made after the break in the stock market, I thought perhaps that the amount derived

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from the sales had been even less than Mr. Forrestal had paid, in which event, under the United States income-tax law, there would have been no profit, even if the sales had taken place in the United States, and my understanding is that there would be no taxes if that were the case.

That seemed to give Mr. Strieffler a new lease on life, and he said—

I will check that up, and perhaps, by comparing it with Mr. Forrestal's cost basis, I will find I am all right anyway.

A few days later, before the return was filed, he called me up and said—

I have been over that, and I think I am all right, because I think that with Mr. Forrestal's cost basis—and I have checked that as nearly as I can—we have had losses on those sales, even though we go back to his cost basis—

as you would be required to do under the United States income-tax law.

Mr. PECORA. You mean Mr. Strieffler informed you at that time that the price for which these 16,000 odd shares had been sold during the year 1929, through Dominick & Dominick, was less than the original cost price of those shares to Mr. Forrestal?

Mr. KNOLLENBERG. No; that stock was not the subject of the discussion at all. That had been sold in the preceding July.

Mr. PECORA. Then, in this discussion there was no reference whatsoever to the transactions involving the sale of these 16,788 shares?

Mr. KNOLLENBERG. No; that did not come up until last spring.

Mr. PECORA. Why was not that particular transaction referred to in the spring of 1930, when you were tendering your advice to either Mr. Strieffler or Mr. Forrestal, or the Beekman Co., Ltd., with regard to the income-tax returns which were filed for the year 1929?

Mr. KNOLLENBERG. I think the reason for that was that Mr. Strieffler had no doubt that that sale had been carried out in Canada.

Mr. PECORA. That was the biggest sale or transaction that the Beekman Co., Ltd., had during the year 1929, was it not?

Mr. KNOLLENBERG. So I later found; yes.

Mr. PECORA. Do you think the subject of that transaction was studiously avoided by anybody?

Mr. KNOLLENBERG. No. I think Mr. Strieffler had thought that until the break came in the latter part of 1929, he had been careful to carry out the plan as it had been outlined. I later found, last spring, that there is some doubt, and perhaps serious doubt, as to whether or not this United States & Foreign stock sold by Beekman may not be a United States transaction. Even though it is, it may not be taxable under the Rosenbloom Finance Corporation case.

Mr. PECORA. That Rosenbloom Finance Corporation case was a case that was decided in 1931, was it not?

Mr. KNOLLENBERG. Yes.

Mr. PECORA. That decision was reversed in August of this year by the United States Circuit Court of Appeals.

Mr. KNOLLENBERG. Yes.

Mr. PECORA. And the question has been carried to the United States Supreme Court, where it is still pending.

Mr. KNOLLENBERG. That is correct.

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Mr. PECORA. But when you advised the corporation, after this conference with Mr. Strieffler in the spring of 1930, that it was not necessary for the Beekman Co., Ltd., to file an income tax return with the United States Government for the year 1929, this Rosenbloom decision had not been handed down?

Mr. KNOLLENBERG. No. That will be a pure windfall. If we find that even though it was sold in the United States, we are not taxable, that will, as I say, be something that I had not contemplated. It will be a windfall.

Mr. PECORA. So that the Rosenbloom decision, which did not come down until 1931, played no part at all in your determination, or the advice you gave in the spring of 1930.

Mr. KNOLLENBERG. No. I might add this, Mr. Pecora, that I had already taken the view that I thought there was a good chance that the courts would ultimately hold, under the law as it then stood, that where a corporation, even a United States corporation, acquired property as paid-in surplus rather than in exchange for stock—I thought there was a good chance that the court would hold that the corporation got as its cost basis the value when acquired, but I did not want to rely on that, because it was only a guess, and I thought at best it was perhaps only a 40 percent chance.

Mr. PECORA. The last decision handed down by our courts on that question was handed down in August, 1933, in this Rosenbloom case.

Mr. KNOLLENBERG. Yes.

Mr. PECORA. And would require the payment of a tax.

Mr. KNOLLENBERG. If that court decision is sustained by the United States Supreme Court, that is correct. It would require it if the sale took place in the United States. We still do not concede that it did, in fact, take place in the United States.

The CHAIRMAN. There was no Canadian purchaser.

Mr. KNOLLENBERG. Probably some day I am going to have to argue this before a higher court, and I am willing to give my point of view on it now.

Mr. PECORA. Are you seriously contending now that there is any question of doubt as to whether or not these 16,788 shares were sold here in the United States?

Mr. KNOLLENBERG. I think there is a possibility that we may establish that under the law it is a Canadian sale. I still hope so.

Mr. PECORA. Have you conferred with Dominick & Dominick with regard to the facts of the sale?

Mr. KNOLLENBERG. No; but I have heard them discussed here.

Mr. PECORA. You had better not confer with them, or they might give you a jolt.

Mr. KNOLLENBERG. That I cannot say.

Mr. PECORA. Let me ask this question—and I hope you will not regard it as personal. Were you ever a member of any official or unofficial body or commission to inquire into the income tax laws of this country with a view to ascertaining their weaknesses or loopholes?

Mr. KNOLLENBERG. Yes. The United States Trust Co. Association retained Arthur Ballantine, or retained the firm of Root, Clark, Buckner, Howland & Ballantine, to go into that question, and I was working for Mr. Ballantine at that time. He was too much

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engaged to do the job, and suggested that if they were willing to have a subordinate do it, he thought I could serve the purpose, and I did make a report at that time to the Trust Co. Association.

Senator COUZENS. Was that report ever made public?

Mr. KNOLLENBERG. I think it was not. That was mainly, however, to deal with the matter of double inheritance taxes.

Mr. PECORA. Mr. Knollenberg, I have before me a letter addressed to me as counsel to this committee, by Dominick & Dominick, dated September 29, 1933.

Mr. KNOLLENBERG. September 29, 1933?

Mr. PECORA. September 29, 1933. It reads as follows [reading]:

DEAR SIR: In response to the verbal request made yesterday by your representative Mr. Michael J. La Padula, we submit below supplemental information in connection with the accounts (now closed) on our books known as United States & Foreign Securities Corporation common stock accounts nos. 1 and 2, of which we were the managers.

	Shares
Account no. 1:	
Outside sales	35,085
Sales in market	29,740
Total	64,825
Account no. 2:	
Sales to Dillon, Read & Co	11,099
Outside sales	2,000
Sales in market	48,799
Total	61,898

Reference to our original ledger cards of these accounts (photostatic copies of all of which have been previously furnished you at your request) indicates that of the aggregate amount of stock listed under the heading "Outside sales" in account no. 1 a total of 4,600 shares were sold by the account to foreign firms or corporations. With the exception of 1,000 shares which were shipped draft attached to Messrs. Kitcat & Aitkin, brokers, of London, England, payment for and delivery of all the stock so sold was consummated in this city.

Our records do not disclose any foreign sales of said stock made for account no. 2.

Trusting this is the information you desire, we are,

Yours very truly,

DOMINICK & DOMINICK.

This stock, these 16,788 shares that are the subject of this testimony this morning, were included in account no. 2 entirely, as the evidence before this committee shows.

Mr. KNOLLENBERG. Yes.

Mr. PECORA. I am giving you the benefit of these advices from Dominick & Dominick so that you will not lose much time in determining whether or not any of these sales were made in the United States, or outside the United States.

Mr. KNOLLENBERG. Just let me ask you, if I may, Mr. Pecora, since we have gotten into a field in which you are as well qualified as I am, in the field of general laws—supposing that a sale of this stock were made by Beekman Co. to somebody in Canada, and that person then resold the stock on the New York Stock Exchange. Would the fact that the second person had sold the stock on the New York Stock Exchange necessarily mean that the sale that had taken place in Canada would be taxable in the United States?

Mr PECORA. Isn't that hypothetical, and based upon assumptions of fact that have not been shown to exist?

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Mr. KNOLLENBERG. No; because, as I understand this Dominick & Dominick account, it got options from the Beekman Co. and other members of the firm of Dillon, Read & Co. for stock, and then, on the basis of those options, knowing that it could acquire the stock, it sold shares in the market. Where it got those shares I do not know, to make the sales.

Then, having disposed of those shares, and perhaps having a technically short account—I do not know how this particular syndicate was handled. I will have to know that eventually, naturally—but if it were then technically short of that stock, and went up to Canada in order to fulfill its needs for stock with which to cover those technical short sales, that would be a sale in Canada. At least, if you read the case of Ambassador Bingham in the United States Board of Tax Appeals, where you have much the same question, you will find that the Board of Tax Appeals held that Ambassador Bingham was not subject to tax, and that the Bureau of Internal Revenue has acquiesced in that case.

Mr. PECORA. Mr. Knollenberg, your question, again, is based upon a lot of advice and assumptions of fact which have not been shown to exist.

Mr. KNOLLENBERG. That may be.

Mr. PECORA. Have you as attorney for the Beekman Co., Ltd., sought to intervene in the Rosenbloom case in the attempts that are now being made to have the United States Supreme Court review the decision of the Circuit Court of Appeals by certiorari?

Mr. KNOLLENBERG. No; but the attorneys, without realizing that I was directly interested in the case, but having an exaggerated opinion of my knowledge of tax law, sent down their brief some weeks ago and asked me if I would go over it, saying that "You probably have some similar cases." So, I have made suggestions concerning that brief, but it came up entirely from their initiative and not from mine.

Mr. PECORA. The United States Supreme Court has not yet, so far as you know, rendered a decision on the application for a writ of certiorari to review the Circuit Court of Appeals' decision in the Rosenbloom case?

Mr. KNOLLENGERG. It may decline to take the case up. But that would not be decisive, you understand, Mr. Pecora, on the Rosenbloom case, because our case will come in the Fourth Circuit and not in the Third Circuit, so that we will be entitled to have the case passed on by the Circuit Court of Appeals for the Fourth Circuit. If that court holds adversely to the Third Circuit, I presume it will ultimately be taken up by the Supreme Court, because of the conflict in the two different jurisdictions.

Mr. PECORA. I haven't any further questions to ask of this witness.

The CHAIRMAN. That is all, Mr. Knollenberg.

Mr. PECORA. Mr. Strieffler.

TESTIMONY OF PAUL M. STRIEFFLER, HOLLIS, LONG ISLAND, N.Y.

The CHAIRMAN. Mr. Strieffler, come forward and raise your right hand. You solemnly swear that you will tell the truth, the whole

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truth, and nothing but the truth regarding the matters now under investigation by the committee, so help you God?

Mr. STRIEFFLER. I do, sir.

Mr. PECORA. Mr. Strieffler, will you give your full name and address to the reporter.

Mr. STRIEFFLER. Paul M. Strieffler.

Mr. PECORA. What is your address?

Mr. STRIEFFLER. 109–82 Two Hundredth Street, Hollis, Long Island, N.Y.

Mr. PECORA. What is your business or occupation?

Mr. STRIEFFLER. I have been associated with Dillon, Read & Co. for over 17½ years, sir.

Mr. PECORA. As an employee?

Mr. STRIEFFLER. As an employee, sir.

Mr. PECORA. In what capacity do you now serve as an employee?

Mr. STRIEFFLER. Now I am in just a general capacity involving statistical work and associated in the sales department occasionally.

Mr. PECORA. It has been testified to here this morning that you are at the present time and have been since their inception the president as well as the treasurer of two companies, one called the Beekman Co., Ltd., and the other called the Beekman Corporation of Delaware. That is a fact, is it?

Mr. STRIEFFLER. That is correct, sir.

Mr. PECORA. You are president and treasurer of those companies?

Mr. STRIEFFLER. I act in that capacity; yes, sir.

Mr. PECORA. Have you any beneficial interests in either of those two companies?

Mr. STRIEFFLER. No, sir.

Mr. PECORA. Do you hold any stock in either of those two companies?

Mr. STRIEFFLER. Nothing but the director's shares.

Mr. PECORA. Nothing but qualifying shares?

Mr. STRIEFFLER. That is correct, sir.

Mr. PECORA. At whose request did you become the president and treasurer of those companies, Mr. Strieffler?

Mr. STRIEFFLER. I was trying to refresh my memory on that. I believe that it was just more or less either a mutual agreement or possible suggestion on my part.

Mr. PECORA. To whom?

Mr. STRIEFFLER. To Mr. Forrestal; that in view of my long association with him I might act in that capacity.

Mr. PECORA. Did you make that suggestion to him before or after the incorporation of those two companies?

Mr. STRIEFFLER. Well, possibly about the time that they were being formed. It was part of the organization plan, sir.

Mr. PECORA. Did you know anything concerning the purposes or objects for which those two corporations were organized?

Mr. STRIEFFLER. I believe I had a general idea, sir.

Mr. PECORA. And from whom did you acquire such general ideas as you had?

Mr. STRIEFFLER. Consultation with Mr. Vincent, as mentioned before, sir.

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Mr. PECORA. How did you come to have those consultations with Mr. Vincent?

Mr. STRIEFFLER. Briefly it was this: In my association with Mr. Forrestal I became acquainted with his personal affairs and naturally his tax problems, and it seems to me now as I look back I had read somewheres of the formation or the possibility of a foreign corporation with respect to or which would be legally proper to minimize taxes.

Mr. PECORA. You are not a lawyer, are you, Mr. Strieffler?

Mr. STRIEFFLER. No, sir; I am not.

Mr. PECORA. Did you ever study law?

Mr. STRIEFFLER. No, sir.

Mr. PECORA. Go ahead.

Mr. STRIEFFLER. And that is the reason that I could go no further on my own.

The CHAIRMAN. Well, Mr. Forrestal told you to see Mr. Vincent, didn't he?

Mr. STRIEFFLER. Yes, sir; I was just about to come to that, sir. I could go no further on my own, because I had no deeper knowledge of the subject.

So, having realized that I was in water over my head on the details of it, I consulted Mr .Vincent at the request of Mr. Forrestal, because I had made the suggestion to him just out of the barest of facts.

Mr. PECORA. What did those suggestions relate to?

Mr. STRIEFFLER. What suggestions, sir?

Mr. PECORA. Whatever suggestions you had made to Mr. Forrestal that were followed up by conferences you had with Mr. Vincent.

Mr. STRIEFFLER. I had suggested to Mr. Forrestal that there was such a thing as a foreign corporation that might be helpful in the minimizing of taxes, and he said to me in effect, "Explore this further to find out the legal situation in it, the various facts, and be sure you are right that it is a fact."

Mr. PECORA. Did he tell you what kind of exploration to make?

Mr. STRIEFFLER. He did specifically say, "Consult counsel to be sure that it is correct."

Mr. PECORA. And what counsel did he tell you or instruct you to consult?

Mr. STRIEFFLER. Mr. Vincent.

Mr. PECORA. And did you consult Mr. Vincent?

Mr. STRIEFFLER. I did, sir.

Mr. PECORA. And what was the result?

Mr. STRIEFFLER. The result was that Mr. Vincent consulted with Mr. Knollenberg.

Mr. PECORA. And thereafter did you also consult with Mr. Knollenberg?

Mr. STRIEFFLER. I had a conference, yes, sir, at least once or twice with Mr. Knollenberg in conjunction with Mr. Vincent on the current details of this, sir.

Mr. PECORA. What was in substance the decision arrived at as a result of all of these conferences that you had; first with Mr. Forrestal, then with Mr. Vincent, then with Mr. Knollenberg, then with Mr. Knollenberg and Mr. Vincent?

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Mr. STRIEFFLER. The substance was that it appeared that the Canadian corporation could be helpful in this program that I had just outlined.

Mr. PECORA. What program had you in mind?

Mr. STRIEFFLER. The minimizing of taxes in a legal fashion, sir.

Mr. PECORA. For whose benefit?

Mr. STRIEFFLER. Mr. Forrestal's, sir.

Mr. PECORA. Did you suggest that upon your own initiative to Mr. Forrestal originally or did he suggest it to you?

Mr. STRIEFFLER. I am very clear in my mind, sir, that it came from me first.

Senator COUZENS. Did you have your salary raised as a result of that?

Mr. STRIEFFLER. No, sir. As I recollect, then I was fairly satisfied with it.

Mr. PECORA. As president of the Beekman Co., Ltd., as well as president of the Beekman Corporation of Delaware, did you and have you conferred from time to time with Mr. Forrestal regarding business transactions of those two corporations or either of them?

Mr. STRIEFFLER. I kept him generally informed. I did not feel that to go into detail was probably essential, but I generally informed him so that he knew that his securities generally and his money were there and I was there.

Mr. PECORA. You say that these two corporations were ultimately organized for the purpose of effectuating something that you call a program for minimizing payment of income taxes by Mr. Forrestal by some lawful means?

Mr. STRIEFFLER. Correct, sir.

Mr. PECORA. Is that right?

Mr. STRIEFFLER. That is correct, sir.

Mr. PECORA. After the corporations were organized and you became their president did you conduct all of the business of those corporations on your own initiative or after you had received instructions from somebody?

Mr. STRIEFFLER. The authorization for the sale of the securities came from Mr. Forrestal. I did the details of them, sir.

Mr. PECORA. That is, the actual business transactions indulged in by these two corporations were indulged in under instructions from Mr. Forrestal, but you attended to the details of those operations?

Mr. STRIEFFLER. That is correct, sir.

Mr. PECORA. What instructions if any did you get concerning the sale of 16,788 shares of the common stock of the United States & Foreign Securities Corporation in 1929?

Mr. STRIEFFLER. I knew that there was a sale contemplated of the stock, and that is what I knew at the time.

Mr. PECORA. You knew that from Mr. Forrestal?

Mr. STRIEFFLER. Mr. Forrestal said that he contemplated a sale of that stock. As a result of that I transferred this stock that you have heard recited to Beekman Co., Ltd., as paid-in surplus.

Senator COUZENS. That particular modus operandi was suggested by Mr. Forrestal?

Mr. STRIEFFLER. I did not quite catch your question, sir.

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Senator COUZENS. I say that mode of dealing with his affairs was suggested by Mr. Forrestal?

Mr. STRIEFFLER. No, sir; he was not acquainted with the mechanics that were involved.

Senator COUZENS. Who suggested the mechanics of doing that?

Mr. STRIEFFLER. I did, sir; to myself. I mean I had that clearly in my mind.

Senator COUZENS. When you did transfer that to surplus did you not have to have the O.K. of Mr. Forrestal before you did it?

Mr. STRIEFFLER. No, sir.

Mr. PECORA. You were dealing with his property, weren't you?

Mr. STRIEFFLER. That is correct, sir; his property.

Mr. PECORA. And didn't you go to him from time to time to find out how you should deal with it?

Mr. STRIEFFLER. Well, I had power of attorney, sir. I probably should have explained that.

Mr. PECORA. The power of attorney simply gave you legal authority to act in his name, place, and stead and for his account, but didn't you for the purpose of dealing properly with Mr. Forrestal's property confer with him from time to time concerning his property?

Mr. STRIEFFLER. Not on the mechanics, sir, because I was so clear in my own mind that I was doing the correct thing.

Mr. PECORA. What were the mechanics that you employed?

Mr. STRIEFFLER. I had transferred the 15,000 shares to Canada on July 3 as paid-in surplus, and then subsequently the other 5,000 shares, on August 10, was also paid-in surplus.

Mr. PECORA. In making that transfer did you actually send to Canada for the stock certificates?

Mr. STRIEFFLER. Yes, sir; the stock was first shipped to the Canadian Bank of Commerce in Toronto, which was the bank that we employed to hold our securities, and they received it.

Mr. PECORA. What were the movements of that stock from that time on until it was sold?

Mr. STRIEFFLER. The Canadian bank received the—I will call it 20,000 shares of stock—they received that stock. In the first instance they received 15,000 shares which they held subject to my call, and as the stock was required I asked them to ship it to Dillon, Read & Co., which they did in various amounts.

Mr. PECORA. What was the stock required for?

Mr. STRIEFFLER. Against a sale that the Beekman Co. had made to Dillon, Read & Co.

Mr. PECORA. Well now, do you know that a sale of that stock was actually made to Dillon, Read & Co., Mr. Strieffler?

Mr. STRIEFFLER. It was my understanding at the time, sir. I have since heard that the——

Mr. PECORA (interposing). From whom did you get that understanding?

Mr. STRIEFFLER. Just what appeared to be the conversation, or probably my misinterpretation of what the conversation was.

Mr. PECORA. Is it still your understanding that that is what was done?

Mr. STRIEFFLER. I hear to the contrary now, sir.

Mr. PECORA. You heard to the contrary this morning from the testimony of Mr. Forrestal, didn't you?

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Mr. STRIEFFLER. Well, I have also heard in the developments of this testimony several days earlier, maybe a week or so earlier; but I mean it did come pretty recently, certainly, by comparison with 1929.

Mr. PECORA. Do you know whether any transfer stamps were put on these stock certificates when they were sent to Canada?

Mr. STRIEFFLER. I cannot say at this moment that I know it. I must say that knowing it was the practice, I hope it was and I believe it was. I was trying to visualize whether I stuck the stamps right on the certificates, and I cannot.

Mr. PECORA. Your understanding until quite recently was to the effect that the sale of these sixteen thousand and odd shares was effected in Canada and not in this country?

Mr. STRIEFFLER. That is correct, sir.

Mr. PECORA. From what sources have you recently derived a different understanding as to the fact?

Mr. STRIEFFLER. I have heard that the sale was made through Dillon, Read & Co. and not to Dillon, Read & Co., as I apparently had the impression.

Mr. PECORA. And the sale was made through Dillon, Read & Co. to whom?

Mr. STRIEFFLER. I have learned, just, also, recently, to Dominick & Dominick.

Mr. PECORA. Was it a sale made to Dominick & Dominick, or was the stock delivered to Dominick & Dominick as managers of a syndicate account to sell that stock in the open market?

Mr. STRIEFFLER. I don't think I know——

Mr. PECORA (continuing). And through the medium of the Stock Exchange in the City of New York?

Mr. STRIEFFLER. I don't think that I know how the mechanics of it were handled as between Dillon, Reed & Co., sir, and Dominick & Dominick, because I don't get into that phase of the Dillon, Read & Co. picture.

Mr. PECORA. Do you recall conferences that you had with Mr. Vincent or Mr. Knollenberg or both of them some time in the spring of 1930 prior to March 15 on the question of whether or not the Beekman Co., Ltd., should file an income-tax return in the United States for the year 1929?

Mr. STRIEFFLER. Yes, sir; I do recall.

Mr. PECORA. And at that time what if anything was said by anyone in these conferences concerning the fact of whether or not such a return should be filed?

Mr. STRIEFFLER. It was put up to me to inform counsel whether any taxable income had been derived from the United States which would therefore involve a filing of a return to the United States Treasury Department.

Mr. PECORA. That is a legal question that was put up to you, wasn't it?

Mr. STRIEFFLER. Oh, no. I should have been able to tell from my books whether I had sold anything in the United States.

Mr. PECORA. Who put the question up to you?

Mr. STRIEFFLER. I cannot honestly say whether it was Mr. Vincent or Mr. Knollenberg, but I am certain that a combination of the both minds put that into my mind.

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Mr. PECORA. In other words, they wanted to find out from you what the facts were concerning the making of the sale of these 16,788 shares in 1929?

Mr. STRIEFFLER. No; that was not discussed, Mr. Pecora.

Mr. PECORA. Well, what was discussed?

Mr. STRIEFFLER. As to whether any transactions of this Beekman Co., Ltd., took place in the United States.

Mr. PECORA. And what did you inform them concerning that?

Mr. STRIEFFLER. I informed them, sir, after consulting my books, that no transactions had taken place in the United States.

Mr. PECORA. What books did you consult?

Mr. STRIEFFLER. The books that I keep for Beekman Co., Ltd.

Mr. PECORA. And what information did those books give you that prompted you or caused you to so inform Mr. Knollenberg and Mr. Vincent?

Mr. STRIEFFLER. They informed me that the transactions that Mr. Knollenberg has just mentioned did take place in the United States, exclusive of United States & Foreign, sir, did not return a profit, and I so informed Mr. Knollenberg, that there was no profit from the sales of those securities, and therefore I was informed no return was necessary.

Mr. PECORA. Did the books inform you that the transactions or sales did not take place in the United States?

Mr. STRIEFFLER. No; they did not inform me of that, sir. They informed me of the results of those transactions, that there was no profit.

Mr. PECORA. That is, the results of the Beekman Co., Ltd., as to whether or not a loss or profit accrued to it legally by virtue of those?

Mr. STRIEFFLER. That is correct. That is what the books informed me as I interpreted them.

Mr. PECORA. But the books did not give you any information as to whether or not the sales of that stock were made within the United States or without the United States?

Mr. STRIEFFLER. Not the books themselves, but, of course, the sales tickets from which the books were built, I mean the brokers' tickets. After I traced these transactions through and looked at my tickets, then I saw that several transactions had taken place in the United States.

Mr. PECORA. You saw that prior to March 15, 1930, didn't you?

Mr. STRIEFFLER. That is correct, sir.

The CHAIRMAN. What was the capital of the Beekman Co., Ltd.?

Mr. STRIEFFLER. It was a hundred shares of no par-value stock, sir, with a stated value of some three hundred and eighty thousand and odd dollars.

The CHAIRMAN. How was it paid in?

Mr. STRIEFFLER. It was paid in in the form of securities and the assets that Mr. Forrestal transferred to it.

The CHAIRMAN. That included the 16,000?

Mr. STRIEFFLER. No, sir.

The CHAIRMAN. No?

Mr. STRIEFLER. United States & Foreign stock, Mr. Chairman, was not included in the first assignment of securities to Canada in

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exchange for its stock. It went in later, 6 months later, almost exactly, as paid-in surplus.

The CHAIRMAN. Yes; that is what I am trying to get at, whether it was not part of the capital.

Mr. STRIEFFLER. No, sir.

Mr. PECORA. Now, do you know that on or about June 16, 1933, an income tax return was filed with the United States Government for the year 1929 by the Beekman Co., Ltd.?

Mr. STRIEFFLER. I do, sir.

Mr. PECORA. And you know that a rider attached to that return forming a part thereof contains among other things this statement?

There is not included in computing taxable profit or deductible loss in the return a sale of 16,788 shares of United States & Foreign Securities common stock and also various blocks of other securities sold by the company during 1929, for the reason that the company takes the position that the sales were made in Canada.

Mr. STRIEFFLER. Yes, sir; I recollect that.

Mr. PECORA. You do know that that rider or statement was attached to and formed a part of the income-tax return filed on June 16 of this year?

Mr. STRIEFFLER. I will accept your quotation of it, sir. I know there was such a rider. Here it is [indicating].

Mr. PECORA. Now, the fact is that at the time you had conferences prior to March 15, 1930, with these gentlemen, Mr. Vincent and Mr. Knollenberg, you knew that those sales of sixteen thousand and odd shares had been made in this country?

Mr. STRIEFFLER. Not back in 1930.

Mr. PECORA. Didn't you say that a few minutes ago?

Senator COUZENS. You said that awhile ago.

Mr. STRIEFFLER. Not in 1930, sir. I beg your pardon. I do not think I said that.

Mr. PECORA. I asked you specifically about that just a few questions back.

Mr. STRIEFFLER. I said "exclusive", if I recall, sir. I said they were these miscellaneous securities exclusive of the United States & Foreign stocks.

Mr. PECORA. What information did you have up to March 15, 1930, concerning the place where, or the jurisdiction in which, those 16,788 shares had been sold in 1929?

Mr. STRIEFFLER. I had no additional information that I did not have at the time the transaction was concluded.

Mr. PECORA. What information did you have, of any kind, that indicated to you where those sales had been made?

Mr. STRIEFFLER. Just my recollection of the conversation. The stock was to be purchased by Dillon, Read & Co. back when it took place in July.

Mr. PECORA. You now say that after having heard the testimony this morning there never was such sale made in 1929 to Dillon, Read & Co., but that a sale of those sixteen thousand and odd shares was made through Dominick & Dominick, through the agency of Dillon, Read & Co. acting for the Beekman Co., Ltd.?

Mr. STRIEFFLER. That has developed recently; yes, sir.

Mr. PECORA. Did you not know that back in 1929 and 1930?

Mr. STRIEFFLER. No, sir; I did not know that back there.

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Mr. PECORA. You referred a few moments ago to a knowledge that you derived concerning the sale of those shares from sales slips of the brokers. What were those sales slips?

Mr. STRIEFFLER. In the case of United States & Foreign, you are now referring to, or the miscellaneous——

Mr. PECORA. United States & Foreign Securities Corporation.

Mr. STRIEFFLER. There were no specific sales slips on United States & Foreign.

Mr. PECORA. Were there with regard to other securities sold by the Beekman Co., Ltd.?

Mr. STRIEFFLER. Yes, sir. In the case of United States & Foreign there was this commitment that I, as president of Beekman Co., Ltd., had given to Dillon, Read & Co. to sell all or any part of this stock. That, in effect, took the form of possibly a sales slip or commitment slip.

Mr. PECORA. There was no such commitment in 1929, was there?

Mr. STRIEFFLER. There was, so far as the Beekman Co., Ltd., was concerned, sir.

Mr. PECORA. What was the form of that commitment? Was it in writing?

Mr. STRIEFFLER. It was a written letter that the Beekman Co. had addressed to Dillon, Read & Co., that the Beekman Co. had agreed to sell all or any part of the 12,500 shares of stock.

Mr. PECORA. Have you a copy of that letter?

Mr. STRIEFFLER. Not with me, sir.

Mr. PECORA. Do you recall who prepared that letter?

Mr. STRIEFFLER. The text of it was suggested by counsel.

Mr. PECORA. Who?

Mr. STRIEFFLER. Mr. Vincent.

Mr. PECORA. When?

Mr. STRIEFFLER. At about the time it was considered, in July sometime.

Mr. PECORA. July of 1929?

Mr. STRIEFFLER. July 10, I believe, was the exact date of it, 1929.

Mr. PECORA. Who signed that letter?

Mr. STRIEFFLER. I did, sir.

Mr. PECORA. As president of the Beekman Co., Ltd.?

Mr. STRIEFFLER. Yes, sir; as president of the Beekman Co., Ltd.

Mr. PECORA. Do you recall the substance of it?

Mr. STRIEFFLER. Yes, I do.

Mr. PECORA. Give it to us.

Mr. STRIEFFLER. "We hereby agree to sell you all or any part of" blank number of shares—I think it was 12,500 shares—"at a price to be determined later; delivery of the stock and the proceeds of the sale of the stock to be made to us"—I think I mentioned the bank, Beekman Co., Ltd., Canada.

Mr. PECORA. Do you remember the date of that letter?

Mr. STRIEFFLER. The first letter was July 10.

Mr. PECORA. Were you here last week when Mr. Christie of the firm of Dillon, Read & Co., testified before this committee?

Mr. STRIEFFLER. No, sir.

Mr. PECORA. Do you know, as an employee of Dillon, Read & Co., of the existence of a letter dated June 22, 1929, addressed to Messrs. Dillon, Read & Co., signed by Dominick & Dominick, which has

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been marked in evidence here as "Committee's Exhibit 10, October 4, 1933", relating to a trading account in common stock of the United States & Foreign Securities Corporation?

Mr. STRIEFFLER. I have no direct knowledge of it, sir. I happened to glance over Mr. Forrestal's shoulder early this morning and looked at it. I do not know the text of it.

Mr. PECORA. This letter that you spoke of, that you refer to as a commitment, was not dated until July 10, 1929?

Mr. STRIEFFLER. That is correct.

Mr. PECORA. And that is the first letter you know of constituting a commitment or anything of that sort?

Mr. STRIEFFLER. That is right, sir.

Mr. PECORA. Do you know a company called the "Dominion Securities Co." in Canada?

Mr. STRIEFFLER. Yes, sir.

Mr. PECORA. Was that company ever used to effectuate any sales of securities by the Beekman Co., Ltd.?

Mr. STRIEFFLER. They were used to purchase securities from the Beekman Co., Ltd., in Canada; yes, sir.

Mr. PECORA. Did any of these 16,788 shares of the common stock of United States & Foreign Securities Corporation pass through the Dominion Securities Co. from Beekman Co., Ltd.?

Mr. STRIEFFLER. No, sir.

Mr. PECORA. Was that an oversight?

Mr. STRIEFFLER. No, sir; because they were not the purchasers of the securities.

Mr. PECORA. Who were the purchasers?

Mr. STRIEFFLER. As I said before, I thought Dillon, Read & Co. were.

Mr. PECORA. You now know that that is a mistaken thought?

Mr. STRIEFFLER. Yes, sir.

Mr. PECORA. And you now know that those shares were sold through the New York Stock Exchange by Dominick & Dominick?

Mr. STRIEFFLER. That is right, sir.

Mr. PECORA. I thing that is all.

Mr. STRIEFFLER. Am I excused, sir?

Mr. PECORA. Yes. That is all.

Mr. STRIEFFLER. Thank you, Mr. Pecora.

The CHAIRMAN. The committee will take a recess until 2 o'clock.

(Whereupon, at 1 p.m., a recess was taken until 2 p.m.)

AFTERNOON SESSION

The subcommittee reconvened at 2 p.m. Friday, October 13, 1933, at the expiration of the noon recess.

The CHAIRMAN. The subcommittee will come to order. Proceed, Mr. Pecora.

Mr. PECORA. Mr. Dillon, will you resume the stand?

TESTIMONY OF CLARENCE DILLON—Resumed

Mr. PECORA. Mr. Dillon, did your firm receive from counsel to this committee a written questionnaire embodying some 23 questions which your firm was requested to answer, and to furnish in

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connection with its answers to those questions whatever data the questions called for?

Mr. DILLON. It did, sir.

Mr. PECORA. I show you this document consisting of four typewritten sheets, and I ask you if that is a copy of the questionnaire so submitted to your firm for answer.

Mr. DILLON. It is, Mr. Pecora.

Mr. PECORA. I will offer that in evidence and ask that it be spread upon the record.

The CHAIRMAN. Let it be received in evidence and entered in the record.

(Questionnaire addressed to Dillon, Read & Co., embodying 23 questions, was received in evidence, marked "Committee Exhibit 36 of Oct. 13, 1933", and is here printed in the record in full as follows:)

COMMITTEE EXHIBIT 36, OCTOBER 13, 1933

MARCH 29, 1933.

(Where no period is indicated, the period intended is January 1927 to Dec. 31, 1931.)

1. Name of all partners, departmental divisions and management personnel of the firm of Dillon, Read & Co.

2. Names of all banks and trust companies in which any partner or representative of said firm or any of its agencies is a director or officer.

3. Names of all corporations in which any partner or representative of said firm or any of its agences is a director or officer.

4. Names of all banks and trust companies in which the said firm or any of its agencies maintained deposits during said period and the amount of said deposits at the present time in any of said banks and trust companies in which such deposits are still maintained. Names of all other banks or trust companies in which deposits are now maintained and the amount of such deposits.

5. Names of all officers and directors of any banks or trust companies to whom said firm or any of its agents have made any personal loan or advance.

6. Names of all officers and directors of any corporations to whom said firm or any of its agencies have made any personal loan or advance.

7. Names of all exchanges on which said firm or any of its agencies has a representative or member and the number of seats or memberships held in each of the said exchanges.

8. Names of all brokerage firms, security houses, or trading companies in which said firm or any of its agencies has any financial interest or management representation.

9. List of all stock and bond issues in which said firm or any of its agencies has participated (not less than $250,000), together with the following details:

(*a*) Whether such participation was in the original terms group, bankers, wholesale, distributors, or any other group.

(*b*) Details as to date of offer, amount of issue, rate, maturity, cost price, offering price, managers, spread, profit, and amount of participation in each group.

10. List of all stock pools, joint accounts, and/or syndicates in which said firm or any of its agencies or representatives participated, giving the name of security involved, names of all participants and all details with respect to the amount of the participation and profits and losses therein.

11. The names of all governments, States, municipalities, and corporations for which said firm or any of its agencies has acted as fiscal agent during that period, and a statement of the services rendered for each of the same.

12. List of all bond or debenture issues, foreign or domestic, of which said firm or any of its agencies was the syndicate manager and which issues have been or are now in default; and any issues floated prior to 1927 which were in default at any time during the period of 1927 to 1931.

13. Names of all issues in which a member or representative of said firm or any of its agencies acted as a member of a protective or reorganization committee.

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14. Balance sheets of said firm or any of its agencies showing assets, liabilities and capitalization at the end of each fiscal year during the period above mentioned.

15. The names of all issues in which said firm or any of its agencies had any participation of not less than $250,000 which are now or have been at any time during above period in default; such information to include date of default, present market value of securities, amount outstanding, and names and addresses of the secretaries of committees formed to protect the interests of investors or for reorganization purposes.

16. In cases of all issues where said firm or any of its agencies has had participation of not less than $250,000, the names of all other participants and the extent of such participation.

17. Names and addresses of all corporations in which said firm or any of its agencies has a controlling stock, financial or management interest.

18. Minute books of said firm or any of its agencies, or any other records of the meetings of its partners or representatives relating to transactions in securities and in loans collateralized by securities, and/or relating to the issues and flotations of securities during the period before mentioned.

19. Details of all stock issues in which said firm or any of its agencies participated, or in which a trading account was maintained showing in the case of the first classification the number of shares sold, the cost of such shares, the price to the public and the net profit on each issue, and in the latter classification the period during which the account was carried, the total number of shares bought and sold, and the net profit or loss accruing.

20. Transcript of all loan accounts in the name of any persons, firms or corporations in which the collateral pledged consisted of securities in which said firm or any of its agencies has participated as a member of the original terms group, bankers group, wholesale group, distributors group or otherwise.

21. Access to all files on or relating to the following issues: Republic of Bolivia 7's, 1927–58; Republic of Bolivia 7's, 1928–69; U.S. of Brazil 8's, 1921–41; U.S. of Brazil 7's, 1922–52; U.S. of Brazil 6½'s, 1927–57; City of Rio de Janeiro 8's, 1921–46; City of Montevideo 7's, 1922–52; City of Vienna 6's, 1927–52; Great Consolidated Electric Power Co., Japan, 7's, 1924–44; Great Consolidated Electric Power Co., Japan, 6½'s, 1925–50; United States & Foreign Securities Corporation; United States International Securities Corporation; Alleghany Corporation 5½ percent preferred stock, Series A; Alleghany Corporation, common stock; Kreuger & Toll debentures; Dodge Brothers; National Cash Register Co. stock; Santa Fe 7's, 1924–42.

22. Number of corporations engaged in interstate commerce having banking deposits with said firm, and the total amount of deposits of said corporations at the end of each of the calendar years during the said period.

23. Names of all corporations engaged in interstate commerce having banking deposits with either of said firms, in excess of $250,000 during said period.

Mr. PECORA. I show you this file and I ask you if it consists of the answers returned by your firm to some of the questions contained in that questionnaire. [Handing same to Mr. Dillon.]

Mr. DILLON. Mr. Pecora, I haven't anyone here to identify it, but I will accept it if you say it is. I am willing to identify it.

Mr. PECORA. I offer this file in evidence and ask that it be spread upon the record.

The CHAIRMAN. Let it be received in evidence and entered in the record.

(File containing answers by Dillon, Read & Co. to certain questions contained in the questionnaire, Committee Exhibit No. 37, was received in evidence, marked " Committee Exhibit of Oct. 13, 1933 ", see p. 2150.)

Mr. PECORA. I show you this batch of photostatic reproductions of certain statistics or records, and ask you if they were furnished to counsel for the committee as an answer to question 9(*a*) in our questionnaire calling for issues in which Dillon, Read & Co. or any of its agencies participated, and of which Dillon, Read & Co. were managers [handing same to Mr. Dillon].

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Mr. DILLON. I will take your word for it, Mr. Pecora, because Mr. Christie will have to identify it otherwise; but I am perfectly willing to identify them if you say they are.

Mr. PECORA. I offer this batch of photostatic reproduction in evidence and ask that same be spread upon the record.

The CHAIRMAN. Let them be received in evidence and entered in the record.

(Photostatic reproductions of certain statistics or records furnished in answer to question 9 (*a*) of the questionnaire were received in evidence, marked "Committee Exhibit 38 of Oct. 13, 1933", see p. 2170.)

Mr. PECORA. I show you this batch of photostatic reproductions of certain records, and I ask you if they constitute the answer by your firm to question 9 (*b*) of our questionnaire calling for a statement of issues in which Dillon, Read & Co. or any of its agencies participated to the extent of $250,000 or more, but which were managed by others than Dillon, Read & Co. [handing same to Mr. Dillon].

Mr. DILLON. If you say that they are, sir, I will identify them.

Mr. PECORA. I offer them in evidence and ask that they be spread upon the record.

The CHAIRMAN. Let them be received in evidence and entered in the record.

(Photostatic reproductions of certain records in answer to question 9 (*b*) of the questionnaire were received in evidence, marked "Committee Exhibit 39 of Oct. 13, 1933", see p. 2194.)

Mr. PECORA. Mr. Dillon, I show you this batch of photostatic reproductions of certain records, and I ask you if they constitute the answer by your firm to question 10 (*a*) of our questionnaire which called for statement of all pools, joint accounts, syndicates and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, and of which Dillon, Read & Co. were managers?

Mr. DILLON. Again, Mr. Pecora, I will be glad to identify them if you say that is what they are.

Mr. PECORA. Yes. I offer them in evidence and ask that they be spread upon the record.

The CHAIRMAN. Let them be received in evidence and entered in the record.

(Photostatic reproductions of certain records in answer to question 10 (*a*) of the questionnaire were received in evidence, marked "Committee Exhibit No. 40 of Oct. 13, 1933", see p. 2224.)

Mr. PECORA. I show you this set of photostatic reproductions of certain records, and I ask you if they constitute the answer to question 10 (*b*) of our so-called "questionnaire", which called for a statement of all pools, joint accounts, syndicates, and/or trading accounts in stocks, in which Dillon, Read & Co. or agents or representatives participated, but which were managed by others than Dillon, Read & Co. [handing same to Mr. Dillon].

Mr. DILLON. Yes, sir.

Mr. PECORA. I offer them in evidence and ask that they be spread upon the record.

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The CHAIRMAN. Let them be received in evidence and entered in the record.

(Photostatic reproductions of certain records in answer to question 10(*b*) of the questionnaire were received in evidence, marked "Committee Exhibit 41 of Oct. 13, 1933", see p. 2234.)

Mr. DILLON. You understand, Mr. Pecora, I am not personally familiar with these things which you are offering for identification, but I am perfectly willing to identify them.

Mr. PECORA. Yes. I show you this photostatic reproduction of certain records, and I ask you if it constitutes the answer to question 12(*a*) of our questionnaire, which called for a statement of bond or debenture issues of which Dillon, Read & Co. or any of its agencies were syndicate managers, offered during the period January 1, 1927, to December 31, 1931, which have been or are now in default as to interest and/or principal at maturity [handing same to Mr. Dillon].

Mr. DILLON. Yes.

Mr. PECORA. I offer this in evidence and ask that it be spread upon the record.

The CHAIRMAN. Let it be admitted in evidence and entered in the record.

(Photostatic reproduction of certain records in answer to question 12(*a*) of the questionnaire was received in evidence, marked "Committee Exhibit 42 of Oct. 13, 1933", see p. 2238.)

Mr. PECORA. I show you this photostatic reproduction of a record and I ask you if it constitutes an answer to question no. 12 (*b*) of our questionnaire which called for a statement of bond or debenture issues of which Dillon, Read & Co. or any of its agencies were syndicate managers, offered during the period January 14, 1921 to December 31, 1926, which were in default as to interest and/or principal at maturity during the period January 1, 1927 to December 31, 1931 [handing same to Mr. Dillon].

Mr. DILLON. Yes.

Mr. PECORA. I offer that in evidence and ask that it be spread upon the record.

The CHAIRMAN. Let it be received in evidence and entered in the record.

(Photostatic reproduction of a record in answer to question 12 (*b*) of the questionnaire was received in evidence, marked "Committee Exhibit 43 of Oct. 13, 1933", see p. 2242.)

Mr. PECORA. I show you photostatic reproduction of records and I ask you if they constitute answers to question no. 15 of our questionnaire calling for a statement of all bond or debenture issues in which Dillon, Read & Co. or agencies participated to the extent of $250,000 or more, but which were managed by others than Dillon, Read & Co., offered during the period January 1, 1927 to December 31, 1931, which have been or are now in default as to interest and/or principal at maturity [handing same to Mr. Dillon].

Mr. DILLON. They do; yes.

Mr. PECORA. I offer them in evidence and ask that they be spread upon the record.

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The CHAIRMAN. Let them be admitted in evidence and entered in the record.

(Photostatic reproduction of records in answer to question 15 of the questionnaire were received in evidence, marked "Committee Exhibit 44 of Oct. 13, 1933", see p. 2245.)

Mr. PECORA. I show you a batch of photostatic reproductions of certain records and I ask you if they constitute the answer to question no. 16 of our so-called "questionnaire", which called for a statement of all issues of which Dillon, Read & Co. or agencies were managers, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying group, but not in distributing, banking, or general dealer groups [handing same to Mr. Dillon].

Mr. DILLON. They do.

Mr. PECORA. I offer them in evidence and ask that they be spread upon the record.

The CHAIRMAN. Let them be received in evidence and entered in the record.

(Photostatic reproductions of certain records in answer to question 16 of the questionnaire were received in evidence, marked "Committee Exhibit 45 of Oct. 13, 1933", see p. 2249.)

Mr. PECORA. I show you this typewritten statement and I ask you if it constitutes an answer by your firm to question 1 of our so called "questionnaire", which called for a statement of the names of all partners, departmental divisions, and management personnel of Dillon, Read & Co. [handing same to Mr. Dillon].

Mr. DILLON. Yes, sir.

Mr. PECORA. I offer that in evidence and ask that it be spread upon the record.

The CHAIRMAN. Let it be received in evidence and entered in the record.

(Typewritten statement in answer to question 1 of the questionnaire was received in evidence, marked "Committee Exhibit 46 of Oct. 13, 1933", and is here printed in the record in full as follows:)

COMMITTEE EXHIBIT 46, OCTOBER 13, 1933

QUESTION 1

Question. Name of all partners, departmental divisions, and management personnel of the firm of Dillon, Read & Co.

Answer. Dillon, Read & Co. (not a firm or partnership but a New York joint stock association).

Present directors: Clarence Dillon, director and president; W. M. L. Fiske, director and vice president; Roland L. Taylor, director and vice president; William A. Phillips, director and vice president; James Forrestal, director and vice president; Ralph H. Bollard, director and vice president; Dean Mathey, director and vice president; W. S. Charnley, director and vice president; R. E. Christie, Jr., director, vice president, secretary and treasurer; Robert O. Hayward, director and vice president; Henry G. Riter, 3d, director and vice president; Henry H. Egly, director and vice president.

The organization has never been strictly departmentalized, directors having exercised general supervision over activities. Routine and clerical functions have been conducted generally along the following lines: Purchase of securities, wholesale sales, retail sales, municipals, coupons and sinking funds, handling of funds and securities, bookkeeping, and statistics.

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Mr. PECORA. I now show you a typewritten document and I ask you if it constitutes the answer of Dillon, Read & Co. to question 2 of our so-called "questionnaire", which calls for the names of all banks and trust companies in which any partner or representative of said firm of Dillon, Read & Co. or any of its agencies is a director or officer [handing same to Mr. Dillon].

Mr. DILLON. Yes.

Mr. PECORA. I offer it in evidence and ask that it be spread upon the record.

The CHAIRMAN. Let it be received in evidence and entered in the record.

(Typewritten document being answer to question 2 of the questionnaire was received in evidence, marked, "Committee Exhibit 47, of Oct. 13, 1933," and is here printed in the record in full as follows:)

COMMITTEE EXHIBIT 47, OCTOBER 13, 1933

QUESTION 2

Question. Names of all banks and trust companies in which any partner or representative of said firm or any of its agencies is a director or officer.

Answer. Central Hanover Bank & Trust Co., The Chase National Bank of the City of New York, Empire Trust Co., Hartsdale National Bank, Princeton Bank & Trust Co.

Mr. PECORA. Mr. Chairman, I want to offer in evidence a statement purporting to be a recapitulation, which has been made by members of the investigating staff of the committee, of issues in the amount of $250,000 or more, which were offered during the period of January 1, 1927 to December 31, 1931, by Dillon, Read & Co., as managers. I understand that copies of this recapitulation have been furnished to Messrs. Dillon, Read & Co. for their comparison and checking up.

Mr. DILLON. Mr. Pecora, they tell me that they have not been furnished us, but your staff told us they would give them to us later to check up. We have seen the work sheets.

Mr. PECORA. You have seen the work sheets, but you have not actually received the recapitulation?

Mr. DILLON. That is right. We are perfectly willing to accept that, subject to check.

Mr. PECORA. For your own convenience I have a copy of it now which I would be glad to let you have.

Mr. DILLON. Thank you.

Mr. PECORA. I offer this recapitulation statement in evidence, Mr. Chairman, and ask that it be spread upon the record.

The CHAIRMAN. Mr. Dillon, you know enough about it so you accept it subject to correction?

Mr. DILLON. That is right.

The CHAIRMAN. Let it be admitted in evidence and entered in the record.

(Recapitulation of issues in the amount of $250,000 or more offered during period Jan. 1, 1927 to Dec. 31, 1931, by Dillon, Read & Co. as managers was received in evidence, marked "Committee Exhibit 48, of Oct. 13, 1933", see p. 2261.)

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Mr. PECORA. While you are on the stand, Mr. Dillon, I want to ask you if you know of the existence of three certain corporations called, respectively, the West States Corporation, the Oakmont Corporation, and the Brighton Corporation?

Mr. DILLON. Yes, sir.

Mr. PECORA. And do you also know a corporation called the New Eastern Corporation?

Mr. DILLON. Yes, sir.

Mr. PECORA. Were those corporations organized by or at the instance of Dillon, Read & Co.?

Mr. DILLON. Let me have the names again.

Mr. PECORA. The names are: West States Corporation, Oakmont Corporation, Brighton Corporation, and the New Eastern Corporation.

Mr. DILLON. Was your question, Formed by Dillon, Read or at their instigation?

Mr. PECORA. By or at their instance; yes.

Mr. DILLON. That is true as to West States, Oakmont, and Brighton, they say. They tell me not as to the New Eastern.

Mr. PECORA. At whose instance was the New Eastern Corporation formed?

Mr. DILLON. They say Dillon, Read & Co. originally.

Mr. PECORA. Mr. Dillon, can you tell this committee the purpose for forming or creating these corporations?

Mr. DILLON. I do not know, if I could as to each one, without looking at the details, but in general I can answer your question.

Mr. PECORA. Will you please?

Mr. DILLON. I think what I shall say applies to all of them. When we took new members into the association they put up their share of the capital by buying stock in the company. When the assets of the company were so large that those men would be debited or would have to raise too much money to buy their interests or when the assets in the association were of such a nature as to be more in the nature of permanent investments than the kind of assets required for the ordinary running of the business, reorganizations took place, and those assets were put into these other companies and the stock distributed pro rata to the stockholders of the original association.

Mr. PECORA. Were they formed and operated, among other reasons, for the purpose of seeking to lawfully avoid payment of surtaxes on incomes?

Mr. DILLON. No. I do not profess to know the tax law, but I am informed, Mr. Pecora, that that is not the case. That is, for tax purposes they are both the corporations and the association. The result of these reorganizations was that a man had two pieces of paper representing the ownership in the same assets, where he formerly had only one piece of paper, but it did not affect the tax at all.

Mr. PECORA. Do you know whether or not that has been the result or one of the results of the creation and operation of these various corporations?

Mr. DILLON. What has been the result, Mr. Pecora?

Mr. PECORA. To avoid by lawful means the payment of income taxes or to reduce to a lawful minimum the amount of such income taxes as would otherwise be payable?

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Mr. DILLON. No. As I understand it it has not had that effect. The only effect these reorganizations have had is that a man owns two shares of stock instead of one, and that the same assets are simply in two companies instead of one company.

Mr. PECORA. Well, Mr. Dillon, what advantage has accrued to any one of these corporations?

Mr. DILLON. I do not think any advantage has, except that this made it simpler to settle interests in changes in membership in the association. In other words, when new men came into the association, these reorganizations made it necessary to figure and appraise the value of the assets that were not necessary for the association.

Senator COUZENS. Do you mean when new individuals came into the firm of Dillon, Read & Co.?

Mr. DILLON. When new individuals took interests in Dillon, Read & Co.

Senator COUZENS. You mean an interest in the joint-stock company.

Mr. DILLON. Yes, sir.

Senator COUZENS. How many new interests have you had to come in?

Mr. DILLON. Oh, a great many. Shall I look that up? But for your purposes it would be a great many.

Senator COUZENS. A great many that took stock in the joint-stock companies?

Mr. DILLON. That is correct. They tell me there have been as many as 18 different associates at one time.

Mr. PECORA. On those occasions when these changes of personnel in Dillon, Read & Co.'s partners were brought about, new corporations were created for the purpose of taking care of their interests?

Mr. DILLON. That is correct, sir. Either at the same time or in anticipation of new men coming in, assets that were not necessary or were different from the type of assets which the association might require were put into these other companies.

The CHAIRMAN. Were those companies then operated by officers selected by Dillon, Read & Co.?

Mr. DILLON. They were operated by officers chosen by the stockholders of the new company, which were similar to those then in the association. But as new interests came into the association the interests were not the same.

The CHAIRMAN. What would those interests be left in?

Mr. DILLON. Simply in investment securities.

The CHAIRMAN. Do they still continue?

Mr. DILLON. I think some do and some have been liquidated.

Mr. PECORA. Mr. Dillon, I understand that an opinion has been submitted in behalf of the valuation division, security division, of the Internal Revenue Bureau, in which reference is made to the Oakmont Corporation and the Brighton Corporation, under date of January 18, 1932, in the following language:

> In conclusion it is apparent that the tactics employed by Dillon, Read & Co. in organizing the corporations referred to above, were for the sole purpose of preventing as far as possible the imposition of a surtax on distributions to its stockholders. Undoubtedly the Government is deprived of a large amount of revenue by the circumvention of the provisions of the statute in the manner described herein. But no blame can attach to the officers of the corporation

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for taking full advantage of the law. The enactment of the sections of the 1926 and 1928 acts referred to herein was intended to permit certain classes of reorganizations to be tax free. But these same sections of the acts have afforded some of our large dividend-paying corporations the opportunity to organize corporations for no other purpose than to enable their stockholders to escape the payment of surtaxes.

How about that?

Mr. DILLON. I am neither lawyer nor tax expert, but I certainly differ with that opinion because it does not make sense to me. I dislike as a layman to hold forth as an authority on taxes or as a tax expert, but if you have your assets in one corporation the only way you get them out is by way of dividends, and if you have a reorganization and have those same assets in two corporations you cannot get anything out unless dividends are paid in the same way, but the dividends would be paid on 2 pieces of paper instead of 1. I do not see that these organizations have anything to do with taxes to stockholders whatsoever. Am I correct in that? You are a lawyer, Senator Adams.

Senator ADAMS. Like yourself, I do not claim to be a tax expert.

Mr. DILLON. Doesn't that make sense?

Senator ADAMS. But I am only chargeable on one count. [Laughter.] Yet I confess it sounds reasonable to me.

Mr. DILLON. It sounds sensible to me.

Mr. PECORA. If those corporations were created for the purpose you have indicated, how is it that the following four corporations are composed of the same stockholders: Dillon, Read & Co., West States Corporation, Oakmont Corporation, and Brighton Corporation?

Mr. DILLON. That they all have the same stockholders?

Mr. PECORA. Yes; that the stockholders in these four companies are the same.

Mr. DILLON. They tell me that is not so, but if it is so it would simply confirm that their interests were originally the same. But they tell me it is not so. They say at the outset, when formed, the stockholders must of necessity have been the same in the company formed and in the association.

Mr. PECORA. What was the occasion for forming new companies if the stockholders were the same?

Mr. DILLON. Well, now——

Mr. PECORA (interposing). I understood your testimony to say, in substance, that the occasion for these incorporations was to enable certain adjustments to be made whenever there were any changes of interest in Dillon, Read & Co., among its various members.

Mr. DILLON. But those were formed, you see, at different times. That is the explanation. At one time there would be no occasion except for one company, I should think. But these were formed in different years or at different times.

Mr. PECORA. Well, if the conclusion which I have read from this opinion of January 18, 1932, is a correct conclusion, the fact is, according to you, that those corporations were not created for any such purpose as is referred to in this statement and conclusion.

Mr. DILLON. They were not, and I further say I do not see how they could work out that way, and actually they haven't worked out that way.

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The CHAIRMAN. There seems to have been some technicality about this provision providing for reorganizing, and where a profit has been made and people were entitled to have dividends that they reorganized and invested in stock in some other corporation, and they escaped taxation.

Mr. DILLON. I do not know about that. I do not see how they could get their dividends out and escape taxation.

Mr. PECORA. Now, Mr. Dillon, when you were examined the other day with regard to the Seaboard Air Line Railway Co. you were questioned with respect to the physical valuation made by the Interstate Commerce Commission of the property of that railroad. You, perhaps, will recall that at that time Senator Couzens suggested we get certain data from the files and records of the Interstate Commerce Commission with respect to that valuation. I have applied for such data and information and it has been given to me, in substance as follows by the Interstate Commerce Commission:

That on April 26, 1922, the engineering report was served by the Interstate Commerce Commission on interested parties, and that this report showed cost of reproduction both new and less depreciation; that this report was forwarded to M. L. Byars, chairman of the valuation committee of the Seaboard Air Line Railway Co. at no. 32 Nassau Street, New York City; and also that on September 5, 1922, the land report was sent to Mr. Byars at Norfolk, Va., and acknowledged from no. 32 Nassau Street.

That also on September 12, 1922, the accountants' report showing capitalization was sent to the railroad company's office at Portsmouth, Va., and acknowledged from there.

Also that on June 23, 1927, the tentative valuation report, dated June 17, 1927, was sent to Mr. Byars at no. 32 Nassau Street, and that this tentative valuation report fixed the entire property cost of reproduction new at $123,724,531 and fixed that cost less depreciation at $97,950,640.

Does any of that information conflict with your knowledge or recollection?

Mr. DILLON. Well, I haven't any knowledge or recollection of that, Mr. Pecora.

Mr. PECORA. Now, as I recall your testimony, it was in 1924 that Dillon, Read & Co. understook or became interested in financing or refinancing the Seaboard Air Line Railway Co. as its bankers.

Mr. DILLON. I think that is correct.

Mr. PECORA. From that time on were any of the partners or associates of Dillon, Read & Co. on the board of directors of the Seaboard Air Line Railway Company?

Mr. DILLON. May I inquire for that information?

Mr. PECORA. Yes.

Mr. DILLON (after inquiring of an associate). There was one of the members of the firm on the board at one time.

Mr. PECORA. Only one?

Mr. DILLON. They say only one, but not at any time when securities were purchased.

Mr. PECORA. What was his name?

Mr. DILLON. Mr. Wilcox.

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Mr. PECORA. Was there another gentleman on the board of the Seaboard Air Line Railway Co. who was in any way connected or affiliated with Dillon, Read & Co.?

Mr. DILLON. They say no.

Mr. PECORA. How about Mr. Hooper?

Mr. DILLON. They say he might have been on at the time, but they don't remember whether he was or not.

Mr. PECORA. Well, Mr. Hooper undertook certain work for the Seaboard Air Line Railway Co. at the instance of Dillon, Read & Co.; I recall your referring to him as an engineer.

Mr. DILLON. He was an engineer.

Mr. PECORA. Well, wasn't he——

Mr. DILLON (interposing). Mr. Hooper was with us at the time he made this report. He was a railroad expert.

Mr. PECORA. His address, no. 32 Nassau Street, is the same property as no. 28 Nassau Street.

Mr. DILLON. How was that?

Mr. PECORA. Does this address refer to the same building?

Mr. DILLON. No. 32 Nassau Street is the Mutual Life Building. It is the same building.

Mr. PECORA. It is the same building as no. 28?

Mr. DILLON. Yes, sir. They say here that the gentleman may have had an office in that building, but we don't know that. No. 32 Nassau Street is an office building.

Mr. PECORA. Now, Senator Couzens then asked you if the approval of the refinancing plan that Dillon, Read & Co. undertook in 1929 of the Seaboard Air Line Railway Co. by the Interstate Commerce Commission was unanimously given. You said you thought it was but you didn't know. Now, the information conveyed to me by the Interstate Commerce Commission is that Commissioner Eastman dissented from that approval.

Mr. DILLON. I am not surprised to hear that. [Laughter.]

Mr. PECORA. Now, Mr. Dillon, I have no further questions to propound to you, and am through, unless you have something you wish to say to this subcommittee.

Mr. DILLON. May I have the privilege of making a short statement?

The CHAIRMAN. Yes. You may do that, Mr. Dillon.

Mr. DILLON. Mr. Chairman, gentlemen of the Committee, and Mr. Pecora, for many years Dillon, Read & Co. and its predecessors have been engaged in the investment banking business. In 1905 Mr. Read organized the firm of Wm. A. Read & Co., which operated as a partnership until Mr. Read's death in 1916. In 1920 the firm name became Dillon, Read & Co. and a year later the partnership was succeeded by the present New York joint-stock association of the same name.

The principal business of Dillon, Read & Co. has always been the distribution of new security issues. It is not a member of any stock exchange. Our principal function has been that of an intermediary between the investor in long term securities and those seeking and entitled to have long term capital. During the 15 years since the war we have issued nearly four billion dollars of government, municipal and corporate securities.

Our business requires the study of the long term capital market and its relationship to economic trends, to interstate rates and to

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the needs of industry. From 1919 through 1925 the volume of new issues sponsored by Dillon, Read & Co. increased approximately in proportion to the total volume of new security issues.

From 1926 through 1929 the total volume of new securities offered in this country (exclusive of United States Government issues) increased rapidly from 7 billions yearly to more than 11½ billions in 1929, or a percentage increase of about 60 percent. During this period, which is now generally admitted to have been one of over-expansion, the volume of new issues sponsored by our firm relatively declined.

In this current period of low prices for almost all kinds of property—real estate, commodities, stocks, and bonds—how has the investor who purchased Dillon, Read & Co. securities fared on the whole?

In the 12-year period prior to January 1, 1931, out of 368 bond issues aggregating over $3,000,000,000 sponsored by Dillon, Read & Co., only 6 had defaulted. The principal amount of these issued in default at the end of the period was only three tenths of 1 percent of such total Dillon, Read & Co. issues.

Since January 1, 1931, more issues have defaulted. That was inevitable in times such as we have passed through. From 1929 to 1932, commodity prices declined 35 percent, net railway operating income of class 1 railroads declined 74 percent, and earnings from industry generally dropped so sharply that in 1932 the combined operations of 1,400 representative industrial corporations in the United States resulted in a deficit.

In this period many nations have been forced off the gold standard. Notwithstanding all this, the principal amount of Dillon, Read & Co. issues in default as of June 30, 1933, was only 7.7 percent of the aggregate principal amount of all bond issues sponsored by Dillon, Read & Co. during the post-war period.

The offerings of an investment house, like the investment list of an individual, or the investment portfolio of a bank or insurance company, should also be tested by the average income produced by the investments as a whole. We have calculated that if one man had bought the entire amount of securities sponsored by Dillon, Read & Co. from January 1, 1919, to June 30, 1933, and had sold on the latter date all issues then in default at their then market prices, he would have received on his investment cash income averaging more than 4½ percent per annum over the entire period, and, in addition, would have had sufficient cash income to make up the entire capital loss on the sale of his defaulted securities.

So much for the past; and now a word as to the relation of the investment banker to the problem of providing for future capital requirements. A sharp line of demarcation must be drawn between short term funds and long term capital requirements. The furnishing of short-term funds is primarily the function of commercial banks. They finance largely the production and distribution of the things we consume. By their nature, loans for such purposes should be self-liquidating.

The demand for food and clothes and consumer goods generally is relatively constant, but when we consider the production of so-called "durable goods" produced by the heavy industries, we find

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a drastic decline. These industries, producing machinery, railroad equipment, building materials, etc., and construction work in general, necessarily look largely to long-term financing rather than to bank loans. Long-term loans to such industries are not immediately self-liquidating and cannot ordinarily be considered by commercial banks. This is the proper field for the investment banker.

It has been estimated that the output of durable goods has declined to a far greater extent than that of consumption goods. The effect of this reduced production in the heavy industries has been greatly to increase unemployment.

The solution of the problem of unemployment—and this problem is the major economic and human problem confronting this country today—depends to a large extent upon the stimulation of heavy industries producing durable goods. This, in turn, is largely dependent upon a satisfactory market for new security offerings which in the past have furnished the capital for expansion of these industries.

A disturbing phenomenon of the present depression in this country has been the increasingly rapid decline in new security offerings during the past 4 years. From 11½ billion dollars in 1929, new financing has declined to a rate in 1933 of less than a billion dollars for the year. This is only one quarter of the new capital issues of the year 1921—the low point of the previous depression.

Entirely aside from the demand for new capital, nearly $3,000,000,000 of outstanding obligations of industrials, public utilities, and railroads fall due during the next 3 years, and, in addition, municipal bonds will mature during this period at the rate of about one half billion dollars a year, so that some 4 or 5 billion dollars will be required during the next 3 years solely for refunding purposes.

Through the aid of loans from the Reconstruction Finance Corporation, the refunding of a limited amount of maturing obligations, mostly of railroads and municipalities, has been accomplished. A return to the normal process of financing through the sale of long-term investments to the public should, however, be brought about as quickly as possible.

In addition, the capital market should supply to heavy industries the funds with which to restore the recently neglected maintenance of the national industrial machine, to readjust old industries to new conditions and to establish new industries. When this takes place on a large scale the unemployment problem will be solved.

We have dwelt at some length on the problems of the capital market because it seems to us that the free flow of new money into industry is essential for the continued progress of our national recovery and for the success of the valiant efforts of the present administration to reduce unemployment and restore prosperity. We respectfully submit that the Committee on Banking and Currency of the United States Senate and its counsel have a splendid opportunity to seek and to find the way to reopen the markets for long-term capital so that the requirements of industry may be met and so that labor may be reemployed.

Mr. CHAIRMAN. I should like to express our appreciation of the courtesies extended to us by you, by the members of the committee and by your counsel throughout these hearings.

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Mr. DILLON. Before we leave I should like to say a word about our experience with your investigating staff. Our organization was in direct contract with Mr. Frank J. Meehan and Mr. S. C. Ross who were working under Mr. Julius Silver and Mr. David Saperstein at your headquarters.

These gentlemen have been investigating our records for the past 6 months. For upwards of 2 months of that time the men on your staff were in our office working throughout the day and late into the night. We kept our office open for them and facilitated in every way their access to our books and our records. We found these gentlemen courteous at all times, and we appreciate their endeavor in the circumstances to interfere as little as possible with the conduct of our current business.

The CHAIRMAN. We are very much obliged to you, Mr. Dillon, for your statement, and I am authorized to say for the committee that our information is—and Mr. Pecora can verify that—that you have cooperated with us and afforded the facilities which we needed in order to make this study an investigation. We appreciate all that.

Mr. DILLON. Thank you, sir.

Mr. PECORA. Mr. Dillon, I have already stated on the record my appreciation of all the facilities and cooperation that the investigating staff always received at the hands of yourself and your associates, and I can say that they contributed very, very much to the facilitation of our work.

In the statement which you read to this committee you concluded with the statement that this committee and its counsel have a splendid opportunity to seek and to find the way to reopen the markets for long-term capital so that the requirements of industry may be met and so that labor may be reemployed. Have you any suggestions on your own part to offer to this committee whereby such an end may be attained?

Mr. DILLON. Mr. Pecora, I am at the disposal of this committee at any time that I can be of any service to them. I think I have outlined in a general way, the things that impress me as immediately before us.

I want to say at the outset that I am in sympathy with the principles of the securities bill. I do not think it has gone far enough in the question of publicity. I think I have elaborated on that before. I think the publicity should be continuing and not only at the time of the issue.

I think the act should, as soon as possible, be amended so as more clearly to define the responsibility of directors, of accountants, of bankers, and of underwriters. Each should be responsible for his own acts as far as he is able, in the exercise of diligence and care, to be responsible. The way the act is worded today, counsel are confused as to just what it means, with the result that they hesitate to advise any client to go ahead and take the responsibility under the act and the result is that companies have been unwilling to borrow money. It has not yet come to the question of whether a banker would lend or would not lend, or whether a banker would issue or underwrite. Up to now new issues have not been able to get through to us, because the directors of corpora-

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tions have said, "We will not pass on this. We will not vote for it, because it imposes on us the liability for the whole issue, for any mistake that might be in the historical data which you have to file—the mistake of an accountant, or the mistake of an engineer."

The result has been that up to this time issues have not come to a point where the bankers have to decide whether they can underwrite them or not.

There is, I believe, a public market today for the right kind of securities, if you could clear the field. I am not in any way saying that the bankers might not hesitate, or the underwriters might not hesitate under this present law. I think they would, probably, until that law is more clearly defined. But it has not been necessary for them to make that decision, because directors of companies up to this time have been unwilling to assume the responsibility which that act implies.

So, I think probably to direct attention to an immediate informal consideration of what recommendations you would like to make for the amendement of that act in certain respects—perhaps only minor respects, just to clarify it—would be helpful. I can think of nothing else.

The CHAIRMAN. Do you contemplate now, Mr. Dillon, speaking of new industries, any prospects for any new industries of importance?

Mr. DILLON. You mean entirely new industries, Senator?

The CHAIRMAN. Yes.

Mr. DILLON. I do not know of one now, unless probably you are thinking of aviation in one form or another. A new industry would be a very great help to this country.

The CHAIRMAN. Is there any prospect of any new issues of securities?

Mr. DILLON. Yes, because we have large amounts of maturities today that must be refunded. There could be an active security market, I think, today many of my confreres differ with me—if you had this security law matter cleared up.

The CHAIRMAN. There has been in the past a tremendous overissue of all sorts of securities, stocks, bonds, and so forth.

Mr. DILLON. In any era of speculation, that will be so, sir.

Senator ADAMS. Mr. Dillon, have you any suggestions with reference to possible regulation, either State or Federal, of investment trusts?

Mr. DILLON. Why don't we talk off the record, now?

Senator ADAMS. That is entirely agreeable.

The CHAIRMAN. Very well.

(At this point followed discussion which the reporter was directed not to record, after which the following occurred:)

Mr. PECORA. The observation you have just made, I think, is rather important, and I think it should go on the record, so that it can be more broadly disseminated than is possible through the recollection of the members of the committee.

The CHAIRMAN. Senator Adams' question might be put, and then you can answer just that part of it.

Senator ADAMS. My question would be: What, if any, suggestions would you have with reference to the future treatment of investment trusts by governments?

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Mr. DILLON. I think that the proper sort of Federal legislation, adapted after careful consideration so that it would not impede business, is desirable and would be helpful.

Mr. PECORA. Mr. Dillon, in your statement, among other things, you called attention to the fact that during the next 3 years nearly $3,000,000,000 of outstanding obligations of industrials, public utilities and railroads will fall due, and that they will have to be refunded. These obligations you refer to are obligations, for the most part, represented by long-term bonds, are they not?

Mr. DILLON. That are now maturing.

Mr. PECORA. Yes. Is it your knowledge or belief that in the majority of those issues there were very few, if any, sinking-fund requirements that would have enabled the retirement from time to time of large proportions of those issues?

Mr. DILLON. I do not happen to be familiar with that as a whole, but I do not hesitate to express an opinion on sinking-fund requirements. I think that they are desirable, and I think that every bond should carry a certain sinking fund to retire a substantial part of that issue by maturity.

Mr. PECORA. And you think that stiffer or better provisions should be made in future long-term issues for their gradual retirement through sinking fund requirements?

Mr. DILLON. I think some issues do have those, but I think it would be better if all issues had proper sinking fund requirements.

Senator COUZENS. Do you prefer a sinking fund requirement to a serial bond?

Mr. DILLON. I do, Senator Couzens, in general. There are specific cases that would be different but in general, by a sinking fund requirement you will have a better market for the owner of the bonds to sell them. When you have a serial maturity, it does not in any way help the market.

Senator COUZENS. Except this, that if you have a serial bond it is an obligation you have to meet. You find that in the cases of sinking-fund requirements they can be secretly avoided, while the payment of a serial bond, of course, cannot be secretly avoided, as it was in the case of the avoidance of some of the sinking-fund requirements of these South American issues. You were talking about publicity. I believe in the greatest degree of publicity, and that is the reason I believe that as long as sinking funds are created by private contract, and the public does not know whether sinking-fund requirements are being kept up or not, it would be better if serial bonds were issued, and the public would know whether those serial issues were being met.

Mr. DILLON. Senator Couzens, there were no sinking-fund defaults that should have been made public that were not made public.

Senator COUZENS. I said they were made in private contracts that were not published. I did not say they may not have been published, but the facts were that they were not published in the case of some of the Brazilian loans, as disclosed in the communications. There was a default and the public knew nothing of it.

Mr. DILLON. That is not a fact.

Senator COUZENS. That is not a fact?

Mr. DILLON. No, sir. That is your interpretation of what you heard, but that is not the fact.

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Senator COUZENS. The facts are as I have stated them, and I can prove that by the testimony, because of the cable you sent yourself, showing that you had permitted a default which you were not required to permit.

Mr. PECORA. That was a letter to the Brazilian Consul General, not a cable.

Mr. DILLON. That was just a letter, I think, which Mr. Hayward wrote, trying to persuade them to meet it.

Senator COUZENS. Whether it was a letter or not, that is a detail. The fact was that you claimed a default, and knew that there was a default. The public did not know that. But if there had been a default in the payment of a serial bond, the public would have known it. So, there is a greater obligation, it seems to me, to meet the maturity of a serial bond than there is to meet the requirements of a sinking fund. However, you are entitled to your opinion and I am entitled to mine.

Senator ADAMS. There was one question I was trying to ask. Perhaps it could be better answered by your attorneys. Is it customary, in the indentures securing bond issues, to provide that failure to provide the sinking fund shall constitute a default which would justify action by the trustee?

Mr. FRANKLIN. That is customary, Senator Adams.

Senator ADAMS. So, in this case, if sinking funds are not provided, there is a remedy on the part of the bondholder under the ordinary indenture.

Mr. FRANKLIN. That is correct, Senator.

Senator ADAMS. While I am speaking of attorneys, there have been some of you who were not attorneys who have taken a rather superior attitude. [Laughter]. One gentleman, I think, rather escaped us here. Is Mr. Hayward here?

Mr. HAYWARD. Yes, sir.

Senator ADAMS. Were you ever in any other line of business besides the one you are in now?

Mr. HAYWARD. Senator, I was hoping you would not ask that. I have been a member of the New York bar for 21 years. [Laughter].

Mr. PECORA. I notice that Mr. Hayward, in vouchsafing that information, did so with a smiling face rather than with a hanging head. [Laughter].

Mr. Dillon, will you just conclude? You have heard the testimony that has been adduced here in the course of these hearings the past 2 weeks concerning the issuance and offering to the public of various issues that have been the subject of examination here. I take it you are more or less familiar with the information that was given the public in the advertisements or circulars that accompanied those offerings. Would you say now that in the future, and to attain the desirable ends that you have alluded to, more complete information concerning the issuance should be given to the public when they are invited to subscribe to it than was given to it in the course of the offerings that were made in the last decade or so and have been the subject of inquiry here?

Mr. DILLON. I believe in giving to the public the fullest possible information on all issues of securities. I only wish that we could

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get some way to make the public read circulars and prospectuses. That is a real problem.

Senator ADAMS. Every advertiser wishes that, doesn't he?

Mr. DILLON. I presume so.

Mr. PECORA. As I understand you, you feel that there are certain provisions in the present securities law which is retarding the flow of capital into investments?

Mr. DILLON. I think so.

Mr. PECORA. And those provisions are those that impose personal liability on officers and directors of corporations making issues?

Mr. DILLON. Yes; and the uncertainty as to just how those provisions should be interpreted. I think there should be provisions of that nature but that they should be clearly defined and the liability you impose on any one group should be a liability for their own acts, not for the acts of the other groups.

For example, as I understand that act, if an underwriter, we will say in Denver, should participate in a 10 million dollar issue that we bring out and should take a $200,000 participation, which would gave him a profit, say, if it is one point, of $2,000, he assumes a liability for 10 years for 10 million dollars in case there has been a mistake anywhere along the line, or in case any other underwriter in offering those securities failed to divulge a material fact. Now that makes it impossible to underwrite securities, because this man in Denver, for example, will not take that commitment, because, even if he wanted to make the investigation, it would cost him probably more than the $2,000 to make the investigation necessary to establish diligence and care on his part.

Senator ADAMS. Mr. Dillon, do you mean by that that you would have an engineer responsible for engineering errors, the accountant responsible for the accountant errors——

Mr. DILLON. Yes; his errors.

Senator ADAMS. Perhaps the lawyer for his errors. But what would be the real financial responsibility of many of those persons? That is, the purchaser of securities who finds that he has bought and there has been a default and a defect, and he would have to go back and find out whose mistake it was, and if it so happens that it was an engineer who was not financially responsible or an accountant or a lawyer, why he would be quite helpless.

Mr. DILLON. Yes.

Senator ADAMS. In other words, those who are really financially responsible in the judgment of a committee in the Senate, should bear the responsibility, those who secure the benefits if any of the flotation.

Mr. DILLON. I think the borrower, that is, the corporation itself, should be responsible to anyone holding the securities and who bought them because of a failure to state a material fact. I think a banker should be responsible to the people to whom he sells securities if he has failed to divulge anything which he knows, also if he has knowingly hired incompetent people to make investigations. I think that is not using due diligence. He must be assumed to hire competent and reputable people to conduct an investigation, and then he must be responsible for divulging to the public what he knows. I think that is proper. And he should be responsible to those to

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whom he sells. I do not think that a banker in New York should be responsible to a purchaser in Denver, for example, if he buys from the Denver dealer, for the failure of the Denver dealer to do something he should have done.

Senator ADAMS. I suggest you take some other place besides Denver.

Mr. DILLON. Well, I thought that was fair. You know, I took New York too.

The CHAIRMAN. These operations that you referred to as failure to do this or the other—the act provides against misrepresentations.

Mr. DILLON. A man should be responsible for misrepresentations, Senator, in any event.

The CHAIRMAN. Yes. That is what the act covers, misrepresentations or failure to tell the truth.

Mr. DILLON. I think the question of malfeasance or misrepresentations is important. A man should be responsible for that.

Senator ADAMS. Senator Fletcher can answer perhaps better. Was not the act somewhat softened from absolute guaranty down so that the element of good faith is in there?

The CHAIRMAN. Yes; the Senate bill was modified.

Mr. DILLON. I think the Senate does not read the act with the same apprehension that the lawyers do, but the lawyers read that act and they will not give you a clearance. As I read that act I think it sounds clearer to me than it does to the lawyers. I will put it that way.

The CHAIRMAN. I think there is a good deal of exaggeration about that, due to those who oppose the act. They exaggerate the defects about it, because we find upon further examination of the act that their apprehensions are not worth while.

Mr. DILLON. That is what I hope, Senator.

Mr. PECORA. Mr. Dillon, it seems that I recall that some testimony has been given here by your associates to the effect that the public as a rule which subscribes to these issues that are put out by underwriting houses makes those subscriptions in reliance upon the integrity and prestige and understanding of the banking house that underwrites them and offers them to the public. Have you a recollection of any such testimony?

Mr. DILLON. Your question was that in forming an underwriting group or syndicate the members of that underwriting syndicate participate largely relying on the issuing house?

Mr. PECORA. And also the subscribing public.

Mr. DILLON. Yes; I think that is true.

Mr. PECORA. In view of the fact that that is true, is it fair to the public that the bankers who offer these securities to the public, knowing that the public relies upon their judgment as to the soundness of the issue, should assure themselves in the first instance of their soundness by complete analysis and understanding of the facts, then pass that analysis and their understanding of the facts to the public?

Mr. DILLON. I agree with that.

Mr. PECORA. Well, if that is the case, then it is the primary duty of the bankers to satisfy themselves by all means available to them?

Mr. DILLON. That is correct.

Mr. PECORA. Of the facts and circumstances of the issue?

Mr. DILLON. I agree with you.

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Mr. PECORA. As well as of any facts bearing upon the soundness of the issue?

Mr. DILLON. I agree with you.

Mr. PECORA. But why should not the bankers, in view of the fact that they have superior facilities and opportunity to assure themselves of the soundness of the issue, be held to a responsibility to the public if they accept the judgment of others?

Mr. DILLON. That may be good in theory, Mr. Pecora, but you get to a point where no banker can be a banker, and you cannot represent to the public that you know that all the historical data is correct.

Mr. PECORA. If the bankers cannot find it out, how can the investing public be expected to find it out?

Mr. DILLON. They cannot. You have simply got to take the report, I should think, of the accountants, and they must be reputable accountants, because you cannot go and audit those books literally yourself; you must hire competent people, and you must review their work, and all that, and use every care and every diligence. But a banker cannot possibly do all that. You take, for example, the telephone company: A banker cannot possibly inspect all their plants, all their property, go over all their accounts. I mean it is a physical impossibility.

But in principle I agree with you, Mr. Pecora, that they should be responsible.

Mr. PECORA. Having in mind the statement that you read to be the sound thing for the investor to do, it is just simple, in view of the loss of Dillon, Read & Co., up to certain days of only 0.3 percent and 7.7 percent even through the bad days—why jump from Dillon, Read & Co.? Why not stop right there? That would be better than exercising individual judgment.

Mr. DILLON. I think a lot of our customers do that. That is why we feel the responsibility so greatly ourselves.

Senator COUZENS. May I ask you, Mr. Dillon, if you were to organize two investment trusts again would you, in view of the disclosures, follow the same procedure?

Mr. DILLON. Yes; I do not think I should vary it, except that when I subscribed the junior money I might not have different classes of stock. I would probably buy just common stock and keep that. Then if you wanted to give the first preferred stock some proportion you might say you would pay $6 on the first preferred, then $6 on the common, and then give 25 percent of the balance to the first preferred and 75 to the common. Something like that seems simpler.

Senator ADAMS. You would not increase your holdings of Rock Island any?

Senator COUZENS. What I was trying to get at was: You believe in the control of large aggregations of money, such as in this case 30 million and 60 million, by an investment of a hundred thousand dollars in common stock?

Mr. DILLON. That is not what happened in this case, Senator Couzens.

Senator COUZENS. Well, you purchased 5,000,000 of the second preferred, didn't you?

Mr. DILLON. That is right.

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Senator COUZENS. And you purchased a million shares for a hundred thousand dollars aditional—rather a half a millon shares So in effect you did get control of both of these corporations, either through the issuance of this common stock or the profits of this first trust being turned into the organization of the second trust, by a small investment. So, in effect, you did control enormous amounts of capital with a very little personal investment.

What I am trying to get at is, do you approve of that method?

Mr. DILLON. If I am the person that has to take the responsibility for the control, I am only willing to do that for our own clients and friends. I would not take that responsibility just for the fun of taking it, because there is no remuneration that you can have that would make me want to take that responsibility except in the course of my business to our own clients and customers.

Senator COUZENS. Outside of your own personal investment in the common stock, it seems to me that the testimony discloses very large profits made by your partners with very slight investment, especially when they sold stock costing them 20 cents a share up to as high as $72 a share. I wonder if you approve of that kind of processes.

Mr. DILLON. They did not sell it at 72, but that does not matter. I mean I see nothing wrong in the process at all, because that stock when they bought it, that common stock if you will remember, had no book value at all. In fact, it was worth $900,000 less than nothing. And in that same year that they sold it I think it had a book value of some $48,000,000.

Senator COUZENS. Yes; but as a matter of fact, what I am trying to get at is, you control the disposition and investment of this enormous amount of money with a very small investment. So that it is just human nature to take greater hazards than it would if it was your own money that you were handling.

Mr. DILLON. No; I don't think so at all, because the hazard we take, Senator Couzens, is with our own money. If we sustain any losses, the first people who suffer are ourselves. Before the public would lose anything in that first trust we would have lost our own $5,000,000, before anybody else loses anything. So instead of taking greater hazards, the public takes much less hazards.

Senator COUZENS. I do not agree, because the second trust you created with $60,000,000 and you did not put any of your own money except what you earned out of the first trust.

Mr. DILLON. Yes; but the first trust put $10,000,000 in the second trust.

Mr. PECORA. Out of the profits of the first trust?

Mr. DILLON. That is right.

Mr. PECORA. Not out of the funds of Dillon, Read & Co.

Mr. DILLON. Not out of the proceeds of the first trust. But if we had put it in and declared dividends we would have a loss of $7,000,000 on that return. So I think it is fair to say——

Senator COUZENS (interposing). So, in other words, you expect to secure public confidence; as I understand, that is necessary before all this refinancing can be done, and you expect to secure public confidence after disclosures made here with respect to Dillon, Read & Co.'s investigation of handling not only foreign loans but domestic

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sales. I think if you are still of that viewpoint, after all of this testimony, you are very gravely in error as to the return of public confidence and that you will have a continued difficulty, if not almost an impossibility of accomplishment, of a refund of these securities that you say have to be refunded.

In other words, I just cannot conceive of public confidence being returned in investment houses after the disclosures of Dillon, Read & Co., and after the investigation of these foreign securities and these domestic securities, as was particularly disclosed with respect to the two investment trusts.

Mr. DILLON. I am sorry, Senator Couzens, you feel that way.

Senator COUZENS. I mean I gather that impression from the press, and I gather that impression from private correspondence. It is not an impression that comes out of my mind alone; it is what I get from public reaction.

And I do not want this hearing to break up with just a mere exchange of flowers, when I think that the matter is much more serious than that, and if public confidence is to be secured we cannot just dispense with these meetings by just exchanging flowers between each other.

Mr. DILLON. No; but I have read into the record a record of our own business over the last 15 years, and I think it is a pardonable pride we take in that record, Senator Couzens.

Senator COUZENS. You can oftentimes do something which externally looks good and you can exhibit with pride, but sometimes you have to analyze the methods adopted to accomplish that result, and you may not be so proud of the methods as you are of the accomplishment.

Mr. DILLON. We are in our case.

Senator COUZENS. I expected you would, because we never expected to penetrate Wall Street.

Mr. PECORA. Mr. Dillon, when you said the other day that the stock of the United States & International Securities Corporation had an asset value of $90 a share, were you referring only to the first preferred stock?

Mr. DILLON. Yes; the first preferred representing the public's money.

Mr. PECORA. Well, there was $10,000,000 of the public's money that went into the purchase of its second preferred stock?

Mr. DILLON. No; that money belonged to the common stock of United States & Foreign, as you remember.

Mr. PECORA. That money came out of the treasury of the United States & Foreign Securities Corporation?

Mr. DILLON. That is right.

Mr. PECORA. The United States & Foreign Securities Corporation was launched with $25,000,000 of the public's money and $5,000,000 of your money, wasn't it?

Mr. DILLON. Yes.

Mr. PECORA. The reason you say that $10,000,000 belonged essentially to Dillon, Read & Co. was because, through the set-up of the United States & Foreign Securities Corporation, Dillon, Read & Co. acquired around 75 percent of the equity stock or the common stock

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of the United States & Foreign Securities Corporation when it purchased the $5,000,000 of second preferred stock.

Mr. DILLON. I am sorry I did not follow that.

(The shorthand reporter read the last statement of Mr. Pecora.)

Mr. DILLON. Mr. Pecora, I do not follow the question there.

Mr. PECORA. The $10,000,000 that was received by the United States & International Securities Corporation came from the treasury of the United States & Foreign Securities Corporation and was paid for the purchase of all of the second preferred stock of the United States & International?

Mr. DILLON. That is correct.

Mr. PECORA. That second preferred stock of the United States & International today has no asset value?

Mr. DILLON. That is correct.

Mr. PECORA. Nevertheless, when you say that the stock of the United States & International today has an asset value of $90 a share, you mean only the first preferred stock of the United States & International?

Mr. Dillon. Yes.

Mr. PECORA. The $10,000,000 that came from the United States & Foreign you said was not money subscribed by the public or which came from the public, but was money that virtually belonged to Dillon, Read & Co.?

Mr. DILLON. No; I said it belonged to the common stock of the United States & Foreign.

Mr. PECORA. The common stock of United States & Foreign was owned, about 75 percent thereof, by Dillon, Read & Co., and its associates?

Mr. DILLON. I do not know about that definitely at that particular time.

Mr. PECORA. That 75 percent of the common stock of United States & Foreign went with the purchase of $5,000,0000 worth of the second preferred stock of the United States & Foreign?

Mr. DILLON. That is right.

Mr. PECORA. And that $5,000,000 was paid by Dillon, Read & Co.?

Mr. DILLON. Yes.

Mr. PECORA. The $10,000,000 that the United States & Foreign paid to the United States & International for the second preferred stock, and which second preferred stock you admit has no asset value today, represented earnings of the United States & Foreign, did it not?

Mr. DILLON. That is correct.

Mr. PECORA. Those earnings were available for distribution by the United States & Foreign to its common stockholders?

Mr. DILLON. That is correct.

Mr. PECORA. No such distribution was ever made to the common stockholders because no dividend was ever paid on the common stock, by the United States & Foreign.

Mr. DILLON. That is correct.

Mr. PECORA. Earnings were available to pay dividends on the common stock of the United States & Foreign, were they not?

Mr. DILLON. Yes.

Mr. PECORA. And could have been declared?

Mr. DILLON. Yes.

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Mr. PECORA. And had they been so declared, the public, which purchased for $25,000,000 the first preferred stock of the United States & Foreign, would have participated in the distribution of those dividends because with the purchase of the $25,000,000 worth of first preferred stock they acquired as a bonus, share for share, 250,000 shares of the common stock?

Mr. DILLON. Correct. They would have received one fourth of the dividends and we would have received three fourths.

Mr. PECORA. The public which paid $25,000,000 into the first investment trust never received a penny by way of dividends on the common stock?

Mr. DILLON. We thought the investment of the first investment trust in the second investment trust would be a very good investment, or we would not have made it.

Mr. PECORA. And that $10,000,000 so invested in the second preferred stock of the second investment trust is now marked down to $1 on the books of the United States & Foreign?

Mr. DILLON. That is correct. However, it has a potential value.

Mr. PECORA. So that sum of $10,000,000 which was available for distribution in the form of dividends on common stock, instead of going to the stockholders went to the United States & International?

Mr. DILLON. It was invested in United States & International for the benefit of the stockholders of United States & Foreign Securities Corporation.

Mr. PECORA. And to that extent the stockholders of the first preferred stock who subscribed $25,000,000 to the first investment trust were deprived of one fourth of the $10,000,000 which was available for distribution as dividends on common stock?

Mr. DILLON. No; they were not deprived of that.

Mr. PECORA. They did not receive it.

Mr. DILLON. No; but they had their interest in the investment that was made.

Mr. PECORA. But the investment that was made has since been marked down to $1.

Mr. DILLON. That is correct.

The CHAIRMAN. If you undertook now to organize a third investment trust and offered this stock to the public, you would have difficulty in disposing of it, would you not?

Mr. DILLON. I do not think so, Senator. It is a qeustion whether we want to take on the responsibility of handling funds for the benefit of others.

Mr. PECORA. Was there not a very tangible advantage, that your associates as the owners of practically three fourths of the common stock of the United States & Foreign derived from the enhanced market value which was given to that common stock because of the retention of these earnings and the nondistribution as dividends?

Mr. DILLON. No; there was a profit made by those who sold on account of the enhanced value of the stock, on account of the earnings made by the company; that is correct. They did make a profit.

Mr. PECORA. That is all.

The CHAIRMAN. I think, Mr. Dillon, you must admit that the public are not today investing in stocks as they were in 1928 and 1929.

Mr. DILLON. No; I do not think they are, Senator.

(Witness excused.)

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TESTIMONY OF ROBERT OTIS HAYWARD—Resumed

Mr. PECORA. Mr. Hayward, you are familiar with the issue of $23,000,000 par value 7 percent gold bonds of the Republic of Bolivia, dated September 1, 1928, due October 1, 1969, are you not?

Mr. HAYWARD. Yes; I am.

Mr. PECORA. Was that issue sold to Dillon, Read & Co. originally by the Bolivian Government?

Mr. HAYWARD. It was.

Mr. PECORA. At what price?

Mr. HAYWARD. I will have that in a minute, Mr. Pecora. [After consulting associates.] At 93.

Mr. PECORA. And at what price did Dillon, Read & Co. and their associates offer it to the public?

Mr. HAYWARD. At 97½, which represented a yield of 7.19 percent.

Mr. PECORA. How many distributing groups and underwriting groups were formed for the purpose of floating this issue?

Mr. HAYWARD. There were four groups, Mr. Pecora.

Mr. PECORA. The first was the primary or originating group.

Mr. HAYWARD. Yes. The second, the special; and then there was a banking group and then there was a syndicate.

Mr. PECORA. Or selling group?

Mr. HAYWARD. Yes.

Mr. PECORA. Dillon, Read & Co. were participants in all of these groups, were they not?

Mr. HAYWARD. That is correct.

Mr. PECORA. What were the total net profits accruing to those four groups from the sale of those bonds? Our calculation, Mr. Hayward, if you care to accept it, which is based upon your records, fixes it at $956,753.51.

Mr. HAYWARD. That is correct. That is the so-called gross profit.

Mr. PECORA. Of that amount how much went to Dillon, Read & Co. as a participant in all four of those groups?

Mr. HAYWARD. According to our Price, Waterhouse & Co. figures it was $323,431. Does that check with yours?

Mr. PECORA. No. Our figures show directly to Dillon, Read & Co. $307,181.01, and to Dillon, Read & Co. through Toronto and London $86,375.

Mr. HAYWARD. There is some confusion here. We will settle it in a moment.

Mr. PECORA. Was not this the issue about which you had some correspondence with the Bolivian Government or its representatives relating to the payment of an obligation previously incurred by the Government in favor of Armstrong-Vickers Co., Ltd.?

Mr. HAYWARD. Yes, sir. This was the one.

Mr. PECORA. When did you first learn of the existence of this obligation in favor of Armstrong-Vickers Co., Ltd.?

Mr. HAYWARD. Some time during the negotiations, in the usual course, we requested the Bolivian Government to supply us with statistics which would eventually be incorporated in the prospectus and which we could use to estimate their position; and at that time we were advised that an 8 percent obligation was in the hands of the Vickers Co. in England which represented a means of payment

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on a contract for the supply to Boliva of miscellaneous equipment for the Army.

Mr. PECORA. And when did you first learn of the existence of that?

Mr. HAYWARD. Some time during the early steps of the negotiations, in 1928.

Mr. PECORA. Before the conclusion of those negotiations?

Mr. HAYWARD. Oh, yes; because the refunding of the obligation was part of the eventual purpose of this issue.

Mr. PECORA. Was that purpose set forth in the circular which accompanied an offer of this issue to the public?

Mr. HAYWARD. May I read that paragraph?

Mr. PECORA. Yes.

Mr. HAYWARD. It is headed "Purpose of Issue" (reading):

Approximately $15,000,000 of the proceeds of this issue will be used to retire existing indebtedness (with resulting reduction in present annual service charges) through the redemption of secured external obligations under the Quillacollo-Arani Railroad loan, the loan for the sanitation of La Paz and Cochabamba and the Potosi-Sucre railroad loan; through the liquidation of amounts owing under the Vickers contract; and through the payment of the secured indebtedness to the national banks of the Republic and of a portion of the unsecured indebtedness to such banks. The balance of the proceeds will be utilized for the further reduction of floating indebtedness, investment in railroads, construction of highways and for other purposes.

Mr. PECORA. How much of the moneys were to be applied to the liquidation of the Armstrong-Vickers indebtedness?

Mr. HAYWARD. Very briefly, the situation was this: When we learned of this obligation we found that it amounted at that time to approximately 1,900,000 pounds. It appeared to us a favorable opportunity to urge the Bolivian Government to discontinue part of the deliveries under that contract, inasmuch as we felt that as part of this refunding operation that Vickers' obligation should be canceled. I presume that in view of the fact that when this material had been ordered the Bolivian Government was not paying cash, it was probably natural that the price for such material had been materially increased. We therefore requested the Bolivian Government to take the matter up with the Vickers Co. through their representatives in London, and they had certain discussions which eventuated in the Vickers Co. agreeing that in return for the cancelation of this 8 percent bond which they held they would cut off the balance of deliveries and would reduce the originally agreed purchase price by some $3,000,000. This transaction required careful consideration, in view of the fact that I believe that in the early part of the administration of the late President Harding a general policy had been evolved that our Government looked with disfavor on borrowing money from the public of the United States for the purpose of promoting foreign wars. It is my understanding that that was one of the chief causes for the eventual gentlemen's agreement which was reached between the issuing houses and the State Department to the effect that whenever they had a foreign loan pending, before actually making the public issue they would submit a copy of the proposed prospectus to the State Department and furnish the Department with any additional information it might require.

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Thereupon, in the due course of time, after the Department had considered the matter, if it had no objection it would so advise the bankers. The bankers were of course given to understand that this should not in any way be regarded or publicly represented to be an approval of the loan; and I think the bankers loyally lived up to that requirement. So that we knew that this particular situation was one which, you might say, was on the border line. We therefore took it up with the State Department and discussed it at great length and we supplied them with additional information which they required, and in due course the Department, I understand, reached the opinion which we had had in the beginning, that inasmuch as this was not furnishing money to purchase materials, but was purely a refunding operation, there was nothing in it which warranted their making any objection. That had been our opinion, and for that reason this refunding was included in the general program.

Mr. PECORA. Mr. Hayward, are these bonds now in default?

Mr. HAYWARD. Yes; they are.

Mr. PECORA. When did the first default occur?

Mr. HAYWARD. The first interest default occurred on the 1st of March 1931.

Mr. PECORA. What is the present market quotation on these bonds?

Mr. HAYWARD. It is about the same as the other issues, around 7—6 or 7.

Mr. PECORA. Did you know what the balance sheet was of the Government of Bolivia when you subscribed to these bonds and offered them to the public?

Mr. HAYWARD. We were given all the information which we customarily ask for.

Mr. PECORA. Did the information show that the revenues exceeded the expenditures?

Mr. HAYWARD. That is my recollection. In that particular instance you may recall, as I testified yesterday, there is a permanent fiscal commission in Bolivia under the terms of the trust indenture of the 1922 loan, and there is a provision that until that loan had been completely retired and that before Bolivia could issue other external loans, a certificate of this commission would be required, making certain certifications in regard to the state of their debt. Therefore, before we could proceed with this issue we had to receive the certificate of this commission, which was furnished to us, and that showed that the ordinary revenues had exceeded ordinary expenditures, other than capital expenditures, during the required period.

Mr. PECORA. In your circular, offering this issue to the public, you say as follows, under the caption "Finance":

Revenues of the Government have exceeded expenditures, other than capital expenditures, in each of the past 4 years.

Mr. HAYWARD. That is correct.

Mr. PECORA. Why was that information limited only as to the preceding 4 years? Was it because you had information that the revenues had been exceeded by the expenditures in preceding years?

Mr. HAYWARD. Not to my knowledge, Mr. Pecora, no. I suppose it seemed like a normal period to take.

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Mr. PECORA. For the year 1927 did not the revenues of the Government amount to $16,452,000 as against an expenditure for that year of about $19,136,000, which included a $2,722,000 capital expenditure?

Mr. HAYWARD. We will find that.

The CHAIRMAN. While you are looking that up, what is being done now to take care of these bonds?

Mr. HAYWARD. The present situation is, Senator, that on account of the low prices of tin and other minerals which Bolivia produces, the total revenues of the Government at the present time are scarcely sufficient to meet their operating expenses without any application toward the debt. That situation is bound to continue until the prices of Bolivian materials improve. There has been in recent months quite a substantial improvement in the price of tin, but it is not yet sufficient to reflect itself materially in the balance sheet of the Government.

The CHAIRMAN. Do they get much revenue from customs duties?

Mr. HAYWARD. Some. The larger part of the revenues directly and indirectly are, I believe, from these mineral products. Taxes on the exports of such products, profits' taxes of the companies producing them, and so forth.

The CHAIRMAN. Have they a sales tax?

Mr. HAYWARD. They have a form of sales tax; yes.

Mr. PECORA. There were certain provisions in the loan agreement respecting this issue whereby certain revenues were pledged to secure the service requirements of this issue, were there not?

Mr. HAYWARD. Yes; there were.

Mr. PECORA. During the year 1928 were the revenues sufficient to enable the Government to comply with those requirements?

Mr. HAYWARD. It is my recollection that during the year 1928 they fell slightly short of the one and one-half times which was agreed to in the contract. The Bolivian Government had made a covenant that in such an event it would add other revenues to make up the difference.

Mr. PECORA. Did you endeavor to have the Bolivian Government live up to that requirement?

Mr. HAYWARD. We took all the steps that we could with the Government to bring that to their attention and requested them to add additional revenues. They have not yet done so.

Mr. PECORA. Those efforts proved fruitless?

Mr. HAYWARD. To the present time they have proved fruitless.

Mr. PECORA. Did you not learn in the latter part of the year 1930 that the Bolivian Government had violated the terms of this loan agreement with regard to making certain revenues from taxes available for these bonds by putting those revenues back of a loan made to one of the Kreuger match companies?

Mr. HAYWARD. Yes; that is correct. They did.

Mr. PECORA. What, if anything, was done to rectify that?

Mr. HAYWARD. At the time our loan was made the Bolivian Government had certain methods of disposing of matches whereby they received an annual revenue. That revenue was pledged as part of the security for this loan. Subsequently, for domestic reasons, they preferred to change that system, and they eventually concluded a

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contract with a subsidiary of the Swedish Match Co.—a Belgian company, I believe—whereby they gave for a period of years to this company the monopoly on the manufacture and sale of matches in Bolivia.

Mr. PECORA. That was in violation of the loan agreement or the contract with your firm for this issue, was it not?

Mr. HAYWARD. It is my impression if it had stopped there that it would have been all right, because we would have had a pledge of the revenues from that new arrangement. It might have required our previous consent. I do not recall. But that was not the point at which the actual violation occurred, I believe.

In connection with this match monopoly they received an advance or a loan of $2,000,000 from this company. My understanding is that the arrangement at present in force provides for the subtraction by this monopoly company of the charges on this $2,000,000 loan before the balance of the revenues are credited to the treasury, so that to the extent that they take and pay to some one else the interest and sinking fund on that $2,000,000 they are in effect depriving our bondholders of that sum. It is not a large sum, but it is the interest and sinking fund on $2,000,000.

When we discovered this situation we immediately made representations to the Bolivian Government and protested, and my best recollection is that they referred us first of all to the representatives in the United States of the Match Co. We had numerous discussions and conversations with those representatives. We met all the representatives we could. The net result of it was that the situation stands in that position today.

The question as to what steps shall be taken next has been necessarily deferred by reason of the difficulties of the Match Co. My own feeling is at the present time that once the Swedish Match Co. has been reorganized—and discussions to that end are now going on in Europe—that we will then have a body with whom we can seriously take up this situation, and I am hopeful that some adjustment can be made. But at the present time the matter is in suspense, as I have described.

Mr. PECORA. Are you familiar with an issue of $6,000,000 par value of sinking fund gold bonds of the city of Montevideo, Republic of Uruguay, made in June, 1922, due June 1, 1952?

Mr. HAYWARD. Yes. That was the issue we brought out.

Mr. PECORA. These are 7 percent bonds, are they not?

Mr. HAYWARD. That is correct.

Mr. PECORA. Were those bonds underwritten by Dillon, Read & Co. directly?

Mr. HAYWARD. They were.

Mr. PECORA. At what price?

Mr. HAYWARD. The purchase price from the municipality was 91½.

Mr. PECORA. And at what price were they offered and sold to the investing public in America?

Mr. HAYWARD. They were sold at 97 and interest, to net approximately 7.25 percent.

Mr. PECORA. Are these bonds now in default?

Mr. HAYWARD. These bonds are in default.

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Mr. PECORA. When did the first default occur?

Mr. HAYWARD. The municipality had difficulty on account of the exchange situation in Uruguay in remitting the interest and sinking fund to us which should have been paid to the public on December 1, 1931. Shortly before that time the municipality sent us a cable and warned us that they were having difficulty on account of the exchange situation, and they asked if they might temporarily accommodate themselves by remitting the interest to us the day before it was payable to the public instead of some time before, as required by the contract. We called their attention to the fact that we could not agree to any change in the terms of the loan contract, and the money was expected at the time it was due, but it was not received. However, they did succeed in getting partial sums in dollars from the National Bank of Uruguay. And during the month of December that was remitted to us in installments as and when possible. My recollection is that by the 1st of January, or shortly thereafter, all of the money required to pay the interest was finally in New York, and it was paid. The final default—since which time there has been no further payment—occurred on the 1st of June 1932 and since that time the bonds have been in default as to interest and sinking funds.

Mr. PECORA. What are the bonds quoted at publicly today?

Mr. HAYWARD. The last quotation we have is 38¼.

Mr. PECORA. Who conducted the negotiations for this issue with the authorities of the city of Montevideo on behalf of your firm?

Mr. HAYWARD. The fact that Montevideo was desirous of making the loan was brought to our attention by an American lawyer who had been in Uruguay.

Mr. PECORA. Was his name Shirley?

Mr. HAYWARD. James J. Shirley, who had subsequently returned to New York. After making a preliminary study of the situation we felt that it was in general interesting, and through his associate, Mr. Mendez Rodriguez, who was a resident of Montevideo, we began discussions with the municipal council, which eventually led to our purchasing the bonds.

Mr. PECORA. Mr. Hayward, on or about March 9, 1922, did your firm send instructions to Mr. Rodriguez to submit a bid on behalf of your firm for this issue at 91?

Mr. HAYWARD. We authorized him to make an offer of 91 for bonds of the municipality bearing 7½ percent coupons.

Mr. PECORA. The bonds actually issued eventually were 7 percent bonds, and to a par value of $6,000,000?

Mr. HAYWARD. That is correct.

Mr. PECORA. This bid was proposed for bonds at the par value of $7,000,000?

Mr. HAYWARD. Of $7,000,000.

Mr. PECORA. In the cable you sent dated March 9, 1922, to Rodriguez did you say among other things: "We believe we can so handle market that bonds will within 1 year sell above par"?

Mr. HAYWARD. That is correct.

Mr. PECORA. What did you mean by that?

Mr. HAYWARD. We meant by that, as I recall it—it was a long time ago—that in our opinion the fact that this city was not par-

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ticularly well known at that time and was not fully appreciated would be overcome by the sale of this issue, and that through the efforts we might be able to employ along the lines of after-market work, which I discussed with you yesterday, backed up by their credit standing, that we felt it was likely that some time after the loan came out the bonds would appreciate in price rather than depreciate.

Mr. PECORA. How did you expect to handle the market, using your own phraseology, to bring about such a result?

Mr. HAYWARD. Simply by adequate distribution.

Mr. PECORA. Also by a syndicate trading account?

Mr. HAYWARD. I do not recall whether we had a trading account on that loan or not. I will find out. That would be part of the process.

Mr. PECORA. That would be part of the process?

Mr. HAYWARD. Yes. There was in fact a small subsequent syndicate trading account. The total amount of bonds they dealt in were 521.

Mr. PECORA. $521,000?

Mr. HAYWARD. Apparently it did not require very serious effort.

Mr. PECORA. And that trading account was maintained at a loss of some $8,000, was it not?

Mr. HAYWARD. $8,452.24.

Mr. PECORA. And that was the expense to Dillon, Read & Co. of pegging the market, so to speak, so as to facilitate the sale of these bonds to the public?

Mr. HAYWARD. I do not like——

Mr. PECORA. You do not like the term "pegging"?

Mr. HAYWARD. Would you change it?

Mr. PECORA. You change it, providing it means the same thing.

Mr. HAYWARD. That was the expense to the syndicate of the after-market operation in connection with this issue.

Mr. PECORA. And the after-market operation was the syndicate——

Mr. HAYWARD. The purchase and sale of bonds in order to obtain an eventual distribution to the public.

Mr. PECORA. To maintain a market price during the process of distribution to the public? Is that not one way of putting it?

Mr. HAYWARD. No; to obtain the distribution of the bonds.

Mr. PECORA. And to maintain a certain market price until there had been a distribution to the public?

Mr. HAYWARD. Yes, to secure such ultimate distribution.

Mr. PECORA. It is the usual 60-day syndicate trading account that is resorted to for those purposes in making these issues?

Mr. HAYWARD. Yes; that is right. Whether we believe in it or not, it is there.

Mr. PECORA. Whether it is fair or not to the public, it is there?

Mr. HAYWARD. We argued that yesterday.

The CHAIRMAN. What was the total bonded debt of Montevideo at that time? Do you know?

Mr. HAYWARD. It was very small, Senator, as I recall it. After the issue of this loan the debt of the municipality at that time was $12,000,000.

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The CHAIRMAN. Do you mean $6,000,000 in addition to your $6,000,000?

Mr. HAYWARD. That is right.

The CHAIRMAN. What is the population of Montevideo?

Mr. HAYWARD. It is about 600,000, I think. At that time it was 393,000. It has grown considerably since then. That is a very small debt, Senator. My home city, for instance, of Yonkers, has a population of about 150,000 and the annual expense in the budget is as much as the total debt of the city of Montevideo at that time. And our funded debt is around $35,000,000. Which is not large.

The CHAIRMAN. Do you know the assessed value of the property of Montevideo?

Mr. HAYWARD. No. There again I have the same difficulty we had yesterday with regard to assessed valuations for South American cities.

Senator ADAMS. Is that a recommendation of the bonds of Yonkers or the bonds of Montevideo?

Mr. HAYWARD. Well, I think they are both good, Senator.

The CHAIRMAN. What was the purpose of this loan?

Mr. HAYWARD. General city improvements.

The CHAIRMAN. Why can they not pay the interest, then? Why should they default? What is the trouble?

Mr. HAYWARD. The default is due to the exchange situation in Uruguay, which is similar to the exchange situation in other countries. The Uruguayan peso is now depreciated approximately 30 percent below par. It has been depreciated in recent months as much as 50 percent. It went up when we went off the gold basis.

Senator ADAMS. Some other currencies have gone down almost as much as 30 percent?

Mr. HAYWARD. Some have gone down almost as much as 30 percent. I have heard of some. And therefore the Government, Senator, has to ration the amount of dollars and sterling and francs, not only for itself but for private individuals. That situation will exist until there is some improvement in exchange.

Mr. PECORA. Mr. Hayward, were you familiar with the financial history of the city of Montevideo prior to the issuance of these bonds?

Mr. HAYWARD. We made an investigation of it before buying the bonds; yes.

Mr. PECORA. Did your investigation result in any information to you that there had been a default on other obligations, on prior obligations, some time in the past by the city of Montevideo?

Mr. HAYWARD. The city of Montevideo was in difficulties back at the time of the so-called "Baring Brothers crisis", which affected all Latin-American countries.

Mr. PECORA. When was that?

Mr. HAYWARD. In 1890. Along in those years, and at that time there was a suspension of payments.

Mr. PECORA. What about its embarrassment, have you learned, during the World War?

Mr. HAYWARD. Its financial embarrassment during the World War?

Mr. PECORA. Yes; on the part of the city of Montevideo.

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Mr. HAYWARD. I do not recall that at this minute.

Mr. PECORA. Weren't sinking fund payments suspended during the World War?

Mr. HAYWARD. That is very possible, but I do not know of it at this minute.

Mr. PECORA. And they were resumed in 1922?

Mr. HAYWARD. That is possible, Mr. Pecora, but I haven't that information here.

Mr. PECORA. Now, you learned about that default on the Baring loan before you offered the bonds to the public, didn't you?

Mr. HAYWARD. Oh, yes; certainly.

Mr. PECORA. Was any mention made of that portion of the financial history or credit of this municipality in the circular that accompanied the offering to the public of these bonds here?

Mr. HAYWARD. No; none whatever.

Mr. PECORA. Why not?

Mr. HAYWARD. Mr. Pecora, it has not been the custom as I understand it in the matter of Government loans, or in our own domestic loans, municipal and railroads, up to the present time to go into the past financial history of that nature.

Mr. PECORA. Well, let us see if that is so. I will ask some of my staff to let me have the circular in the case of the Bolivian loan, the 23 million dollar loan.

Senator COUZENS. Mr. Hayward, were those previous defaults made good?

Mr. HAYWARD. Yes; they were. The terms of the loan were slightly altered and the bondholders agreed, and since that time the city paid.

Mr. PECORA. In view of the statement you just made in answer to my question, let me call your attention to this statement in the circular that accompanied the offer to the public here of the 23 million dollar issue of Bolivian bonds that were the subject of your examination yesterday:

> The Bolivian Government has met all obligations appertaining to its external debt incurred during the last half century.

Isn't that apparent to you from that statement that it was customary to make some mention of the financial history or credit of the issuing government in the circulars you issued to accompany offerings that you had underwritten?

Mr. HAYWARD. No. I think our circular in the Bolivian case does not necessarily prove your contention. And even under the terms of our new Securities Act the city of Montevideo would not have been required to mention this suspension in 1890, because it ran beyond the 20-year period. There was no question of concealment. It was just not the practice and has not been the practice to do that.

Mr. PECORA. You say it has not been the practice. Do you mean the practice as followed by Dillon, Read & Co., or the general practice followed by investment banking houses?

Mr. HAYWARD. I mean very decidedly the general practice. If you will look at the offerings of bonds of the Atchison Railroad, for

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instance, you will not find any reference to previous defaults. It just simply has not been done. I heartily favor the change that has been suggested in the securities law. I think it is a splendid thing. You will appreciate that it will make it easier for the bankers to require such a statement, because bankers now can say that it is a legal necessity to insert that information, and you will overcome all the difficulties of persuading foreign government officials to go into their past history, which at times is painful. But these Baring defaults in connection with Montevideo were not even within the requirements of our new securities law, so that even now reference to them would not be required.

Mr. PECORA. I know that, but do you think that if you mentioned the fact of the default in 1892, in the case of the Baring loan of 1892, and the default in sinking fund requirements in 1922, in the circular which accompanied this issue, that the investing public here might not have been so quick about subscribing for this issue?

Mr. HAYWARD. Oh, I think it would have made no practical difference. The city of Montevideo, 30 years ago, was very different from the city of Montevideo at this time.

Mr. PECORA. Well, then, what was the sense of putting in your circular accompanying the 23 million dollar Bolivian bond offering the statement that the Bolivian Government "has met all obligations appertaining to its external debt incurred during the last half century"? Wasn't that done to boost the sale in that case?

Mr. HAYWARD. We could have very well left that out.

Mr. PECORA. I know; but it was not left out. It was included in the prospectus, wasn't it?

Mr. HAYWARD. It was.

Mr. PECORA. And it was included in the prospectus because it was deemed advisable to do it in order to promote the sale of the bonds, wasn't it?

Mr. HAYWARD. Not necessarily, and——

Mr. PECORA (interposing). What purpose did you have in putting it in, then?

Mr. HAYWARD. The Bolivian Government wanted it put in. The Bolivian Government was always proud of the fact that it had been able to go through the World War and maintain payments on its debt. We certainly could not refuse to let the Finance Minister put that in if he wanted to.

Mr. PECORA. Did the municipality of Montevideo object to including in the circular mention of the defaults of 1892 and 1922?

Mr. HAYWARD. That default occurred a long time ago.

Mr. PECORA. But that does not answer my question.

Mr. HAYWARD. I do not recall its ever having come up.

Mr. PECORA. By the way, when talking about the 23 million dollar Bolivian issue and the 14 million dollar issue, respecting which you were examined on yesterday, do you know what the credit rating was that was given to the Bolivian Government by Moody's about the time of those issues?

Mr. HAYWARD. I do not recall it at this time. I undoubtedly saw it.

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Mr. PECORA. I understand it was Baa which indicates a fourth-rate standing.

Mr. HAYWARD. Well, it is fourth from the starting point.

Mr. PECORA. Well, it means four out of nine. That is very different from a first-class rating, isn't it?

Mr. HAYWARD. Well, four out of nine, that is the rating given to a good many securities of Latin-American governments. And if you will read in detail the description of such rating I think it is quite flattering.

Mr. PECORA. What were the profits that went to Dillon, Read & Co. in the flotation of this issue?

Mr. HAYWARD. Mr. Pecora, according to the Price, Waterhouse & Co. figures the gross profits were $127,435.06.

Mr. PECORA. Wasn't it $254,278.96?

Mr. HAYWARD. That is for all groups.

Mr. PECORA. Yes.

Mr. HAYWARD. I thought you asked about Dillon, Read & Co.

Mr. PECORA. No; all groups that participated in the flotation.

Mr. HAYWARD. That is correct. But Dillon, Read & Co. received $127,435.06.

Mr. PECORA. That is all, Mr. Hayward.

Mr. HAYWARD. I appreciate your courtesy and interest, gentlemen.

The CHAIRMAN. Can you state the total amount of Dillon, Read & Co.'s investment in South American securities?

Mr. HAYWARD. The total par value initially offered is approximately 250 million dollars.

The CHAIRMAN. That is, in all?

Mr. HAYWARD. The whole thing; all classes. That, of course, has been materially reduced since then by sinking fund payments. And that will show in the tables.

The CHAIRMAN. About how much was it?

Mr. HAYWARD. About 250 millon dollars is the initial amount. As I told you on yesterday the Brazilian Government issues total 186 million dollars and they have been reduced to 144 million dollars.

Mr. PECORA. And they are all in default.

Mr. HAYWARD. They are under the funding plan.

Mr. PECORA. They are in default, aren't they?

Mr. HAYWARD. Well, they did and the holders of 80 percent have accepted this plan, so technically they have cured that to that extent.

Mr. PECORA. Mr. Hayward, I wish you would remain for a few minutes.

Mr. HAYWARD. All right.

Mr. PECORA. Is Mr. Leonard Kennedy here?

Mr. KENNEDY. Yes, sir.

Mr. PECORA. Please come forward.

The CHAIRMAN. Mr. Kennedy, hold up your right hand and be sworn. You 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. KENNEDY. I do.

The CHAIRMAN. Take a seat right there at the committee table.

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TESTIMONY OF LEONARD KENNEDY, RYE, N.Y., PRESIDENT OF CAREY, BAXTER & KENNEDY, CONTRACTORS

Mr. PECORA. Mr. Kennedy, give your full name, address, and business to the committee reporter for the benefit of the record.

Mr. KENNEDY. My name is Leonard Kennedy, Rye, N.Y. I am president of Carey, Baxter & Kennedy, contractors.

Mr. PECORA. How long have you been in the contracting business?

Mr. KENNEDY. Since about 1920 or 1921.

Mr. PECORA. Were you at one time a member of a firm called "Leonard, Kennedy & Co."?

Mr. KENNEDY. That was a corporation of which I was president.

Mr. PECORA. Do you know Mr. Clarence Dillon, of the firm of Dillon, Read & Co.?

Mr. KENNEDY. Yes, sir.

Mr. PECORA. Did he ever have any interest or did any of the members of his family ever have any interest in the corporation called Kennedy & Co.?

Mr. KENNEDY. They did.

Mr. PECORA. To what extent?

Mr. KENNEDY. 45 percent.

Mr. PECORA. When was that interest acquired and how was it paid for?

Mr. KENNEDY. That corporation was organized as I remember around 1920 or 1921. Let me see if I can get that year. At that time my associates and I, who organized the corporation, went to Mr. Dillon and asked him to join us, and he agreed to do so, and subscribed to 45 percent of the stock. That was in 1920.

Mr. PECORA. Which cost how much?

Mr. KENNEDY. Well, at that time I think the total capital was $100,000.

Mr. PECORA. And he subscribed for $45,000 worth?

Mr. KENNEDY. Yes, sir.

Senator COUZENS. How did he pay for it?

Mr. KENNEDY. In cash. I am not certain that the entire amount was paid in at first, but eventually it was.

Mr. PECORA. Do you know how much was received for that 45 percent interest, or on account of it, both through the payment of dividends and upon the liquidation of the company?

Mr. KENNEDY. The company with a capital of $100,000 paid in dividends as I remember about $150,000, and liquidated at a value of around $500,000. That is my best recollection.

The CHAIRMAN. When was it liquidated?

Mr. KENNEDY. It was actually dissolved on August 5, 1927, but had been inactive for some time, for several years before that.

Senator COUZENS. Why was it liquidated?

Mr. KENNEDY. Because my associates in the company, specifically Mr. Wilmer and Mr. Springer and Mr. Shafer, whom I had depended upon, had all become presidents of large corporations, and there was no purpose in carrying on. It was succeeded by the firm of Kennedy & Carey.

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Mr. PECORA. There was some tendency given here on yesterday, probably in your hearing, by the last witness, Mr. Hayward, to the effect that you received a payment of $70,000 in connection with services rendered by you which culminated in the underwriting of the $14,000,000 issue of Republic of Bolivia bonds by Dillon, Read & Co. Do you recall that testimony?

Mr. KENNEDY. Yes, sir.

Mr. PECORA. What was that payment made to you for?

Mr. KENNEDY. That payment was made to the firm of Kennedy & Carey.

Mr. PECORA. What was it made for?

Mr. KENNEDY. Because we had worked on that issue for a number of years. Originally Mr. Hayward sent the Bolivian engineer to us, because I at that time had felt that the issue could not be made for the Government of Bolivia, but that we might be interested in promoting the railroad enterprise on some other basis. We attempted to do that, and did a great deal of work on it, following even the period when the Bolivian Commissioner came to New York.

Mr. PECORA. Did you work on that issue for Dillon, Read & Co. and to enable that company to obtain this issue of $14,000,000 of bonds?

Mr. KENNEDY. No. We worked on it originally because we wanted to build the railroad.

Mr. PECORA. And did you eventually get the contract for the construction of the railroad from the Bolivian Government?

Mr. KENNEDY. We did competitively on a unit price basis for the contract, and were the low bidders and were awarded the contract.

Mr. PECORA. So that those services were rendered primarily to enable you to get that contract, weren't they?

Mr. KENNEDY. They had been, but of course we did not get the contract in connection with the loan.

Mr. PECORA. Dillon, Read & Co. did not need your services in the negotiations which they had with the Bolivian Government and which led to their acquiring those $14,000,000 of bonds, did they?

Mr. KENNEDY. They used those services, which I think led to the culmination of the loan.

Mr. PECORA. Now, just what efforts did you make which led to the selling of that issue to Dillon, Read & Co. by the Bolivian Government? What part did you personally play?

Mr. KENNEDY. We were constantly in touch with the Bolivian Commission, and were attempting all the time to arrange this matter so that we could build that railroad. When, eventually, the bond issue was made, without any contract for the railroad, I asked Dillon, Read & Co. to pay us a commission, and they did so.

Mr. PECORA. Now, that commission amounted to one half of 1 percent of the face amount of the issue, didn't it?

Mr. KENNEDY. Yes.

Mr. PECORA. What did your firm do with that commission?

Mr. KENNEDY. I cannot earmark the money, Mr. Pecora, but it remained in the——

Mr. PECORA (interposing). Did you give any part of it to anybody else?

Mr. KENNEDY. To no one.

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Mr. PECORA. Did you make a gift of it to anyone?

Mr. KENNEDY. To no one.

Mr. PECORA. Did all of it go into your treasury and remain there to be expended for the usual corporate purposes?

Mr. KENNEDY. It was a partnership, but it came to the partnership of Kennedy & Carey, and was never used outside of that partnership.

Mr. PECORA. Are the books of the partnership in existence?

Mr. KENNEDY. Yes, sir.

Mr. PECORA. Do they show the disposition made of this $70,000?

Mr. KENNEDY. Surely.

Mr. PECORA. Have you got them here?

Mr. KENNEDY. No, sir.

Mr. PECORA. By the way, are the books of the corporation called Leonard, Carey & Co. or Kennedy, now in existence?

Mr. KENNEDY. Leonard Kennedy & Co.

Mr. PECORA. Well, of Leonard Kennedy & Co.

Mr. KENNEDY. That company was dissolved in August of 1927, and had been inactive for several years before that. In April of 1929 I moved my office and the records were stored with the Franklin Fireproof Warehouses in Brooklyn. In January of 1932 I told my secretary I did not wish to pay storage on them any longer, and they were taken out and thrown away. Had I had any idea that they would be called for by a committee of the United States Senate I assure you I would have paid storage for several years longer.

Mr. PECORA. The firm of Leonard Kennedy & Co. was a corporation, and the firm of Kennedy & Carey had many business relations and contacts, both of them, with Dillon, Read & Co., did they not?

Mr. KENNEDY. Well, I think the firm of Kennedy & Carey never had any relationship with Dillon, Read & Co. except in connection with the Bolivian loan.

Mr. PECORA. This $14,000,000 loan?

Mr. KENNEDY. Yes.

Mr. PECORA. How about the corporation, Leonard Kennedy & Co.?

Mr. KENNEDY. We had numerous contacts with Dillon, Read & Co.

Mr. PECORA. Did those contacts result on occasions in Leonard Kennedy & Co. being awarded contracts for public improvement work by foreign governments whose issues were floated by Dillon, Read & Co.?

Mr. KENNEDY. Never, I think, Mr. Pecora, except in the case of the Rio de Janeiro issue.

Mr. PECORA. In that case you were specifically named in the contract for the loan, were you not?

Mr. KENNEDY. Yes.

Mr. PECORA. As the contractor that was to do the public work to be paid for, in whole or in part, out of the proceeds of the loan?

Mr. KENNEDY. That is correct.

Mr. PECORA. Do you know how that came about?

Mr. KENNEDY. Yes.

Mr. PECORA. How?

Mr. KENNEDY. Mr. Hayward asked me if we would do the work, and we told him that we would be very glad to do it, and we were awarded the job.

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Mr. PECORA. How many other contracts did Leonard Kennedy & Co., or Kennedy, Carey & Co., or your present firm, get from foreign governments whose issues were underwritten by Dillon, Read & Co.?

Mr. KENNEDY. None.

Mr. PECORA. Is that the only one? How about the Castle Hill improvement?

Mr. KENNEDY. That is the one we mentioned.

Mr. PECORA. You got the contract in the case of the Bolivian Government.

Mr. KENNEDY. Well, Mr. Pecora, not through Dillon, Read & Co.

Mr. PECORA. Dillon, Read & Co. were the subscribers or the underwriters of that $14,000,000 issue.

Mr. KENNEDY. That is correct.

Mr. PECORA. That was purely a coincidence?

Mr. KENNEDY. We were very much interested in that contract, and we went down to Bolivia and bid on it against a lot of competition, and were the low bidders.

The CHAIRMAN. You did not get the contract?

Mr. KENNEDY. Yes, we did, and carried it out.

The CHAIRMAN. Did you make any surveys or estimates on the cost of this railroad?

Mr. KENNEDY. Yes, sir. We had to, to make a unit-price bid.

Mr. PECORA. What were the basic terms of the Rio de Janeiro contract?

Mr. KENNEDY. It was an administration contract, under which we administered the work for the city of Rio de Janeiro, at a 12 percent fee on cost.

Mr. PECORA. That is, cost plus 12 percent?

Mr. KENNEDY. Yes.

Mr. PECORA. How about the Bolivian contract?

Mr. KENNEDY. That was a unit-price contract, on all classifications of material, just as any American railroad customarily makes.

Mr. PECORA. What was the profit in that contract accruing to your firm?

Mr. KENNEDY. Mr. Pecora, the Bolivian Government still owes us a good deal of money.

Mr. PECORA. What was the profit or commission, whatever you want to call it, under the Rio de Janeiro contract?

Mr. KENNEDY. The commission was more than the profit. The profit on that job, as I remember it, was around $350,000.

Mr. PECORA. And the commission was 12 percent?

Mr. KENNEDY. Yes.

Mr. PECORA. Amounting to how much?

Mr. KENNEDY. We spent on that job somewhere between $3,500,000 and $4,000,000.

The CHAIRMAN. How much does Bolivia owe you?

Mr. KENNEDY. I think it is in the neighborhood of $800,000, sir. The interest keeps accruing on it. It is probably more than that today. I did not mean to infer by that that we did not make a profit on the job, because we did.

Mr. PECORA. Going back to the Castle Hill improvement under the Rio de Janeiro contract, you said your profits were some $300,000,

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and in addition thereto you received a commission of 12 percent on the cost.

Mr. KENNEDY. Not in addition.

Mr. PECORA. Was it in addition?

Mr. KENNEDY. No; out of the fee our net profit was in the neighborhood of $350,000.

Mr. PECORA. Was that amount returned in the income-tax return filed with this Government by Leonard Kennedy & Co.?

Mr. KENNEDY. It must have been sooner or later, Mr. Pecora, yes.

Mr. PECORA. Was it?

Mr. KENNEDY. As far as I know it was. I have not that return before me. I do not know which year it was filed in.

Senator COUZENS. What year was it made?

Mr. KENNEDY. I cannot tell you that exactly, Senator, because I don't remember whether we took that in as it came along or whether it was at the end of the contract. It is customary not to report a profit in the contracting business until the contract is finished.

Senator COUZENS. When was it finished?

Mr. KENNEDY. I haven't that date in my mind, Senator. I think it was around 1922 or 1923.

The CHAIRMAN. Your part of that work is all completed?

Mr. KENNEDY. Yes, sir; it was at that time. That does not mean that the job was really finished.

The CHAIRMAN. Some testimony here indicated that it had not been finished, that there was part of the hill still left there.

Mr. KENNEDY. A great deal of it was finished at that time, Senator. We built a sea wall out in the harbor, in accordance with the city's plan, and filled it in completely up to that point. Of course, laying out the streets and sewerage was not done.

Mr. PECORA. Mr. Kennedy, do you know an organization known as Sociedade Anonyma L'Kennedy?

Mr. KENNEDY. Yes, sir.

Mr. PECORA. What is that?

Mr. KENNEDY. That was a company formed in Brazil.

Mr. PECORA. Was it a subsidiary of Leonard Kennedy & Co.?

Mr. KENNEDY. Yes.

Mr. PECORA. Wholly owned by Leonard Kennedy & Co.?

Mr. KENNEDY. I believe so.

Mr. PECORA. Was any part of the profits or commissions accruing to Leonard Kennedy & Co. from its Castle Hill work put into this subsidiary?

Mr. KENNEDY. Yes.

Mr. PECORA. For what reason?

Mr. KENNEDY. We were ambitious to do other foreign work, and used that means to finance it, and we did.

Mr. PECORA. It was not done for the purpose of minimizing or reducing the amount of taxable income that Leonard Kennedy & Co. would have to pay?

Mr. KENNEDY. I do not think so, Mr. Pecora.

Mr. PECORA. Did it result in that?

Mr. KENNEDY. Not in the long run. We wanted to use those funds to finance further foreign business, and we did so.

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Mr. PECORA. As a matter of fact, those funds represented income to Leonard Kennedy & Co. from this Castle Hill improvement, did they not?

Mr. KENNEDY. Yes.

Mr. PECORA. Were they returned as part of the income of Leonard Kennedy & Co. in the tax return of that company to the United States Government?

Mr. KENNEDY. I cannot say, because I have not the figures before me. Those returns were prepared by accountants, and I think they must have been properly done.

Senator COUZENS. What accountants?

Mr. KENNEDY. I am not certain, Senator, but I can make inquiry and find out. I have an idea it was Price, Waterhouse & Co., but I am not sure.

Mr. PECORA. I understand that Leonard Kennedy & Co. reported as income an item of only $25,000 as income derived from this Castle Hill work.

Mr. KENNEDY. Well, Mr. Pecora, the balance of it was then lost in other foreign enterprises, which I know was the fact.

Mr. PECORA. Were those foreign enterprises undertaken in the name of this other corporation that you said was a wholly owned subsidiary of Leonard Kennedy & Co.?

Mr. KENNEDY. They were financed by that company; yes. Those funds were used.

Mr. PECORA. Why was it necessary to create this subsidiary?

Mr. KENNEDY. In the first place, we found it impossible for Leonard Kennedy & Co., Inc., of America, to qualify to take that contract in Brazil. Consequently the contract, the administrative contract, was made in my name personally. Of course, there was an exchange of letters which showed that the interest was entirely the interest of Leonard Kennedy & Co., and eventually we formed a foreign corporation to take that interest over; that is, a Brazilian corporation.

Mr. PECORA. I think that is all of this witness.

The CHAIRMAN. How much of a railroad did you build in Bolivia—how many miles?

Mr. KENNEDY. It was about 80 kilometers, I think, Senator, or 70 miles, roughly.

The CHAIRMAN. Difficult construction?

Mr. KENNEDY. Very difficult.

The CHAIRMAN. Mountainous?

Mr. KENNEDY. So rough a bird cannot fly over it.

The CHAIRMAN. That is all.

Mr. PECORA. Mr. Howard C. Hopson.

(At this point Mr. Howard C. Hopson came forward, accompanied by H. H. Corbin, his personal attorney, and Hon. Patrick J. Hurley, attorney for the Associated Gas & Electric Co.)

The CHAIRMAN. You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. HOPSON. I do.

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TESTIMONY OF HOWARD C. HOPSON, VICE PRESIDENT AND TREASURER, ASSOCIATED GAS & ELECTRIC CO.

Mr. PECORA. Mr. Hopson, what is your full name and address, both business address and home address?

Mr. HOPSON. Howard Caldwell Hopson; 61 Broadway, New York. I live at the Vanderbilt Hotel in New York City.

Mr. PECORA. Mr. Hopson, do you know a corporation called the Associated Gas & Electric?

Mr. HOPSON. Yes, sir.

Mr. PECORA. Are you connected with it?

Mr. HOPSON. Yes, sir.

Mr. PECORA. In what capacity?

Mr. HOPSON. I am vice president and treasurer.

Mr. PECORA. How long have you been connected in those capacities with that company?

Mr. HOPSON. I think about 10 or 11 years.

Mr. PECORA. What is your business or occupation? How would you describe it?

Mr. HOPSON. I am an accountant, a public utility consultant, and a lawyer.

Mr. PECORA. Do you actively practice law?

Mr. HOPSON. No; not now.

The CHAIRMAN. Are you represented by an attorney here present?

Mr. HOPSON. Yes, sir.

The CHAIRMAN. Who is he?

Mr. HOPSON. H. H. Corbin.

Senator COUZENS. Who is president of the Associated Gas & Electric Co.?

Mr. HOPSON. J. I. Mange.

Senator COUZENS. Where does he live?

Mr. HOPSON. Plandone, Long Island.

Senator COUZENS. Is he the executive head of the Associated Gas & Electric?

Mr. HOPSON. He is.

Mr. PECORA. Are you associated with Mr. Mange in any other corporation?

Mr. HOPSON. No, sir.

Mr. PECORA. Do you know a corporation called the Utility Accountants and Tax Consultants?

Mr. HOPSON. Yes, sir. I have some knowledge of it.

Mr. PECORA. Are you connected with it?

Mr. HOPSON. Yes.

Mr. PECORA. In what capacity?

Mr. HOPSON. I cannot tell you.

Mr. PECORA. Who can tell us?

Mr. HOPSON. I am manager of it, but just what my corporate office is I cannot tell you.

Mr. PECORA. When was that corporation organized?

Mr. HOPSON. I should say about a year ago. I will look it up.

Mr. PECORA. Who caused it to be organized?

Mr. HOPSON. I did.

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Mr. PECORA. Who is its president?

Mr. HOPSON. It may be that I am; but I would have to look up the corporate records.

Mr. PECORA. Are you connected with so many corporations that you cannot state from memory the names of them and the position or connection you have with them?

Mr. HOPSON. A great many of them, I would have to look at the records to know about that. The more important ones I know about.

Mr. PECORA. Of how many corporations, according to your present best recollection, are you an officer or director?

Mr. HOPSON. I could not tell you, sir?

Mr. PECORA. Can you not give an approximation?

Mr. HOPSON. I would not want to guess at it.

Mr. PECORA. Are there so many that you hesitate to even approximate the number?

Mr. HOPSON. I would not want to guess at something that is ascertainable. I would rather look it up and furnish it.

Mr. PECORA. Are there so many that you would not——

Mr. HOPSON. They are very numerous, but they are all part of one group.

Mr. PECORA. What group?

Mr. HOPSON. The Associated Gas & Electric System. That is, the greater part of them are part of that group.

Mr. PECORA. How many companies, altogether, form the group that you have just referred to as the Associated Gas & Electric System?

Mr. HOPSON. I cannot tell you; probably 300 or thereabouts.

The CHAIRMAN. Scattered all over the country?

Mr. HOPSON. Yes, sir; in 26 States.

Mr. PECORA. Are you a stockholder in the corporation called the Utility Accountants & Tax Consultants?

Mr. HOPSON. I do not think so.

Mr. PECORA. Do you know who the stockholders are?

Mr. HOPSON. I do not.

Mr. PECORA. Is that a corporation, or is it a trust?

Mr. HOPSON. I do not know. I would have to look it up.

The CHAIRMAN. Do you remember why it was formed?

Mr. HOPSON. Why, I presume to facilitate carrying on the business which it is engaged in.

Mr. PECORA. And what is that business?

Mr. HOPSON. Furnishing accounting and tax facilities and services to public utilities and other corporations and individuals.

Mr. PECORA. Does it actively conduct that business?

Mr. HOPSON. It does.

Mr. PECORA. Who are its principal customers?

Mr. HOPSON. Well, I could not tell you without looking that up, either. The records are available to the committee.

Mr. PECORA. How long have they been held available to the committee, Mr. Hopson?

Mr. HOPSON. They were brought here today in response to your subpena.

Mr. PECORA. Were they made available to the committee or the committee's counsel or investigating staff at any time prior to today?

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Mr. HOPSON. No.

Mr. PECORA. Why not?

Mr. HOPSON. Because they were not subpenaed.

Mr. PECORA. Didn't you know that we wanted to have access to them for the purposes of this committee?

Mr. HOPSON. Not until I got the subpena.

Mr. PECORA. Is that the first time you learned of that?

Mr. HOPSON. And when Mr. Hurley talked to me about it.

Mr. PECORA. By Mr. Hurley do you mean the Honorable Patrick J. Hurley?

Mr. HOPSON. Yes, sir.

Mr. PECORA. He is not here as your counsel, is he?

Mr. HOPSON. No; but he is counsel for the Associated Gas & Electric Co., and I was informed that you wanted these records in connection with your investigation of the Associated Gas & Electric Co.

Mr. PECORA. When were you first informed to that effect, Mr. Hopson?

Mr. HOPSON. When I got to Chicago.

Mr. PECORA. When was that?

Mr. HOPSON. Well, that was probably about two weeks ago, I should say; but I was not informed until Mr. Hurley got there and gave me the particulars of the matter.

Mr. PECORA. When were you last in your New York office at 61 Broadway?

Mr. HOPSON. The latter portion of August—perhaps more nearly the middle.

Mr. PECORA. Have you been out of touch and communication with your office, 61 Broadway, since that time?

Mr. HOPSON. Why, I have not been very regularly in touch with it since that time. I left then to be away to try to get some rest, and asked that I be not communicated with or troubled with any business matters, as I did not feel well and my doctor had told me that I ought to go away as soon as I possibly could.

Mr. PECORA. Did you keep your office informed as to your whereabouts?

Mr. HOPSON. No; I did not; but in order that you may have no misunderstanding, what I did was, from time to time I called up and asked them what was going on of interest, but I particularly asked that I be not disturbed about things that would be contrary to what the doctor had told me, that I was to try to get a rest from the troubles and annoyances which have been very plentiful in the public utility business during the last 2 or 3 years, and particularly during the past year.

Mr. PECORA. From the time that you left your office some time in August, about how many times did you establish communication with anyone in your office, by telephone or otherwise?

Mr. HOPSON. Well, there were some days when I called up every day. Then there was the period when I was sick in Kentucky, when I don't think I called up but once during a period of a week.

Mr. PECORA. Was that the longest period during which you had no communication of any kind with your office?

Mr. HOPSON. I think that was the longest period.

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Mr. PECORA. Is there a Mr. Stix connected with your office at 61 Broadway?

Mr. HOPSON. There is.

Mr. PECORA. Did you at any time talk with him while you were away from the office on this trip on which you sought rest?

Mr. HOPSON. I cannot tell you, except that he has been in the hospital for some time with appendicitis, and prior to the time when he had appendicitis I may have talked with him once or twice.

Mr. PECORA. Did he at any time since you left your office, in August, inform you that representatives of this committee desired to have access to the books of account and records of any of the following companies or organizations: Utility Accountants and Tax Consultants; Utility and Financial Accountants, Inc.; Public Utility Investing Corporation; H. C. Hopson & Co.; Associated Gas & Electric properties?

Mr. HOPSON. I do not think so.

Mr. PECORA. Did anyone in your office or associated with your office give you any such information at any time?

Mr. HOPSON. I do not think so, until I got to Chicago.

Mr. PECORA. That was about 2 weeks ago?

Mr. HOPSON. Well, yes; but I didn't hear about it when I first got to Chicago. I didn't hear any particulars about it until about a day or two before Colonel Hurley arrived in Chicago, and I was told at that time that he would tell me about what was going on and that I could tell him what the answer was.

Mr. PECORA. Do you know Mr. Shields in the New York office at 61 Broadway?

Mr. HOPSON. I do, yes.

Mr. PECORA. Is he connected with the Associated Gas & Electric System?

Mr. HOPSON. No.

Mr. PECORA. Is he connected with any law firm that renders any legal services for that system?

Mr. HOPSON. No.

Mr. PECORA. What is his affiliation with the office there at 61 Broadway?

Mr. HOPSON. He has none now.

Mr. PECORA. What was it? Did he ever have any?

Mr. HOPSON. He was employed by utility and financial accountants.

Mr. PECORA. Until when?

Mr. HOPSON. Until I think the first of the month.

Mr. PECORA. Of this month?

Mr. HOPSON. I think so. I don't know the exact particulars, except that since I have arrived here in Washington I have been informed that he is no longer connected with that organization.

Mr. PECORA. Do you know the circumstances of the severence of that relationship?

Mr. HOPSON. I think he resigned to go into independent law practice.

Mr. PECORA. Did you talk with him at any time while you were away from your office since last August?

Mr. HOPSON. No.

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Mr. PECORA. Did you talk with Mr. Travis?

Mr. HOPSON. Within the last 2 or 3 days I have talked with him a couple of times.

Mr. PECORA. Are those the only two occasions when you have talked with him since you left your office some time in August?

Mr. HOPSON. That is correct.

Mr. PECORA. Who were the persons with whom you talked on these various occasions when you had communication with your office at 61 Broadway since you left it in August?

Mr. HOPSON. My secretary.

Mr. PECORA. What is his name?

Mr. HOPSON. It is a young lady.

Mr. PECORA. What is her name?

Mr. HOPSON. Miss Dowell.

Mr. PECORA. Anyone else?

Mr. HOPSON. I talked perhaps with Mr. Sears in my office a few times.

Senator COUZENS. And what is his occupation?

Mr. HOPSON. He has to do with the recapitalization plan that we are endeavoring to get through.

The CHAIRMAN. Did you notify your office when you went to Chicago when you expected to arrive there?

Mr. HOPSON. I did not. I think it is only fair that the committee should know that I went away to get a complete rest, and that as far as possible I avoided all business. And I do not think there is anything unusual or unreasonable about it.

Senator ADAMS. The office followed your instructions, so that they did not advise you about annoyances——

Mr. HOPSON. They did; yes, sir.

Senator ADAMS. Such as anybody looking for you from Washington?

Mr. HOPSON. When Mr. McEldowney and Mr. La Padula came to our office and asked to see the Associated Gas & Electric books and practically all the subsidiaries and served a subpena directing us to produce several carloads here in Washington within 48 hours, we told them that we were more than willing to cooperate with the committee in every way.

Mr. La Padula has informed our people—in fact, I was told before I left—that they were receiving the fullest cooperation with respect to those records, and at the time I left I had no idea that any further records not covered by the subpena were required or desired. It was something entirely beyond my conception that the private affairs of an individual or a partnership with which he had to do would be asked for by the representatives of the committee without any preliminary notice or any subpena or anything of that sort.

Mr. PECORA. When was this subpena served upon you that called for the production of those carloads of books?

Mr. HOPSON. About August 1, but the subpena will speak for itself.

Mr. PECORA. Prior to the service of that subpena on you didn't you know that Mr. McEldowney in behalf of this committee had gone down to your office at 61 Broadway and had sought to obtain

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access as a representative of the committee to the books and the records of the various companies embodied in this Associated Gas & Electric system?

Mr. HOPSON. The first information that we had from this committee or any of its representatives that any records of ours were of any interest to the committee for any purpose whatsoever was when Mr. McEldowney and Mr. La Padula called at our office and were requested to go to the office of counsel for the Associated Gas & Electric Co., Travis, Brownback & Pazson——

Mr. PECORA (interposing). How long before——

Mr. HOPSON (interposing). Let me finish, please.

Mr. PECORA. How long before the service of subpena did that happen?

Mr. HOPSON. They had the subpena with them at that time.

Mr. PECORA. How long before the service of the subpena did they first go down to your office at 61 Broadway——

Mr. HOPSON (interposing). As I understand it——

Mr. PECORA. Let me finish the question—and ask for access to the books and accounts and records of this corporation?

Mr. HOPSON. As I understand it, they made no request.

Mr. PECORA. What is the source of your understanding to that effect?

Mr. HOPSON. Mr. Travis came down to my office and he said, "There are some gentlemen upstairs from the Pecora committee, and they had a subpena, and here is a copy of it", and he held it out in front of him. And, well, I said, "Mr. Travis, what do you think we should do? I don't see that there is any objection on our part to their having these records." "Well", he said, "I don't either, except the trouble of their being examined." "Well", I said, "then what do you advise?" "Why", he said, "come upstairs to my office and accept service."

And I there met Mr. McEldowney and Mr. La Padula and was introduced to them by Mr. Travis, and they assured me that if we would cooperate with the committee the subpena would be withdrawn and no appearance in Washington with all these books—which are in many cities of the United States, and the Associated books are all in Ithaca, N.Y.—would be required, and Mr. Travis said, "Well, we would like some record of that", and Mr. McEldowney or Mr. La Padula stated that we would get a letter signed by counsel for the committee advising us it would be unnecessary for us to bring the books to Washington, and the next morning we received a letter signed with your name so advising us. I think some one of our people has such a letter here.

And we thereupon did our utmost during all the time I was in New York to furnish all the records that were asked for. We urged upon Mr. La Padula or Mr. McEldowney that they go to Ithaca, where the books were, to examine the books of the Associated, but they said they didn't wish to examine the books, that they only wanted to look at a few contracts in connection with their current examination of the Chase Bank; and Mr. McEldowney had a list of about seven questions, what he termed a "light questionnaire", and he said if we would supply that data that was all that was required.

Mr. PECORA. That was at the outset?

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Mr. HOPSON. That was at the beginning of this inquiry.

Mr. PECORA. Now, thereafter——

Mr. HOPSON (interposing). Thereafter we supplied everything as far as I can understand that Mr. McEldowney or Mr. La Padula desired, and I inquired while I was still in New York, before I left, if they were getting all they wanted, and I understood they were.

Mr. PECORA. At that time no request had been made for the books of these five companies or organizations whose names I have previously read?

Mr. HOPSON. No, sir.

Mr. PECORA. Now don't you know that at about the time or shortly after you left your office in August for this rest, request was made of your associates or representatives at 61 Broadway repeatedly for access to these books of accounts of these five companies or organizations, and that that access was declined to them, denied to them, on the ground that your personal consent was necessary?

Mr. HOPSON. I do not.

Mr. PECORA. And do you further know now that your representatives in 61 Broadway, or your associates, whatever you choose to call them, were requested by us to get in touch with you with a view of getting your consent?

Mr. HOPSON. No; I don't know that.

Mr. PECORA. Well, let me tell you that that is so. And, further, that your representatives from time to time over a period of several weeks have informed not only my representatives but me that they have been absolutely unable to get in touch with you from the time that you left New York; that they did not know your whereabouts except that on one occasion Mr. Travis told me that he succeeded in locating you somewhere by telephone but that you were too sick to come to the telephone.

Mr. HOPSON. That is correct. He did try to talk to me when I was sick and had a fever of 103.

Mr. PECORA. Well, now, you are here; you know the books and records that we want. Will those books and records be made available?

Mr. HOPSON. Well, they are here available, here in Washington, and they have been since this morning, in response to the subpena.

Mr. PECORA. In connection with the production at this time of the books and records, which you say are now here in Washington, let me say that within the last 48 hours I had a conference with Colonel Hurley, and I thought that we had agreed upon an arrangement whereby the books were not to be brought here in response to this subpena today but were to remain in New York and there made available for examination at the hands of the representatives of this committee at 61 Broadway.

Mr. HOPSON. I don't know anything about that.

Mr. PECORA. Is that correct, Mr. Hurley?

Mr. HURLEY. That is correct, Mr. Pecora, and I think that I should explain to you: Mr. Hopson was leaving Chicago at that time. Mr. Burrus made an arrangement and wrote a memorandum with your Mr. Meehan on that subject. But before leaving Chicago Mr. Hopson had ordered the books to Washington and they were sent on that request and they are here at this time.

Mr. PECORA. Yes.

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Mr. HURLEY. But I want you to understand that when we were talking to you we thought we could stop them, but he was en route and had already ordered the records sent, and they are in Washington now.

Mr. PECORA. Well, now, would you, Mr. Hopson, for the convenience of the committee, have those books returned to the New York office at 61 Broadway so that they would be more conveniently available to the members of the investigating staff of this committee? Is that agreeable to you?

Mr. HOPSON. I would like to (after consultation with Mr. Corbin)—Why, I brought the books here, counsel, in response to your subpena. It seems to me this is the more convenient place to examine them. I may later be called upon to testify with respect to them, and then they will have to be brought back down here again. Mr. Burroughs informs me that he understood that the retention of the books in New York was solely for our convenience; that the committee preferred to have them here if they had any choice in the matter.

Mr. PECORA. Oh, no; I never expressed that opinion to anybody.

Mr. HOPSON. Of course, I am willing to provide a space for the committee to examine the books here in Washington, but I don't like to be paying the expense of carting them back and forth. There is a whole truck load of them. And if they are to be examined in New York I would like it to be understood they are to be left there and they won't have to be brought back down here again, and vice versa. If they are going to be needed here I would like to keep them here.

Mr. PECORA. We cannot tell whether they are going to be needed here until we see them.

Mr. HOPSON. Well, of course, I assumed when I got your subpena that you wanted the books here, because I don't understand they are to be——

Mr. PECORA (interposing). If your office had conveyed to you the request that we had made for a period of several weeks you would not have so understood.

Mr. HOPSON. I know, but I think a man has a right to go away for a vacation and a right to be sick if he has to.

Mr. PECORA. But we have no control over your associates, who told us continuously that they had been unable to get in touch with you, although it now seems that you had been for a period of time in occasional communication with your office and that the longest unbroken period that you were out of touch was about a week.

Mr. HOPSON. That is true, but you must bear in mind that these are private records. This is not a public company that you are inquiring about. These are the private affairs of private individuals.

Mr. PECORA. Who are amenable to the subpena of this committee.

Mr. HOPSON. Yes; and that is what I am observing, and I have brought the books here.

Mr. PECORA. Well, Colonel Hurley and I agreed the day before yesterday—and the suggestion originally came from Colonel Hurley as I remember it—that the books be left in New York as the more convenient place for examination by our accountants.

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Mr. HOPSON. That is true, but at that time I presume I was on the train. I want to oblige the committee.

Mr. PECORA. Well, why don't you do it, then, without any further ado?

Mr. HOPSON. Well, you must appreciate that it is not entirely reasonable to ask the books be carted back and forth from Washington to New York. I don't understand why you wish to look at these books anyway.

Mr. PECORA. Because we want to look at the books.

Mr. HOPSON. Well, I presume that is true.

Mr. PECORA. We imagine we will find some information there that will be of value to this committee's investigation.

Mr. HOPSON. But you had all the books of the Associated and all its subsidiaries, and you never looked at any of them.

Mr. PECORA. The books of the Associated and the subsidiaries will take care of themselves. We are concerned now with the books of these five corporations or organizations.

Mr. HOPSON. Then they are here and you can begin looking at them.

Mr. PECORA. Mr. Corbin, have you any objection, if your opinion is being consulted by Mr. Hopson, to having these books brought back to New York to Mr. Hopson's office?

Mr. CORBIN. Personally I haven't any objection, but I think you might make up your mind——

Mr. PECORA (interposing). We made up our minds a long time ago about this, and it was not because we had not made up our minds that the books are here today.

Mr. CORBIN. Here is a man who is here pursuant to your subpena. He has observed it in producing the books here. Now, if you want them back there or insist upon it, he is going to help you.

Mr. PECORA. Well, then, let's do it. Why have a——

Mr. CORBIN (interposing). When you say "I want them here" and say "I want them back"——

Mr. PECORA (interposing). Now, we did not say that we want them here, Mr. Corbin.

Mr. CORBIN. If you want them here that is perfectly all right, and you can start looking at them tonight. They are here.

Mr. PECORA. Now, Mr. Corbin, that is not a full representation of the situation. You only recently came into this situation, I believe, but the fact of the matter is that we had made known to Mr. Hopson's office associates the fact that we wanted to examine these books in their office at 61 Broadway for a period of several weeks past, and the reply that we have always received is that they could not give us access to those books without the consent of Mr. Hopson, and that they had been absolutely unable to get in touch with him during the period of several weeks. Now, that is the situation.

Mr. CORBIN. I have heard that, Mr. Pecora, at least a dozen times here today. I have read the record of the hearing here at the last meeting and you made the same statement then. That is perfectly all right.

Mr. PECORA. All right; let us not keep denying it.

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Mr. CORBIN. That is perfectly all right, and the books are here and you can have them and the man wants to cooperate. Now if you will make up your mind finally where you want them, whether you want to start now on them here or want them taken back to New York, he will—his attitude——

Mr. PECORA (interposing). I have already indicated.

Mr. CORBIN. His attitude is to be helpful.

Mr. PECORA. I have already indicated, Mr. Corbin, what I wanted. I indicated that 15 days ago or more.

May we have an answer "yes" or "no" to that suggestion of mine?

Mr. CORBIN. So far as I am concerned, and I am sure my client will accept it, you may have those books wherever you want them and whenever you want them; and if you want them tomorrow morning in New York, we will get the truck and get them back over night. We do not want to be charged with delay from now on in selecting the place. If you want to look at them here, partly, while they are here, all right. If you want to start looking at them in New York, we will have them there tomorrow or any other day.

Mr. PECORA. Mr. Corbin, there is nothing captious about us in this respect. These records we want to look at. We also want them available to us at the same time that the other books and records of the Associated Gas & Electric Co. are. They are all in New York, or the major part of them?

Mr. HOPSON. None of them are in New York. There are no books of any of the Associated Gas & Electric Cos. in New York City.

Mr. PECORA. The books that you said had been made available to our representatives in New York——

Mr. HOPSON. They are all in Ithaca, N.Y.

Mr. PECORA. Didn't you say they were made available?

Mr. HOPSON. They were. We urged your representatives to go up there and look at them.

Mr. PECORA. Are they all in Ithaca, N.Y.?

Mr. HOPSON. They are.

Mr. PECORA. And have been, always?

Mr. HOPSON. Always.

Mr. PECORA. Is that the main office of the Associated Gas & Electric Co.?

Mr. HOPSON. That is, and that is the only place the books of account are kept.

Mr. PECORA. How about the books of all the affiliated and subsidiary companies?

Mr. HOPSON. Wherever those companies do business. Some are in Reading, N.Y.; some are in Ithaca; some are in Easton, Pa.; some are in Johnstown, Pa.; some are in Rochester, N.Y.—depending on where the books are kept.

Mr. PECORA. How about the minute books of the companies? Are they all scattered, too?

Mr. HOPSON. The minute books, to a very large extent, are scattered. Some of those are in New York City. But the books of account—the Federal Trade Commission made its entire examination in Ithaca, N.Y.

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The CHAIRMAN. Did the Federal Trade Commission have access to the books that we are talking about now?

Mr. HOPSON. To some of them.

Mr. PECORA. The books of these five companies?

Mr. HOPSON. To some of them, but not all.

Mr. PECORA. Have they asked for access to all of them?

Mr. HOPSON. They have not asked for access to any of the private books of H. C. Hopson, any more than they have asked access to the books of our lawyers, or any other private concern that does work for the Associated.

Mr. PECORA. Have they asked for access to the books and records of the Utility & Financial Corporation?

Mr. HOPSON. They have not.

Mr. PECORA. Or those of the Public Utility Investing Corporation?

Mr. HOPSON. No.

Mr. PECORA. Or those of Associated Gas & Electric Properties?

Mr. HOPSON. They have had access to those books.

Mr. PECORA. When?

Mr. HOPSON. When they made their examination. I can't tell you when, but I know they had access to those books.

Mr. PECORA. Was that recently?

Mr. HOPSON. The Rayburn committee has had access to them within a month; but just when the Federal Trade Commission examined the Associated Gas & Electric Properties' books, I cannot tell you.

Mr. PECORA. I understand that in the files at 61 Broadway are much of the supporting data for the items that may be found in these books; and that is another primary reason why we would be facilitated——

Mr. HOPSON. We have brought all that data here that has been called for by the subpena. The books which are here are complete.

Mr. PECORA. But these books constitute perhaps a formidable quantity of material——

Mr. HOPSON. They do.

Mr. PECORA. And I do not want to be responsible for their safekeeping. I do not know what accommodations there may be for those books here. If they are returned to the office in New York, Mr. Hopson's own office, it will relieve us of a responsibility for the custody of these books that I should prefer not to assume.

Mr. HOPSON. We can put these books in Colonel Hurley's office to be examined. That is where they are now, I think. He has provided a place there to have the examination made; or we will send to Ithaca, if you wish them up there, where the Associated Gas & Electric books are.

Mr. PECORA. I wish you would not be so accommodating! Let us have them either here or in New York.

Senator COUZENS. Would it not be more convenient to have them examined up there?

Mr. HOPSON. I understood from Mr. Burroughs that Mr. Frank J. Meehan thought that from the standpoint of personnel, this was the

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more convenient place, but he was willing to have them kept up there. I inquired this afternon, since I learned that there was some question about where these books were to be.

Senator COUZENS. These men are all in New York, and I think it is easier and less expensive to have the records examined where the men are than it is to bring all the men down here and have to board them and keep them down here while they examine the books.

Mr. HOPSON. There is something to that.

Senator COUZENS. Is that agreeable?

Mr. HOPSON. I will say, offhand——

The CHAIRMAN. Can you have them there by Monday morning, in New York?

Mr. HOPSON. I think so.

Mr. PECORA. At 61 Broadway?

Mr. HOPSON. Yes, sir.

Mr. PECORA. Thank you, very, very much. Meanwhile, the witness remains under subpena to this committee; and I suggest that he be so directed.

Mr. HOPSON. Oh, I understand that you can call for me at any time.

Mr. HOPSON. I will, surely. If I want to go away I will get your consent, sir—and there is no sarcasm in that, either.

The CHAIRMAN. The committee will stand adjourned until 10 o'clock next Tuesday morning.

Whereupon, at 5:30 o'clock p.m., the committee adjourned until Tuesday, October 17, 1933, at 10 o'clock a.m.

COMMITTEE EXHIBIT NO. 37, OCTOBER 13, 1933

DILLON, READ & CO.,
New York, June 5, 1933.

FERDINAND PECORA, ESQ.,
New York City.

DEAR SIR: Referring to our letter of May 17, enclosing answers to certain questions included in the questionnaire, dated March 29, 1933, which was delivered to us March 31, 1933, including, among others, our answer to question no. 11, we are now enclosing an amended answer to this question, which we would ask you to substitute for the one already enclosed in the letter of May 17, 1933, mentioned above.

Very truly yours,

DILLON, READ & CO.

NO. 11

Question. The names of all governments, States, municipalities, and corporations for which said firm or any of its agencies has acted as fiscal agent during that period, and a statement of the services rendered for each of the same.

Amended answer. In certain loan contracts Dillon, Read & Co. has been designated as general fiscal agents and/or purchasing agents in connection with proceeds expended in the United States, namely, contracts with the United States of Brazil, Great Consolidated Electric Power Co., Ltd. (Daido Denryoku Kabushiki Kaisha), and the city of Rio de Janeiro. In none of these cases did such agency contracts become operative as no transactions took place thereunder. Under other so-called "fiscal agency" agreements Dillon, Read & Co. acts only as paying agent or sinking fund agent. As the result of an oral

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inquiry, we were advised by Mr. Saperstein on March 31, 1933, that the names of those for whom Dillon, Read & Co. acted only as paying agent or sinking fund agent were not required.

MAY 29, 1933.

MEMORANDUM

Due to the absence of any definition of the word "agencies" in the questionnaire, and as it was not desired to construe the word so as to limit its meaning to any technical or legal construction, it was decided in answering the questionnaire to include the following companies as "agencies", for that purpose only, without however conceding that they are or ever had been in any sense technically, legally, or actually agencies of Dillon, Read & Co., the joint stock association.

Dillon, Read & Co., a Delaware corporation organized in 1922, which distributed securities in certain States during the period covered by the questionnaire, but which is no longer engaged in this business.[1] Dillon, Read & Co., Inc., a Maryland corporation, and Dillon, Read & Co., Inc., a Delaware corporation, were organized in 1932 to conduct a general securities business.

Dillon, Read Corporation, a Connecticut corporation—formed to conduct business in Europe, with offices in London and Paris; and Surrey Corporation, a Delaware corporation.

National Depositor Corporation, a New York corporation, which began business in January 1931, is treated as an "agency."

In answer to Mr. Ross' specific inquiry as to whether or not Bristol Corporation (organized in 1928), Brighton Corporation (organized in 1928), Oakmont Corporation (organized in 1926), Eastern Trust, Eastern Corporation, and Dominion Securities Corporation were agencies of Dillon, Read & Co.—it is clear that none of these corporations (and no corporation other than those treated as agencies as stated herein) could be regarded as an agency of Dillon, Read & Co. during the period covered by the questionnaire, even under the broad construction indicated above.

In the summaries of syndicate accounts, etc., prepared by Price, Waterhouse & Co. in respect of the issues being examined by Mr. Ross, but which were offered prior to the period covered by the questionnaire, the profits of Eastern Trust and Eastern Corporation are separately shown, as requested.

R. E. CHRISTIE, Jr.

DILLON, READ & CO.,
Nassau and Cedar Streets, New York, May 1, 1933.

FERDINAND PECORA, Esq.,
285 Madison Avenue, New York City.

DEAR SIR: Referring to the questionnaire, dated March 29, 1933, which was delivered to us March 31, 1933, we enclose herewith answers to questions 1 to 8, inclusive, and are collecting the information on the remaining questions. We have endeavored to prepare these answers in the shortest time and believe them to be correct. However, inasmuch as their preparation has required the examination of voluminous records and files extending over a long period, you will appreciate that some errors or omissions may inadvertently have been made and that it may be necessary for us to supplement or correct the enclosed data from time to time.

When no period is indicated in the question or answer, the period covered is January 1, 1927, to December 31, 1931.

Very truly yours,

DILLON, READ & CO.

NO. 1

Question. Name of all partners, departmental divisions, and management personnel of the firm of Dillon, Read & Co.

Answer. Dillon, Read & Co. (not a firm or partnership but a New York joint-stock association).

[1] This corporation has not been dissolved but ceased to engage in such business on or about February 1, 1933.

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Present directors:
Clarence Dillon, director and president.
W. M. L. Fiske, director and vice president.
Roland L. Taylor, director and vice president.
Wm. A. Phillips, director and vice president.
James Forrestal, director and vice president.
Ralph H. Bollard, director and vice president.
Dean Mathey, director and vice president.
W. S. Charnley, director and vice president.
R. E. Christie, Jr., director, vice president, secretary, and treasurer.
Robert O. Hayward, director and vice president.
Henry G. Riter, 3d, director and vice president.
Henry H. Egly, director and vice president.

The organization has never been strictly departmentalized, directors having exercised general supervision over activities. Routine and clerical functions have been conducted generally along the following lines: Purchase of securities, wholesale sales, retail sales, municipals, coupons and sinking funds, handling of funds and securities, bookkeeping, and statistics.

NO. 2

Question. Names of all banks and trust companies in which any partner or representative of said firm or any of its agencies is a director or officer.

Answer. Central Hanover Bank & Trust Co., the Chase National Bank of the City of New York, Empire Trust Co., Hartsdale National Bank, Princeton Bank & Trust Co.

NO. 3 (RELEASED)

Question. Names of all corporations in which any partner or representative of said firm or any of its agencies is a director or officer.

Answer. Names of corporations in which any director of Dillon, Read & Co. or any of its agencies is a director or officer. (See note below).

Amerada Corporation; Beneficial Industrial Loan Corporation; Brazilian Traction, Light & Power Co., Ltd.; Broadway Department Store, Inc.; Commercial Investment Trust Corporation; Consolidated Cigar Corporation; Educational Pictures, Inc.; Empire Safe Deposit Co.; Equitable Office Building Corporation; Goodyear Tire & Rubber Co.; Louisiana Geophysical Exploration Co.; Louisiana Land & Exploration Co.; Loew's, Inc.; Nederlandsche Crediet en Financiering Maatschappij; Panhandle Eastern Pipe Line Co.; St. Louis-San Francisco Railway Co.; A. G. Spalding & Bros.; Tubize Chattilon Corporation; United New Jersey Railroad & Canal Co.; United States & Foreign Securities Corporation; United States & International Securities Corporation; Union Oil Co. of California; Victor Chemical Works; Warner Co.

Names of corporations in which any employee or representative (other than a director) of Dillon, Read & Co. or of any of its agencies is a director or officer. (See note below).

Ault-Wiborg, Ltd.; Ernesto Breda Co.; Cespedes Sugar Co.; Commander-Larabee Corporation; 419–435 Flatbush Avenue Extension, Inc.; General Cable Corporation; German Credit & Investment Corporation; International Printing Ink Corporation; International Water Co., Inc.; International Water Corporation, South America; Layne-New York Co., Inc., of Delaware; National Cash Register Co.; San Francisco Bridge Securities Corporation; Societe d'Electricite de la Region de Malmedy; Societe d'etude d'Execution des Grands Travaux.

NOTE.—The above lists do not include names of corporations the securities of which were not offered or sold to the public or names of corporations from which directors, employees, or representatives of Dillon, Read & Co. or its agencies have resigned, or names of corporations in which employees of Dillon, Read & Co. or its agencies are directors or officers in a purely personal capacity.

NO. 4

Question. Names of all banks and trust companies in which the said firm or any of its agencies maintained deposits during said period and the amount of said deposits at the present time in any of said banks and trust companies in which such deposits are still maintained. Names of all other banks or trust

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companies in which deposits are now maintained and the amount of such deposits.

Answer. As of March 31, 1933:

Agricultural National Bank, Pittsfield, Mass	
American Exchange Bank & Trust Co	
American Exchange-Irving Trust Co	
American Exchange Pacific National Bank	
American Security & Trust Co., Washington, D.C	
American Express Bank and Trust Co	
Bank of America	
Bank of Manhattan Trust Co	
Bank of New York & Trust Co	$153,589.95
Bank of United States	
Bankers Trust Co	50,000.00
Boston Safe Deposit & Trust Co	
Central National Bank	
Central Hanover Bank & Trust Co	1,375,395.99
Central Union Trust Co	
Chase National Bank	858,933.88
Chase National Bank (Mechanics & Metals Branch)	
Chelsea Bank & Trust Co	
Chemical National Bank & Trust Co	23,845.18
City National Bank & Trust Co., Chicago, Ill	639.84
Citizens & Southern Bank, Savannah, Ga	
Commonwealth Bank	
Community National Bank, of Buffalo, N.Y	
Continental & Commercial National Bank, Chicago, Ill	
Empire Trust Co	200,000.00
Equitable Trust Co	
Equitable Trust Co. of Atlantic City, N.J	
Fidelity Title & Trust Co., Pittsburgh, Pa	
First National Bank of Boston, Mass	10,000.00
First National Bank of Chicago, Ill	347.15
First National Bank of New York	1,239,770.34
First National Bank of Pittsburgh, Pa	
First National Bank, Birmingham, Ala	
First National Bank of Merrick, L.I	
Fishkill National Bank, Beacon, N.Y	
Franklin-Fourth Street National Bank, Philadelphia, Pa	
Fulton National Bank, Atlanta, Ga	
Guaranty Trust Co	401,950.56
Harriman National Bank & Trust Co	
Hanover National Bank	
Hartsdale National Bank, Hartsdale, N.Y	
Illinois Mechanics Trust Co., Chicago, Ill	
Interstate Trust Co	
Irving Trust Co	691,572.28
Lee Higginson Trust Co., Boston, Mass	
Los Angeles First National Trust & Savings Bank, Calif	
Manufacturers and Traders Trust Co., Buffalo, N.Y	
Maryland Trust Co., Baltimore, Md	1,000.00
Mechanics National Bank, Boston, Mass	
Midland Bank, Cleveland, Ohio	
National Bank of Commerce, Providence, R.I	
National Bank of Republic, Chicago, Ill	
National City Bank	50,041.25
National Park Bank (47th St. and Park Ave.)	
National Park Bank	
National Rockland Bank, Boston, Mass	
New York State National Bank, Albany, N.Y	
New York Trust Co	50,000.00
Northern Trust Co., Chicago, Ill	324.29
Old Colony Trust Co., Boston, Mass	
Pacific Southwest Trust & Savings Bank, Los Angeles, Calif	
Pennsylvania Co. for Insurance on Lives and Granting Annuities, Philadelphia, Pa	

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Peoples Pittsburgh Trust Co., Pittsburgh, Pa	
Philadelphia-Girard National Bank	
Philadelphia National Bank	$45,449.96
Public National Bank & Trust Co	10,000.00
Royal Trust Co., Montreal, Canada	
Republic Trust Co., Philadelphia, Pa	
Riggs National Bank, Washington, D.C	
Seaboard National Bank	
Second National Bank, Boston, Mass	36,505.89
Washington Savings Bank, Washington, D.C	
Union Trust Co. of Cleveland, Ohio	
Union Trust Co. of Pittsburgh, Pa	

Foreign currency deposits—dollar equivalent shown, based on latest advice

Banque de l'Union Parisienne, Paris	294.15
Banque de Paris et des Pays Bas, Paris	770.73
Barclay's Bank, Ltd., London	1,122.74
Cassell & Co., Brussels	
Chase National Bank, Paris	496.57
Comptoir National d'Escompte de Paris	
Credit Commercial de France, Paris	257.50
Credit Suisse, Zurich	524.85
Deutsche Bank und Disconto Gesellschaft, Berlin	1,103.42
Deutsche Kreditsicherung, Berlin	48.76
Guaranty Trust Co. of New York, London	6,012.20
Simon Hirschland Bankgeschaft, Essen	139.89
Lazard Bros. & Co., London	994.53
Mendelssohn & Co., Berlin	
Mendelssohn & Co., Amsterdam	4,550.86
Nederlandsche Handel Maatschappij, Amsterdam	5,441.01
Rothschild, N. M. & Son, London	26,279.78
Rotterdamsche Bankvereeniging, Amsterdam	
Samuel, M., & Co., London	1,769.18
Schaafhausenscher, A. Bankverein, A. G. Filiale der Deutsche Bank und Disconto Gesellschaft, Cologne	
Societe Generale de Belgique, Brussels	392.19
Stockholms Enskilda Bank, Stockholm	310.27

NO. 5

Question.—Names of all officers and directors of any banks or trust companies to whom said firm or any of its agents have made any personal loan or advance.

Answer. It is possible that some individuals to whom Dillon, Read & Co. or agents made loans may have been officers or directors of banks or trust companies without this fact being known to Dillon, Read & Co. The following list, however, sets forth all cases of such loans known to Dillon, Read & Co. (see note below.) H. C. Couch, A. J. Ford, John S. Halloran, C. S. McCain, William Murphy.

NOTE.—The above list does not include names of officers or employees of Dillon, Read & Co. or its agencies having loans or debit balances, or names of customers having debit balances which arose in the usual course of our securities business.

NO. 6

Question. Names of all officers and directors of any corporations to whom said firm or any of its agencies have made any personal loan or advance.

Answer. It is possible that some individuals to whom Dillon, Read & Co. or agencies made loans may have been officers or directors of corporations without this fact being known to Dillon, Read & Co. The following list, however, sets forth all cases of such loans known to Dillon, Read & Co. in addition to H. C. Couch, A. J. Ford, C. S. McCain, and William Murphy listed in the answer to question No. 5 (see note below.) Louis Bock, Newell H. Hargrave, W. Bruce Pirnie, Albin K. Schoepf, F. W. Walker, Jr.

NOTE.—The above list does not include names of officers or employees of Dillon, Read & Co. or its agents having loans or debit balances, or names of customers having debit balances which arose in the usual course of our securities business.

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NO. 7

Question. Names of all exchanges on which said firm or any of its agencies has a representative or member and the number of seats or memberships held in each of the said exchanges.

Answer. Neither Dillon, Read & Co. nor any of its agencies is a member of any exchange, but Mr. Roland L. Taylor, a vice president of Dillon, Read & Co., is a member of the Philadelphia Stock Exchange; the seat owned by Mr. Taylor is not however an asset of Dillon, Read & Co. or of any of its agencies.

NO. 8

Question. Names of all brokerage firms, security houses or trading companies in which said firm or any of its agencies has any financial interest or management representation.

Answer. None.

In the companies mentioned below (which are not trading companies but are companies commonly known as "investment trusts"), Dillon, Read & Co. and its agencies have no financial interest; certain directors of Dillon, Read & Co. are directors of United States & Foreign Securities Corporation and United States & International Securities Corporation and certain employees of Dillon, Read & Co. are directors or officers of German Credit & Investment Corporation.

DILLON, READ & CO.,
New York, May 19, 1933.

FERDINAND PECORA, ESQ.,
New York, N.Y.

DEAR SIR: Referring to the questionnaire, dated March 29, 1933, which was delivered to us March 31, 1933, and to our letters dated May 1, 1933, and May 17, 1933, enclosing our answers to certain of the questions, we now enclose herewith answers to the remaining questions, nos. 9, 10, 12, 13, 14, 15, and 19. Certain of the answers to these questions refer to the detailed exhibits and to the schedule which are herewith handed to you. An index to the exhibits is enclosed.

We have endeavored to prepare these answers in the shortest time and believe them to be correct. However, inasmuch as their preparation has required the examination of voluminous records and files extending over a long period, you will appreciate that some errors or omissions may inadvertently have been made and that it may be necessary for us to supplement or correct the enclosed data from time to time.

In order to minimize the possibility of error, Messrs. Price, Waterhouse & Co., at our request, have checked the clerical accuracy of exhibits A, B, C, D, and H with our syndicate books. We enclose a signed copy of a letter in regard to these exhibits addressed to us by Messrs. Price, Waterhouse & Co. It did not seem practicable to ask Messrs. Price, Waterhouse & Co. to check exhibits E, F, and G, inasmuch as the data contained in these exhibits was obtained, in large measure, from sources other than our books.

When no period is indicated in the question or answer, the period covered is January 1, 1927, to December 31, 1931.

Very truly yours,

DILLON, READ & CO.

PRICE, WATERHOUSE & CO.,
New York, May 19, 1933.

Messrs. DILLON, READ & CO.,
New York, N.Y.

DEAR SIRS: In accordance with your request, we have reviewed the syndicate ledgers of Dillon, Read & Co. for the purpose of checking the clerical accuracy of certain statements covering the 5-year period from 1927 to 1931, inclusive, which were prepared by your staff for submission to Mr. Ferdinand Pecora, 285 Fifth Avenue, New York City. These statements are designated as follows:

Exhibit A.—Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers.

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Exhibit B.—Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.

Exhibit C.—Pools, joint accounts, syndicates and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, and of which Dillon, Read & Co. were managers.

Exhibit D.—Pools, joint accounts, syndicates, and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, but which were managed by others than Dillon, Read & Co.

Exhibit H.—Issues of which Dillon, Read & Co. or agencies were managers, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying groups but not in distributing, banking, or general dealer groups.

Our work in this connection has consisted of (1) comparing the information contained in the exhibits with the entries in the syndicate ledgers and settlement books, (2) tracing the adjustments given effect to in the exhibits to other ledgers of Dillon, Read & Co. or of Dillon Read Corporation, (3) inspecting corroboratory data, in the form of offering circulars, statements of brokers, vault files, etc., in respect of information contained in the exhibits which did not appear on the syndicate books, and (4) checking calculations of costs, selling prices, retail commissions, etc., not shown on the syndicate books, with the explanations furnished us by your staff. We have not examined into the source of the entries appearing in the syndicate books nor have we confirmed these entries by correspondence with outside parties.

As the result of our review, we report that the above-mentioned exhibits, in our opinion, have been prepared in accordance with the information recorded in the syndicate ledgers or obtained from sources mentioned in the preceding paragraph and include all accounts in the syndicate ledgers applicable to the exhibits.

Yours very truly.

PRICE, WATERHOUSE & CO.

INDEX OF EXHIBITS

Exhibit A.—Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers.

Exhibit B.—Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.

Exhibit C.—Pools, joint accounts, syndicates and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, and of which Dillon, Read & Co. were managers.

Exhibit D.—Pools, joint accounts, syndicates, and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, but which were managed by others than Dillon, Read & Co.

Exhibit E.—Bond or debenture issues of which Dillon, Read & Co. or any of its agencies were syndicate managers, offered during the period January 1, 1927 to December 31, 1931, which have been or are now in default as to interest and/or principal at maturity.

Exhibit F.—Bond or debenture issues of which Dillon, Read & Co. or any of its agencies were syndicate managers, offered during the period January 14, 1921 to December 31, 1926, which were in default as to interest and/or principal maturity during the period January 1, 1927 to December 31, 1931.

Exhibit G.—Bond or debenture issues, in which Dillon, Read & Co. or agencies participated to the extent of $250,000 or more, but which were managed by others than Dillon, Read & Co., offered during the period January 1, 1927 to December 31, 1931, which have been or are now in default as to interest and/or principal at maturity.

Exhibit H.—Issues of which Dillon, Read & Co. or agencies were managers, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying groups but not in distributing, banking, or general dealer groups.

NO. 9

Question. List of all stock and bond issues in which said firm or any of its agencies has participated, together with the following details:

(*a*) Whether such participation was in the Original Terms Group, Bankers, Wholesale, Distributors or any other group.

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(*b*) Details as to date of offer, amount of issue, rate, maturity, cost price, offering price, managers, spread, profit, and amount of participation in each group.

Answer. As a result of an oral inquiry, we were advised by Mr. Saperstein by telephone on April 3, 1933, that this question had been modified to cover, in addition to all issues managed by Dillon, Read & Co., only issues managed by others in which Dillon, Read & Co. or agencies participated to the extent of $250,000 or more. On this basis the information requested is given in exhibit A and B, which include also the answers to the first classification (participations in stock issues) of question No. 19.

NO. 10

Question. List all stock pools, joint accounts, and/or syndicates in which said firm or any of its agencies or representatives participated, giving the name of security involved, names of all participants, and all details with respect to the amount of the participation and profits and losses therein.

Answer. See exhibits C and D, which include also the answers to the second classification (trading accounts in stock issues) of question no. 19.

NO. 12

Question. List of all bond or debenture issues, foreign or domestic, of which said firm or any of its agencies was the syndicate manager and which issues have been or are now in default; and any issues floated prior to 1927 which were in default at any time during the period 1927 to 1931.

Answer. See exhibits E and F, which include also the answers to question no. 15 insofar as they relate to issues of which Dillon, Read & Co. were managers.

NO. 13

Question. Names of all issues in which a member or representative of said firm or any of its agencies acted as a member of a protective or reorganization committee.

Answer. The Bradford (210 West Seventieth, Corporation) first-mortgage fee 15-year 6-percent sinking fund loan.

Commander-Larabee Corporation first mortgage 6-percent 15-year sinking fund gold bonds and 10-year 7-percent secured sinking fund gold notes.

Detroit United Railway first mortgage and collateral trust sinking fund 5-year 6-percent bonds for which a protective committee was formed; and also issues of Detroit United Railway for which a reorganization committee was formed.

S. B. & B. W. Fleisher, Inc., first mortgage 6-percent sinking fund gold bonds.

Fulton-Flatbush Corporation first-mortgage fee 6-percent sinking fund loan.

Grand Rapids Railway Co. first-mortgage 7-percent sinking fund gold bonds.

Nevada Irrigation District 5½-percent serial gold bonds.

Park-Lexington Corporation first-mortgage leasehold 6½-percent sinking fund gold bonds.

Pennsylvania Dock & Warehouse Co. leasehold mortgage 6 percent sinking fund gold bonds.

Rossman Corporation 15-year 6½-percent sinking fund debentures.

San Francisco Bay Toll Bridge Co. 15-year participating sinking fund 7-percent debentures.

Vanderbilt Avenue Building Corporation first mortgage leasehold 6½-percent sinking fund gold bonds.

Witherbee Sherman & Co. first mortgage 6-percent sinking fund gold bonds.

Dillon, Read & Co. and Ladenburg, Thalman & Co. were appointed by Seaboard Air Line Railway Co. in October 1930 as reorganization managers for the purpose of formulating and preparing a plan for readjustment of the capital structure of the railway. No such plan has been formulated nor is there expectation of such a plan in the immediate future. An officer of Dillon, Read & Co. also served on a committee formed in May 1929 to represent the

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Seaboard Air Line Railway Co. 5-percent adjustment mortgage gold bonds, which were exchanged under a plan of readjustment, dated May 27, 1929, the committee ceasing to function in March 1930.

NO. 14

Question. Balance sheets of said firm or any of itsagencies showing assets, liabilities, and capitalization at the end of each fiscal year during period above mentioned.

Answer. See Schedule for the balance sheets requested above.

Inasmuch as the annual audit of the books of Dillon, Read & Co. by Messrs. Price, Waterhouse & Co. has been at dates other than at the end of each fiscal year, we have requested that firm to ascertain that the balance sheets furnished in the Schedule have been correctly compiled from the general books of the respective companies. We enclose a signed copy of a letter in regard to these balance sheets addressed to us by Messrs. Price, Waterhouse & Co.

SCHEDULE

ANSWER TO QUESTION NO. 14

PRICE, WATERHOUSE & Co.,
56 Pine Street, New York, May 19, 1933.

Messrs. DILLON, READ & Co.,
New York, N.Y.

DEAR SIRS: You have submitted to use a schedule containing certain condensed balance sheets prepared by your staff at the instance of Mr. Ferdinand Pecora and have requested us to ascertain that these balance sheets have been correctly compiled from the general books of the respective companies. The balance sheets are as follows:

"Consolidated balance sheets of Dillon, Read & Co. (joint stock association) and Dillon, Read & Co. (Delaware), as of December 31 for the years 1927 to 1931, inclusive, the balance sheet for 1931 also including National Depositor Corporation.

"Balance sheets of Surrey Corporation as of December 31 for the year 1928 to 1931, inclusive.

"Balance sheets of Dillon, Read Corporation as of December 31 for the years 1928 to 1931, inclusive."

We have compared the balance sheets of Surrey Corporation and Dillon Read Corporation with the more detailed balance sheets submitted by us in connection with our examination of the accounts of the two companies as of the respective dates and find that the figures have been correctly summarized therefrom.

We have referred to the general ledgers of Dillon, Read & Co. (joint stock association), Dillon, Read & Co. (Delaware), and National Depositor Corporation, and have been furnished with the file of supplementary financial statements maintained by your assistant treasurer. These latter statements included summaries of net assets at the several branch offices, whose books we have not inspected at this time, and analyses of controlling accounts appearing on the general ledgers in New York. With the assistance of these supplementary financial statements we have been able to trace the balances appearing on the general ledgers as of December 31 of each of the 5 years into the above-mentioned consolidated balance sheets and, in our opinion, these balance sheets are condensed statements of the books of the companies mentioned.

As you know, we have not accounted for the securities nor made any varification of the other assets and liabilities of Dillon, Read & Co. (joint stock association) or of Dillon, Read & Co. (Delaware) as at the balance sheet dates. The accounts of National Depositor Corporation, which are included only in the balance sheet of December 31, 1931, were, however, examined as at that date.

Yours very truly,

PRICE, WATERHOUSE & Co.

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Consolidated balance sheet, Dec. 31, 1927, of Dillon, Read & Co. (a New York Joint Stock Association) and Dillon, Read & Co. (a Delaware Corporation)

ASSETS

Cash in banks and on hand		$7,969,059.30
Call loans receivable		13,250,000.00
Other loans receivable		431,923.75
Securities owned		14,949,846.15
Syndicate securities and accounts		11,944,615.30
Debit balances		10,190,508.44
Miscellaneous assets		228,561.03
Assets held for the payment of coupons, redemptions, sinking funds, etc.:		
Cash	$134,908.32	
Call loans	3,400,000.00	
		3,534,908.32
Total		62,499,422.29

LIABILITIES

Credit balances	44,686,227.99
Loan payable	900,000.00
Syndicate liabilities	1,295,460.68
Reserve for Federal and State taxes, etc	810,524.13
Miscellaneous liabilities and accrued expenses	956,798.54
Deposits for payments of coupons, redemptions, sinking funds, etc	3,548,948.66
Capital accounts	10,301,462.29
Total	62,499,422.29

The above consolidated balance sheet is a condensed statement of the books as of December 31, 1927. Securities owned are carried at cost or market, whichever was lower, except that securities for which no market quotations were available are carried at cost. Syndicate securities and accounts and debit balances are carried at book value. This balance sheet does not reflect liabilities under agreements to purchase or sell securities or other agreements performable in the future.

Consolidated balance sheet, Dec. 31, 1928, of Dillon, Read & Co. (a New York Joint Stock Association) and Dillon, Read & Co. (a Delaware Corporation)

ASSETS

Cash in banks and on hand		$2,562,962.49
Call loans receivable		13,680,000.00
Time loans receivable		3,400,000.00
Other loans receivable		1,156,425.94
Securities owned		8,841,243.58
Syndicate securities and accounts		19,537,945.55
Debit balances		9,597,259.71
Miscellaneous assets		577,617.91
		59,353,455.18
Assets held for the payment of coupons, redemptions, sinking funds, etc.:		
Cash in banks	$1,233,121.18	
Call loans	21,300,000.00	
Other	16,648.20	
		22,549,769.38
Total		81,903,224.56

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Consolidated balance sheet, Dec. 31, 1928, of Dillon, Read & Co. (a New York Joint Stock Association) and Dillon, Read & Co. (a Delaware Corporation)—Continued

LIABILITIES

Credit balances		$32,335,695.51
Syndicate liabilities:		
Loans, for account Dillon, Read & Co	$2,492,611.11	
Loans, for account other participants	4,112,388.89	
Other liabilities	4,678,034.12	
		11,283,034.12
Reserve for Federal and State taxes, etc		1,047,332.01
Miscellaneous liabilities and accrued expenses		630,576.61
Capital accounts		14,056,816.93
		59,353,455.18
Deposits for payments of coupons, redemptions, sinking funds, etc		22,549,769.38
Total		81,903,224.56

The above consolidated balance sheet is a condensed statement of the books as of December 31, 1928. Securities owned are carried as cost or market, whichever was lower, except that securities for which no market quotations were available are carried at cost. Syndicate securities and accounts and debit balances are carried at book value. This balance sheet does not reflect liabilities under agreements to purchase or sell securities or other agreements performable in the future.

Consolidated balance sheet, Dec. 31, 1929, of Dillon, Read & Co. (a New York Joint Stock Association) and Dillon, Read & Co. (a Delaware Corporation)

ASSETS

Cash in banks and on hand		$15,477,695.44
Call loans receivable		12,210,000.00
Time loans receivable		350,000.00
Other loans receivable		497,727.06
Securities owned:		
United States Government	$775,651.61	
Others	3,016,885.54	
		3,792,537.15
Syndicate securities and accounts		28,427,580.50
Debit balances		6,169,729.95
Miscellaneous assets		251,796.70
		67,177,066.80
Assets held for the payment of coupons, redemptions, sinking funds, etc.:		
Cash in banks	$6,370,720.52	
United States Government	4,567,770.11	
Other	453.95	
		10,938,944.58
Total		78,116,011.38

LIABILITIES

Credit balances		33,460,222.66
Syndicate liabilities:		
Loans, for account Dillon, Read & Co	$3,537,330.00	
Loans, for account other participants	13,502,670.00	
Other liabilities	1,390,194.13	
		18,430,194.13
Reserve for State taxes		221,352.59
Miscellaneous liabilities and accrued expenses		330,241.78
Capital accounts		14,735,055.64
		67,177,066.80

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Consolidated balance sheet, Dec. 31, 1929, of Dillon, Read & Co. (a New York Joint Stock Association) and Dillon, Read & Co. (a Delaware Corporation)—Continued

LIABILITIES—continued

Deposits for payments of coupons, redemptions, sinking funds, etc		$10,938,944.58
Total		78,116,011.38

The above consolidated balance sheet is a condensed statement of the books as of December 31, 1929. Securities owned are carried at cost or market, whichever was lower, except that securities for which no market quotations were available are carried at cost. Syndicate securities and accounts and debit balances are carried at book value. This balance sheet does not reflect liabilities under agreements to purchase or sell securities or other agreements performable in the future.

Consolidated balance sheet, Dec. 31, 1930, of Dillon, Read & Co. (a New York Joint Stock Association) and Dillon, Read & Co. (a Delaware Corporation)

ASSETS

Cash in banks and on hand		$3,214,759.06
Call loan receivable		2,650,000.00
Time loans receivable		2,750,000.00
Other loans receivable		600,185.49
Securities owned:		
U.S. Governments and short-term municipals	$4,455,846.22	
Others	1,847,987.49	
		6,303,833.71
Syndicate securities and accounts		9,998,822.27
Debit balances (less reserve)		2,690,201.34
Miscellaneous assets		344,626.65
		28,552,428.52
Assets held for the payment of coupons, redemptions, sinking funds, etc.:		
Cash in banks	$5,799,841.86	
U.S. Governments and short-term municipals	5,609,202.55	
Others	7,070.99	
		11,416,115.40
Total		39,968,543.92

LIABILITIES

Credit balances		$9,501,412.24
Syndicate liabilities:		
Loans, for account Dillon, Read & Co	$1,137,900.00	
Loans, for account other participants	5,092,600.00	
Other liabilities	508,233.84	
		6,738,733.84
Reserve for State taxes		33,500.00
Miscellaneous liabilities and accrued expenses		144,559.40
Capital accounts		12,134,223.04
		28,552,428.52
Deposits for the payments of coupons, redemptions, sinking funds, etc		11,416,115.40
Total		39,968,543.92

The above consolidated balance sheet is a condensed statement of the books as of December 31, 1930. Securities owned are carried at cost or market, whichever was lower, except that securities for which no market quotations were available are carried at cost. Syndicate securities and accounts and

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debit balances are carried at book value. This balance sheet does not reflect liabilities under agreements to purchase or sell securities or other agreements performable in the future.

Consolidated balance sheet, December 31, 1931, of Dillon, Read & Co. (a New York Joint Stock Association), Dillon, Read & Co. (a Delaware Corporation), and National Depositor Corporation (a New York Corporation)

ASSETS

Cash in banks and on hand		$1,098,179.37
Call loans receivable		1,200,000.00
Other loans receivable		460,685.49
Securities owned:		
U.S. Governments	$4,983,227.30	
Other	1,520,852.61	
		6,504,079.91
Syndicate securities and accounts		5,092,875.60
Debit balances (less reserve)		2,274,998.45
Miscellaneous assets		136,955.51
		16,767,774.33
Assets held for the payment of coupons, redemptions, sinking funds, etc.:		
Cash in banks	$6,019,837.41	
Call loans	1,475,000.00	
U.S. Governments	1,496,427.07	
Other	21,714.24	
		9,012,978.72
Total		25,780,753.05

LIABILITIES

Credit balances		$3,634,039.04
Syndicate liabilities:		
Loans, for account Dillon, Read & Co	$661,698.97	
Loans, for account other participants	2,668,301.03	
Other liabilities	206,118.81	
		3,536,118.81
Reserve for State taxes, etc		29,758.13
Miscellaneous liabilities and accrued expenses		235,848.58
Capital accounts		9,332,009.77
		16,767,774.33
Deposits for the payments of coupons, redemptions, sinking funds, etc		9,012,978.72
Total		25,780,753.05

The above consolidated balance sheet is a condensed statement of the books as of December 31, 1931. Securities owned are carried at cost or market, whichever was lower, except that securities for which no market quotations were available are carried at cost. Syndicate securities and accounts and debit balances are carried at book value. This balance sheet does not reflect liabilities under agreements to purchase or sell securities or other agreements performable in the future.

Balance sheet of Surrey Corporation Dec. 31, 1928

ASSETS

Cash in banks	$67,218.44
Call loans receivable	1,150,000.00
Securities owned, at cost	425,028.00
	1,642,246.44

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Balance sheet of Surrey Corporation Dec. 31, 1928—Continued

LIABILITIES

Dividends payable	$65,000.00
Reserve for Federal income tax	77,191.98
Capital accounts	1,500,054.46
	1,642,246.44

Balance sheet of Surrey Corporation Dec. 31, 1929

ASSETS

Cash in banks	$85,593.88
Securities owned, at cost	1,388,517.80
Accrued interest purchased	6,273.02
	1,480,384.70

LIABILITIES

Reserve for Federal income tax	32.75
Capital accounts	1,480,351.95
	1,480,384.70

Balance sheet of Surrey Corporation, Dec. 31, 1930

ASSETS

Cash in banks	$445,851.03
Securities owned, at cost	814,642.50
	1,260,493.53

LIABILITIES

Capital accounts	1,260,493.53

Balance sheet of Surrey Corporation, Dec. 31, 1931

ASSETS

Cash in banks	$352,577.48
Securities owned, at cost	870,522.50
Accrued interest purchased	365.00
	1,223,464.98

LIABILITIES

Capital accounts	1,223,464.98

Balance sheet of Surrey Corporation Dec. 31, 1929

ASSETS

Cash in bank and on hand	$185,732.28
Accounts receivable	22,888.83
Furniture and fixtures, less reserve	13,741.38
Service deposits and prepaid expenses	3,929.26
	226,291.75

LIABILITIES

Accounts payable	13,750.00
Accrued expenses	258.76
Capital accounts	212,282.99
	226,291.75

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Balance Sheet of The Dillon, Read Corporation, Dec. 31, 1929

ASSETS

Cash in bank and on hand	$162,028.99
Accounts receivable	9,975.46
Furniture and fixtures, less reserve	12,384.75
Service deposits and prepaid expenses	4,408.15
	188,797.35

LIABILITIES

Accounts payable	$2,197.16
Accrued expenses	700.01
Capital accounts	185,900.18
	188,797.35

Balance Sheet of The Dillon, Read Corporation, Dec. 31, 1930

ASSETS

Cash in bank and on hand	$158,697.54
Accounts receivable	3,395.97
Furniture and fixtures, less reserve	12,404.51
Alterations and decorations of officers, less reserve	3,495.58
Service deposits and prepaid expenses	6,229.72
	184,223.32

LIABILITIES

Accounts payable	172.57
Accrued expenses	535.00
Capital accounts	183,515.75
	184,223.32

Balance Sheet of The Dillon, Read Corporation, Dec. 31, 1931

ASSETS

Cash in banks and on hand	$75,226.26
Advances and accounts receivable	10,919.46
Furniture and fixtures, less reserve	9,531.29
Alterations and decorations of offices, less reserve	2,576.93
Service deposits and prepaid expenses	4,632.27
	102,886.21

LIABILITIES

Accounts payable	306.62
Reserve for State taxes	180.10
Deferred credit	138.75
Capital accounts	102,260.74
	102,886.21

NO. 15

Question. The names of all issues in which said firm or any of its agencies had any participation, which are now or have been at any time during above period in default; such information to include date of default, present market value of securities, amount outstanding, and names and addresses of the secretaries of committees formed to protect the interest of investors or for reorganization purposes.

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Answer. As a result of an oral inquiry, we were advised by Mr. Sapertein by telephone on April 3, 1933, that this question had been modified to cover, in addition to all issues managed by Dillon, Read & Co., only issues managed by others in which Dillon, Read & Co. or agencies had a participation to the extent of $250,000 or more. On this basis the information requested with respect to issues of which Dillon, Read & Co. were managers is included in the answer to question no. 12 (exhibits E and F), and the information with respect to issues managed by others than Dillon, Read & Co. is given, to the extent that it is known to us, in exhibit G.

NUMBER 19

Question. Details of all stock issues in which said firm or any of its agencies participated or in which a trading account was maintained showing in the case of the first classification the number of shares sold, the cost of such shares, the price to the public and the net profit on each issue, and in the latter classification the period during which the account was carried, the total number of shares bought and sold, and the net profit or loss accruing.

Answer. As a result of an oral inquiry, we were advised by Mr. Saperstein by telephone on Apr. 3, 1933, that this question had been modified to cover in addition to all issues managed by Dillon, Read & Co., only issues managed by others in which Dillon, Read & Co. or agencies participated to the extent of $250,000 or more. For answers to the first classification (participations in stock issues) see the answers to question no. 9 (exhibits A and B) and for the answers to the latter classification (trading accounts in stock issues) see the answers to question no. 10 (exhibits C and D).

DILLON, READ & CO.,

Nassau and Cedar Streets, New York, May 17, 1933.

FERDINAND PECORA, Esq.,
285 Madison Avenue, New York City.

DEAR SIR: Referring to the questionnaire, dated March 29, 1933, which was delivered to us March 31, 1933, and to our letter dated May 1, 1933, enclosing our answers to questions 1 to 8, inclusive, we now enclose herewith answers to questions nos. 11, 16, 17, 18, 20, 21, 22, and 23. A detailed exhibit (exhibit H) concerning question no. 16 is also handed to you.

We have endeavored to prepare these answers in the shortest time and believe them to be correct. However, inasmuch as their preparation has required the examination of voluminous records and files extending over a long period, you will appreciate that some errors or omissions may inadvertently have been made and that it may be necessary for us to supplement or correct the enclosed data from time to time.

When no period is indicated in the question or answer, the period covered is January 1, 1927 to December 31, 1931.

Very truly yours,

DILLON, READ & CO.

NO. 11

Question. The names of all governments, States, municipalities, and corporations for which said firm or any of its agencies has acted as fiscal agent during that period, and a statement of the services rendered for each of the same.

Answer. In two loan contracts, Dillon, Read & Co. has been designated as general fiscal agents—namely, contracts with United States of Brazil and with Great Consolidated Electric Power Co., Ltd. (Daido Denryoku Kabushiki Kaisha), and in one loan contract Dillon, Read & Co. has been designated purchasing agent in connection with any part of the proceeds expended in the United States, namely, the contract with the city of Rio de Janeiro. In none of these cases did such agency contracts become operative as no transactions took place thereunder. Under other so-called "fiscal agency" agreements, Dillon, Read & Co. acts only as paying agent or sinking-fund agent. As the result of an oral inquiry, we were advised by Mr. Saperstein on March 31, 1933, that the names of those for whom Dillon, Read & Co. acted only as paying agent or sinking-fund agent were not required.

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NO. 16

Question. In cases of all issues where said firm or any of its agencies has had participation, the names of all other participants and the extent of such participation.

Answer. As a result of an oral inquiry, we were advised by Mr. Saperstein by telephone on April 3, 1933, that this question had been modified to cover only issues of which Dillon, Read & Co. or any of its agencies were managers, the names of all other participants in originating or underlying groups, and the extent of such participation, and not the names of participants in distributing, banking, or general dealer groups. On this basis the information requested is given in exhibit H.

NO. 17

Question. Names and addresses of all corporations in which said firm or any of its agencies has a controlling stock, financial or management interest.

Answer. International Water Co., Inc., a Delaware corporation, principal office—92 Liberty Street, New York City.

NOTE.—The above does not include agencies of Dillon, Read & Co., such as Dillon Read Corporation (Paris and London), or Dillon, Read & Co., Inc., or other corporations in which officers or directors of Dillon, Read & Co. hold stock interests or serve as directors or officers but in which Dillon, Read & Co. has no controlling stock, financial or management interest.

NO. 18

Question: Minute books of said firm or any of its agencies, or any other records of the meetings of its partners or representatives relating to transactions in securities and in loans collateralized by securities, and/or relating to the issues and flotations of securities during the period before mentioned.

Answer. Minute books reflect formal corporate action only. Dillon, Read & Co. does not keep records of conferences of its directors, officers, or representatives relating to transactions in securities and in loans collateralized by securities, and/or relating to the issues and flotations of securities.

NO. 20

Question. Transcript of all loan accounts in the name of any persons, firms, or corporations in which the collateral pledged consisted of securities in which said firm or any of its agencies has participated as a member of the original terms group, bankers' group, wholesale group, distributors group, or otherwise.

Answer. The collateral shown for certain of the loans listed below includes securities in which said firm or agencies has not participated.

	Debits	Credits
Louis Bock:		
Mar. 28, 1929, loan made	$8,550.00	
May 20, 1929, loan repaid		$8,550.00
Collateral: 8,550 shares General Printing Ink common		
	8,550.00	8,550.00
H. C. Couch:		
Jan. 16, 1928, loan made	300,000.00	
Mar. 16, 1929, payment on account		100,000.00
Jan. 16, 1929, payment on account		5,000.00
July 16, 1931, payment on account		45,000.00
Dec. 31, 1931, balance due		150,000.00
Collateral: Participation in Louisiana & Arkansas Ry. syndicate; 1,000 shares Electric Power & Light, common; 500 shares National Power & Light, common; $20,000 Louisiana & Arkansas Ry. 5s, 1969; 25/1250 participatory interest in deposit of Federal Leather Co. stock; life insurance policy.		
	300,000.00	300,000.00

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	Debits	Credits
Dowling, Swain & Shea:		
June 23, 1927, loan made	$22,500.00	
July 15, 1927, payment on account		$3,750.00
Oct. 19, 1927, payment on account		9,000.00
Oct. 20, 1927, payment on account		4,500.00
May 8, 1928, dividend		506.00
Oct. 8, 1928, payment on account		6,500.00
Oct. 8, 1928, interest added to principal (other interest charges paid by check)	5.53	
Oct. 8, 1928, credit balance transferred to regular account	1,750.47	
Collateral: 300 Wiener Bank-Verein American Trust certificates.		
	24,256.00	24,256.00
Albert J. Ford:		
Mar. 28, 1929, loan made	8,550.00	
May 20, 1929, loan repaid		8,550.00
Collateral: 8,550 shares General Printing Ink common.		
	8,550.00	8,550.00
M. L. Freeman:		
Jan. 7, 1929, loan made	54,000.00	
Aug. 21, 1929, payment on account		33,000.00
Nov. 21, 1929, balance of loan repaid		21,000.00
Collateral: 500 units St. Lawrence Paper; $50,000 Ruhr Housing first mortgage 6½'s.		
	54,000.00	54,000.00
Dr. Alexander Kreuter:		
Feb. 1, 1926, loan made	50,000.00	
Apr. 4, 1929, loan repaid		50,000.00
Collateral: 500 shares German Credit & Investment Corporation second preferred; 2,500 shares German Credit & Investment Corporation common.		
	50,000.00	50,000.00
Charles S. McCain:		
Jan. 16, 1928, loan made	110,000.00	
Jan. 3, 1930, additional loan	65,000.00	
Jan. 7, 1930, payment on account		5,000.00
Jan. 8, 1930, payment on account		5,000.00
Jan. 13, 1931, additional loan	55,000.00	
June 30, 1931, additional loan	5,500.00	
Dec. 31, 1931, balance due		225,500.00
Collateral: participation in Louisiana & Arkansas Ry. syndicate.		
	235,500.00	235,500.00
Albin K. Schoepf:		
Mar. 1, 1928, transferred to loan account	149,119.59	
Apr. 5, 1928, payment on account		3,449.74
Apr. 7, 1928, payment on account		19,360.00
Apr. 7, 1928, interest added to principal	392.54	
Apr. 18, 1928, payment on account		3,500.00
May 17, 1928, payment on account		1,600.00
July 19, 1928, payment on account		3,500.00
Aug. 18, 1928, payment on account		1,600.00
Aug. 24, 1928, payment on account		95,760.00
Sept. 19, 1928, interest added to principal	2,419.92	
Oct. 3, 1928, payment on account		750.00
Nov. 17, 1928, payment on account		1,600.00
Jan. 4, 1929, payment on account		750.00
Jan. 22, 1929, balance of loan repaid		20,062.31
Collateral: 2,000 shares Dodge Bros., Inc. first preferred; 1,000 shares Dodge Bros., Inc. common; 800 shares Procter & Gamble common.		
	151,932.05	151,932.05
F. W. Walker, Jr.:		
Oct. 11, 1928, loan made	52,382.00	
Oct. 14, 1929, payment on account		18,000.00
Apr. 11, 1930, interest added to principal	1,031.46	
May 26, 1930, interest added to principal	259.69	
May 26, 1930, additional loan	9,800.00	
June 2, 1930, additional loan	7,533.33	
Sept. 25, 1930, dividend on 300 shares U.S. & I		375.00
Sept. 25, 1930, interest added to principal	1,077.70	
Sept. 30, 1930, interest added to principal	44.75	
Oct. 30, 1930, interest added to principal	268.76	
Nov. 3, 1930, dividend on 300 shares U.S. & I		375.00

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	Debits	Credits
F. W. Walker, Jr.—Continued.		
Nov. 30, 1930, interest added to principal	$268.23	
Dec. 30, 1930, interest added to principal	269.57	
Jan. 31, 1931, interest added to principal	270.92	
Feb. 28, 1931, interest added to principal	272.28	
Mar. 31, 1931, interest added to principal	273.64	
Apr. 30, 1931, interest added to principal	275.00	
May 31, 1931, interest added to principal	276.38	
June 30, 1931, interest added to principal	277.76	
July 31, 1931, interest added to principal	279.15	
Aug. 31, 1931, interest added to principal	280.55	
Sept. 30, 1931, interest added to principal	281.95	
Oct. 31, 1931, interest added to principal	283.36	
Nov. 30, 1931, interest added to principal	284.78	
Dec. 31, 1931, interest added to principal	286.20	
Dec. 31, 1931, balance due		$57,527.46
Collateral: 12,000 shares Rossman Corporation common; 300 shares U.S. & International Securities preferred; 300 shares U.S. & International Securities common.		
	76,277.46	76,277.46

NOTE.—Interest charges on the above loans, unless otherwise indicated above, were handled through "accrued interest account." The data given does not include (1) loans or debit balances of officers or employees of Dillon, Read & Co. or any of its agencies, or debit balances of customers arising in the ordinary course of business, (2) call and time loans (street loans) in the ordinary course of business made by Dillon Read & Co. for account of others or for its own account, or (3) securities carried for groups or syndicates

NO. 21

Question. Access to certain files.
Answer. Available on request.

NO. 22

Question. Number of corporations engaged in interstate commerce having banking deposits with said firm, and the total amount of deposits of said corporations at the end of each of the calendar years during the said period.
Answer. Does not include deposits of less than $10,000.

Dec. 31	Number	Amount	Dec. 31	Number	Amount
1927	17	$5,250,907.98	1930	1	$123,850.69
1928	7	1,283,812.27	1931	None	None
1929	7	3,117,706.16			

NOTE.—(*a*) Information similar to the above as to corporations having deposits with Dillon, Read & Co. of less than $10,000 can be furnished if desired, but its compilation would require considerable time and expense, and in a large number of cases would include very small deposits which arose in connection with the purchase or sale of securities and which, therefore, should not be considered banking deposits. (*b*) Funds deposited with Dillon, Read & Co. as paying agent or sinking-fund agent and held separately solely for the purpose of meeting interest, sinking fund, and/or principal payments on outstanding securities have been excluded in preparing the above information.

NO. 23

Question. Name of all corporations engaged in interstate commerce having banking deposits with either of said firms[1] in excess of $250,000 during said period.
Answer. Batavian Petroleum Corporation; Commercial Investment Trust Corporation; D. W. Dietrich Co.; Dodge Bros., Inc.; Dominion Securities Cor-

[1] We assume that the phrase "either of said firms" is an error and that it was intended to refer to Dillon, Read & Co.

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poration, Ltd.; Etablissement Kuhlmann; Fisk Rubber Co.; Gelsenkirchner, A. G.; Goodyear Tire & Rubber Co.; International Printing Ink Corporation; Louisiana Land & Exploration Co.; Ludens, Inc.; Newport Co.; Seaboard Air Line Railway Co.; Siemens & Halske, A. G., Siemens Schuckertwerke; A. G. Spalding & Bros.; August Thyssen-Hutte Gewerkschaft; Tubize Artificial Silk Co.; Tubize Chattilon Corporation; and United Steel Works Corporation.

NOTE.—Funds deposited with Dillon, Read & Co. as paying agent or sinking-fund agent and held separately solely for the purpose of meeting interest, sinking fund, and/or principal payments on outstanding securities have been excluded. It may be that certain of the corporations listed above are not engaged in interstate commerce.

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COMMITTEE EXHIBIT No. 38, OCTOBER 13, 1933

(Part of answer to question 9 and part of answer to question 19)

EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Offering price	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Apr. 27, 1927	Alberta, Province of, 4½ percent debentures, due June 1, 1957.	$3,875,000	96.55	98.17	Original	96.55–97.17	$1,937,500		$4,709.05	
					Distributing	97.17–98.17	788,000	$788,000	3,772.50	
Mar. 21, 1927	American Chain Co., Inc., 7 percent cumulative preferred stock (with warrants), par value $100.	[1] 110,000	(2)	$100	Original	(3)	[1] 55,000		99,000.00	
					Banking	(3)	[1] 17,705		6,639.37	
					Distributing	(3)	[1] 900	[1] 6,069⅔₁₀	15,514.79	
Oct. 17, 1927	Bankitaly Mortgage Co. real estate first mortgage collateral 5½ percent bonds, due July 1, 1947.	5,000,000	96½	100	Purchase	96½–97½	2,000,000		15,593.83	
					Distributing	97½–100	1,040,000	1,416,000	27,674.54	

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Jan. 20, 1927	Batavian Petroleum Co. 4½ percent guaranteed debentures, due Jan 1, 1942.	25,000,000	94¼	96¼	Purchase	94¼–95	9,375,000		52,201.66	
					Banking	95–95¼	4,307,000		8,075.59	
					Distributing	95¼–96¼	1,223,500	1,223,500	11,165.00	
Feb. 2, 1927	Bolivia, Republic of, 7 percent external bonds, due July 1, 1958.	14,000,000	90.05	98½	Purchase	90.05–93½	14,000,000		502,065.02	
					Intermediate	93½–95½	6,750,000			
					Banking	95½–96	1,545,000		7,725.00	
					Distributing	96–98½	2,583,000	3,291,000	63,570.31	
Oct. 13, 1927	Brazil, United States of, 6½ percent external bonds, due Oct. 15, 1957.	41,500,000	88	92½	Purchase	88–90	28,625,000		538,258.44	
					Banking	90–90½	875,000		3,281.25	
					Distributing	90½–92½	1,960,000	4,020,000	57,250.00	
Apr. 29, 1927	Canadian National Railways, 4½ percent equitable trust certificates, due May 1, 1928–1942, inclusive.	15,000,000	98	98.831 [4]	Purchase	98–98.206	2,456,250		2,984.60	
					Distributing	98.206–98.831	1,810,000	1,810,000	11,312.50	
Dec. 28, 1927	Central States Electric Corporation, 5 percent convertible debentures, due Jan. 1, 1948.	20,000,000	93	96½	Purchase	93–94	20,000,000		200,000.00	
					Banking	94–94½	8,355,000		31,062.41	
					Distributing	94½–96½	4,362,000	5,811,000	91,146.74	
Oct. 27, 1927	Consolidated Cigar Corporation 6½ percent cumulative prior preferred stock (with warrants) $100 par value.	[1] 110,000	$94¾	$100	Original	94¾–96½	[1] 60,500		51,419.50	Warrants to buy 30,250 shares common.
					Banking	96½–97	[1] 37,028½		13,885.69	
					Distributing	97–100	[1] 14,299	[1] 22,643	43,697.09	
Sept. 14, 1927	Deutsche Bank (Berlin) 5-year 6 percent note, due Sept. 1, 1932.	25,000,000	96 15/16	99½	Purchase	96 15/16–97½	25,000,000		129,816.41	
					Banking	97½–98	245,000		983.93	
					Distributing	98–99½	3,005,000	3,005,000	41,078.75	
Feb. 8, 1927	Educational Pictures, Inc. 8 percent cumulative preferred stock (with warrants.)	[1] 20,000	$92	$100	Purchase	$92–$95	[1] 20,000		60,625.00	16,263 shares common.
					Banking	$95–$96				
					Syndicate	$96–$100	[1] 4,142	[1] 4,845	16,007.45	
May 10, 1927	Empire District Electric Co. 6 percent cumulative preferred stock, $100 par value.	[1] 35,000	$89	$95	Original	$89–$91½	[1] 15,750		39,375.00	
					Banking	$91½–$92	[1] 8,153		4,076.50	
					Syndicate	$92–$95	[1] 4,827	[1] 3,739	11,383.47	
Nov. 17, 1927	General Cable Corporation first mortgage, 5½ percent bonds, due July 1, 1947.	4,318,000	97	99	Distributing	97–99	1,284,000	1,284,000	25,680.00	

* Such expenses normally include circular and other printing expenses, advertising, any trading losses and, in some cases, legal and blue-sky expenses.

[1] Shares.

[2] Underwriting commission: $4 per share on amount subscribed; $5½ per share on amount unsubscribed.

[3] Of above underwriting commission, banking group received 50 cents per share on 110,000 shares; distributing group received $1.50 per share on 65,315 3/10 shares subscribed plus $3 per share on 44,684 2/10 shares unsubscribed. Original group retained the balance.

[4] Average.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
May 19, 1927	Goodyear Tire & Rubber Co. first mortgage and collateral 5 percent bonds, due May 1, 1957.	$60,000,000	96⅛	97	Primary	96⅛–94½	$60,000,000			
					Purchase	94½–95	43,000,000			
					Banking	95–95½	8,010,000			
					Syndicate	95½–97	4,206,000	$2,322,000	$24,155.57	
Dec. 16, 1927	Loews' Inc. $6.50 cumulative preferred stock (with warrants), no par.	[1] 150,000	$94½	$100	Primary	$94½–$95	[1] 150,000		75,000.00	Warrants to buy 10,150 shares common.
					Underwriting	$95–$96	[1] 105,000		94,500.00	
					Banking	$96–$97	[1] 26,025		21,145.37	
					Syndicate	$97–$100	[1] 17,975	[1] 31,000	66,364.79	

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May 6, 1927	Louisiana Land & Exploration Co. first mortgage 7 percent bonds, due May 1, 1930.	1,200,000	95	Private sale	Original		1,200,000	1,200,000		
	Second mortgage 7 percent bonds, due May 1, 1930.	600,000	80.41666	do	do		600,000	400,000	15,846.88	$200,000 second mortgage bonds taken up at 80.416-66.
	Common stock	[1] 1,000,000	8¾ cents per share.	do	do		[1] 1,000,000	[1] 788,332		211,668 shares common taken up at 8¾ cents per share.
Apr. 12, 1927	Milan, city of (Italy), external 6½ percent bonds, due Apr. 1, 1952.	30,000,000	88½	92	Purchase	88½-89½	7,666,666		51,463.55	
					Banking	89½-90	6,600,000		26,812.10	
					Distributing	90-92	2,045,000	3,191,800	45,992.56	
Sept. 30, 1927	Montreal Metropolitan Commission 4½ percent bonds, due Nov. 1, 1953-54-61.	6,037,000	96.20	97¾	Purchase	96.20-96.868	1,513,000		8,242.31	
					Distributing	96.868-97¾	399,000	399,000	3,362.50	
Jan. 28, 1927	New Orleans Public Service Inc., first and refunding mortgage 5 percent bonds, due June 1, 1955.	8,000,000	92¾	96	Purchase	92¾-94¼	3,276,000		47,375.67	
					Distributing	94¼-96	2,730,500	2,730,500	40,957.50	
Jan. 26, 1927	North American Edison Co. 5 percent debentures, due Mar. 1, 1957.	25,000,000	94½	98	Purchase	94½-96	25,000,000		374,977.82	
					Banking	96-96½	6,320,000		27,650.08	
					Distributing	96½-98	3,158,000	3,158,000	43,661.94	
Sept. 9, 1927	Nova Scotia, Province of, 4½ percent debentures, due Sept. 15, 1952.	12,370,000	97.4178	99¼	Purchase	97.4178-98	3,131,000		25,479.17	
					Distributing	98-99¼	747,000	747,000	9,092.50	
Nov. 19, 1927	Ohio Power Co. first and refunding mortgage 4½ percent bonds, due June 1, 1956.	9,702,000	92	94¾	Purchase	92-93¼	7,276,500		84,579.98	
					Distributing	93¼-94¾	1,876,000	1,876,000	25,795.00	
Feb. 25, 1927	Oil Well Supply Investment Co. 5½ percent collateral trust notes (with warrants), due Mar. 1, 1932.	2,000,000	96	99	Purchase	96-97¼	750,000		8,079.06	10,000 shares common taken up at $5 per share.
					Distributing	97¼-99	274,000	274,000	4,312.50	
Feb. 3, 1927	Philadelphia Rapid Transit System, 5 percent equipment trust series K, due Dec. 1, 1927-36.	1,900,000	96	98.78 [4]	Purchase	96-97.78	1,900,000		30,067.55	
					Distributing	97.78-98.78	855,000	855,000	8,550.00	
Apr. 11, 1927	Quebec, Province of, 4½ percent bonds, due May 1, 1957.	4,000,000	99.19	100	Purchase	99.19-99¾	1,333,333		4,180.57	
					Distributing	99¾-100	1,318,000	1,318,000	2,570.62	

(*) Such expenses normally include circular and other printing expenses, advertising, any trading losses and, in some cases, legal and blue sky expenses.

[1] Shares.

[4] Average.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
June 2, 1927	Rossman Corporation 6½ percent debentures (with warrants), due May 1, 1942.	$2,000,000	93	98	Original Purchase Distributing	93–93½ 93½–94 94–98	$2,000,000 1,770,000 511,000	 $822,000	$5,251.65 8,850.00 23,885.00	10,000 shares common.
Nov. 23, 1927	San Francisco Bay Toll-Bridge Co. first mortgage 6½ percent bonds, due Nov. 1, 1957.	4,500,000	90	99½	Purchase Banking Syndicate	90–95 95–96 96–99½	1,000,000 1,025,000 940,000	 950,000	74,993.18 7,859.96 30,750.00	12,098 shares common.
Feb. 23, 1927	Seaboard Air Line Ry. Co. first and consolidated mortgage 6 percent bonds, A, due Sept. 1, 1945.	5,000,000	96½	98¾	Purchase Distributing	96½–97⅝ 97⅝–98¾	3,262,500 372,000	 372,000	25,821.82 4,128.75	
June 15, 1927	Seaboard Air Line Ry. Co. 4½ percent equipment trust, series AA, due Jan. 1 and July 1, 1928–42.	850,000	97.60	4.75 basis	Purchase	97.60–4.75 basis.	585,437	850,000	5,125.12	

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Feb. 23, 1927	Seaboard-All Florida Ry. first mortgage 6 percent bonds, B, due Aug. 1, 1935.	2,000,000	95½	97¾	Purchase	95½–96⅝	1,305,000		2,123.15	
					Distributing	96⅝–97¾	264,500	264,500	2,975.62	
Dec. 7, 1927	Shinyetsu Electric Power Co., Ltd., first mortgage 6½ percent bonds, due Dec. 1, 1952.	7,650,000	89	93¼	Original	89–90¾	7,650,000		106,376.13	
					Banking	90¾–91¼	1,480,000		5,550.00	
					Distributing	91¼–93¼	1,015,000	1,552,000	23,989.08	
Feb. 5, 1927	Sun Maid Raisin Growers Association first mortgage 6½-percent bonds, due Feb. 1, 1942.	5,500,000	91	98½	Purchase	91–94	4,000,000		107,873.24	
					Banking	94–94½	1,000,000		5,000.00	
					Distributing	94½–98½	200,000	897,000	20,357.84	
July 21, 1927	Union Electric Light & Power Co. (Mo.) general mortgage 5-percent bonds, B, due Aug. 1, 1967.	10,000,000	99½	102½	Purchase	99½–101	8,500,000		143,060.78	
					Banking	101–101½	6,110,000		30,550.00	
					Distributing	101½–102½	1,347,000	1,347,000	13,470.00	
July 27, 1927	United Steel Works Corporation 6½-percent debentures, due July 1, 1947.	30,000,000	94	98½	Purchase	94–95½	21,300,000		267,121.76	
					Banking	95½–96				
					Distributing	96–98½	1,565,000	5,090,000	77,997.50	
Aug. 11, 1927	United Steel Works Corporation 6½-percent mortgage bonds, C, due June 1, 1951.	4,225,000	94	97½	Purchase	94–95	3,211,000		20,442.09	
					Special	95–95½				
					Distributing	95½–97½	553,000	553,000	11,060.00	
					Primary	96.64–97¼	1,750,000		*576.55*	
July 7, 1927	Universal Pictures Co., Inc., 6-percent notes, due Jan. 1, 1930.	2,500,000	96.64	99¼	Purchase	97¼–97¾	673,700		2,526.38	
					Distributing	97¾–99¼	344,000	344,000	5,160.00	Options on 45,000 shares common.
					Original	96–97½	4,020,000		57,128.52	
Mar. 16, 1927	White Eagle Oil & Refining Co. 5½-percent debentures (with warrants), due Mar. 15, 1937.	5,000,000	96	100	Banking	97½–98	1,675,000		5,681.25	
					Distributing	98–100	910,000	910,000	17,300.00	
June 17, 1927	Wiener Bank-Verein (Vienna, Austria), American Trust certificates, each certificate representing 400 Austrian schillings par value of capital stock (25,000 certificates, 10,000,000 schillings par value).	[5] 25,000	$84¾ per certificate.	$93¾ per certificate.	Purchase	$84¾–$89¾	[5] 18,750		70,362.32	
					Banking	$89¾–$90¾				
					Distributing	$90¾–$93¾	[5] 9,024	[5] 7,479	22,292.62	
Nov. 9, 1928	American Cities Power & Light Corporation allotment certificates, each certificate (unit) representing 1 share class A and 1 share class B stock.	[6] 400,000	59¾	63½	Original	59¾–60¼	[6] 400,000		200,000.00	
					Primary	60¼–60¾	[6] 120,000		60,000.00	
							[6] ** 80,000		** 40,000.00	
					Special	60¾–61¼	[6] 124,467		46,675.12	
							[6] ** 37,050		** 44.29	
					Distributing	61¼–63½	[6] 83,614	[6] 115,029	206,845.24	
							[6] ** 22,150	[6] ** 22,155		

* Such expenses normally include circular and other printing expenses, advertising, any trading losses and, in some cases, legal and blue-sky expenses.

[5] Certificates.

[6] Units.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Sept. 20, 1928	Bolivia, Republic of, 7-percent external bonds, due Mar. 1, 1969.	$23,000,000	93	97½	Primary	93–94	$23,000,000		$173,916.01	
					Special	94–94½	14,580,000		72,900.00	
					Banking	94½–95	**2,550,000		** 8,749.99	
							2,844,000		10,665.00	
					Distributing	95–97½	** 4,550,000		** 7,500.00	
							1,517,500	$2,626,000	49,700.00	
Jan. 24, 1928	British Columbia, Province of, 4-percent treasury bills, due Aug. 1, 1928.	4,000,000	99.817	100	Purchase	99.817–99 15/16	** 2,575,000	** 2,550,000		
							1,333,334		701.94	
					Distributing	99 15/16–100	2,850,000	2,850,000	1,781.25	
Apr. 13, 1928	Central States Electric Corporation 6-percent cumulative preferred stock (with warrants), $100 par value.	1 100,000	$96½	$101	Primary	$96½–$98	1 30,000		45,000.00	
							1 ** 35,000		** 52,500.00	
					Banking	$98–$98½	1 43,400		16,275.00	
							1 ** 6,050		** 2,268.75	
					Distributing	$98½–$101	1 27,450	1 33,700	72,744.23	
							1 ** 6,050	1 ** 6,050	** 2,216.51	

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Sept. 6, 1928	Central States Electric Corporation convertible preferred stock, optional dividend ($6) series.	[1] 100,000	94	98	Original	$94–$93½	[1] 100,000		*50,000.00*	
					Special	$93½–$94	[1] 67,500		33,750.00	
					Banking	$94–$94½	[1] 41,550		17,557.34	
							[1] ** 6,500		** 2,746.63	
					Distributing	$94½–$98	[1] 6,135	[1] 19,545	47,525.63	
							[1] ** 5,500	[1] ** 5,500	** 2,629.95	
Feb. 20, 1928	Central Vermont Ry. Co. 4½-percent receivers certificates due Jan. 16, 1930.	5,000,000	99.53	99.53, private	Original		3,750,000	5,000,000		
Feb. 17, 1928	Commercial Investment Trust Corporation 6-percent conversion debentures, due Mar. 1, 1948.	15,000,000	96	100	Purchase	96–96½	7,500,000		37,500.00	
							**7,500,000		**37,500.00	
					Primary	96½–97	4,800,000		24,000.00	
							**4,800,000		**24,000.00	
					Banking	97–97½	2,275,000		8,531.25	
							**100,000		**187.63	
					Distributing	97½–100	1,748,000	2,879,000	56,309.83	
							**100,000	**100,000		
Nov. 2, 1928	Commercial Investment Trust Corporation common stock underwriting (offered by company to its stockholders at $95 per share).	[1] 127,429	$92½ [7]	$95	Original	$92½–$93¾	[1] 76,458		95,021.17	
					Special	$93¾–$94	[1] 48,934		12,233.50	
					Underwriting	$94–$95	[1] 10,229		12,284.24	
Oct. 3, 1928	Educational Pictures, Inc., common stock underwriting (offered by company to its stockholders at $15 per share).	[1] 35,944	$13½ [8]	$15	Original	$13½–$15	[1] 17,972		21,487.42	9,096 shares taken up at $15 per share.
Jan. 28, 1928	Fulton-Flatbush Corporation, first mortgage fee 6-percent loan, due Jan. 1, 1948.	2,500,000	92⅝	100	Original	92⅝–$96	2,500,000		80,946.78	
					Banking	96–$96½	$715,000		2,651.25	
					Distributing	96½–$100	$285,000	$576,500	14,836.25	
Mar. 7, 1928	Gelsenkirchen Mining Corporation 6-percent notes, due Mar. 1, 1934.	15,000,000	93	97	Purchase	93–$93¾	$3,375,000		13,811.58	
							**$3,375,000		**23,075.77	
					Banking	93¾–$94½	$2,164,250		13,526.56	
							**$2,800,000		**17,500.00	
					Distributing	94½–$97	$9,000	1,116,000	12,935.41	
							$**6,710,000	$**6,710,000	**18,877.32	
June 5, 1928	International Printing Ink Corporation 6-percent cumulative preferred stock.	[1] 70,000	(9)	$99½	Original	$95½ [9]	[1] 70,000		1,691,932.31	
	Common stock	[1] 170,748	(9)	115,000 shares sold to dealer at $39 per share.	do	$38 [9]	[1] 201,257	[1] 155,220	933,549.25	46,037 shares common taken up at $28.8377 per share.
		[1] 30,509	(9)							

* Such expenses normally include circular and other printing expenses, advertising, any trade losses and, in some cases, legal and blue-sky expenses.

[1] Shares. [7] Underwriting commission $2.50 per share. [8] Underwriting commission $1.50 per share.

[9] The allocated cost for the 70,000 shares of preferred ($71.215 per share) and the 170,748 shares of common ($28.8377 per share) represents the aggregate cost of stocks of certain companies which were exchanged in the course of reorganization into International Printing Ink Corporation for said shares of preferred and common. 30,509 additional shares of common stock of International Printing Ink Corporation were purchased at $38 per share from stockholders.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
					Primary	$95½–$96½ preferred.	$975,000		$16,472.60	
					do	$38–$39 common.				
					Banking	$96½–$97 preferred.	1 8,930		3,486.00	
							1 **2,000		** 680.74	
					Distributing	$97–$99½ preferred.	1 4,324	1 $5,303	10,534.64	
							1 **2,000	** 2,000		
Feb. 3, 1928	Kuhlmann, Etablissements, capital stock (francs 250 par value).	1 50,000	625 francs	675 francs	Original	625–675 francs	1 18,750	1 37,500	39,842.59	
							** 18,750		** 40,209.42	
Nov. 22, 1928	Rudolph Karstadt, Inc., 1st mortgage collateral 6-percent bonds, due Nov. 1, 1943 (with American shares representing capital stock).	$15,000,000	93.08484	98	Purchase	93.08484–93¾	$9,562,500		36,226.27	
					Special	93¾–94½	$7,341,850		53,366.99	
					Banking	94½–95	$3,329,000		14,564.43	
							$**1,880,000		** 8,225.00	
					Distributing	95–98	$2,743,000	$3,896,000	92,070.66	
							$**1,880,000	$**1,890,000	**13,431.58	

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May 28, 1928	Louisiana Land & Exploration Co. common stock underwriting (offered by company to its stockholders at $2per share).	[1] 500,000	[10]	$2	Original		[1] 500,000	[1] 70,050	28,795.90	[1] 140,271 shares taken up at $1.80 per share.
Dec. 8, 1928	National Cash Register Co. common A stock (offered by company to its stockholders at $60 per share).	[1] 60,000	[11]	$60	Original		[1] 30,000		[12] 36,717.24	
Jan. 18, 1928	National Transcontinental Ry. Branch LinesCo., first mortgage 4½-percent bonds, due Oct. 1, 1955.	$3,396,000	92	98½	Purchase	92–96	2,037,600		55,666.32	
					Banking	96–97	556,000		4,961.08	
					Distributing	97–98½	556,000	$556,000	8,340.00	
Nov. 14, 1928	New Orleans Public Service, Inc., first and refunding 5-percent bonds, B, due June 1, 1955.	$5,000,000	94¼	97½	Purchase	94¼–95½	1,027,750		11,883.05	
							**1,027,750		**11,883.05	
					Banking	95½–95¾	2,067,750		5,169.37	
					Distributing	95¾–97½	1,804,000	1,804,000	26,342.50	
Dec. 4, 1928	Newport Co. class-A convertible stock—$50 par	[1] 130,000	$45	$50	Original	$45–$46½	[1] 130,000		195,000.00	
					Primary	$46½–$47	[1] 30,500		15,250.00	
							[1] **28,000		**14,000.00	
					Banking	$47–$48	[1] 13,075		12,408.61	
					Distributing	$48–$50	[1] 24,595	[1] 39,233	56,503.63	
Do	Newport Co. common stock Underwriting (offered by company to its stockholders at $20 per share).	[1] 65,000	[13]	$20	Original		[1] 65,000		81,139.49	[1] 16,139½ shares taken up at $20 per share.
Sept. 10, 1928	North American Edison Co. 5½-percent debentures, series B, due Aug. 15, 1963.	$20,000,000	96	100	Original	96–97	20,000,000		282,500.00	
					Special	97⅜–97½	16,500,000			
					Banking	97½–98	5,625,000		24,609.36	
							**2,100,000		**9,187.50	
					Distributing	98–100	2,900,000	3,708,000	60,870.59	
							**100,000	**100,000		
Feb. 9, 1928	Ohio Power Co., first and refunding mortgage 4½ percent bonds, D, due June 1, 1956.	$10,018,000	93¾	96	Purchase	93¼–94¾	7,012,600		110,095.06	
					Distributing	94¾–96	1,417,000	1,417,000	15,816.25	
May 29, 1928	Pennsylvania Bankshares and Securities Corporation 5-percent cumulative preferred stock ($50 par value).	[1] 60,000	$47.017 average.	$49½	Purchase	$47.017–$47½	[1] 55,000		25,978.07	[1] 29,580 shares common taken up at $11.544 per share.
					Banking	$47½–$48	[1] 30,300		11,362.50	
					Distributing	$48–$49½	[1] 29,332	[1] 31,451	42,486.37	
Nov. 28, 1928	Ritter Dental Mfg. Co., common stock.	[1] 60,000	$37½	$43	Purchase	$37½–$40	[1] 20,000		50,000.00	
					Banking	$40–$41	[1] 26,366		24,087.70	
					Distributing	$41–$43	[1] 24,900	[1] 25,200	46,657.50	

*Such expenses normally include circular and other printing expenses, advertising, any trading losses and, in some cases, legal and blue-sky expenses.

[1] Shares.
[10] (Underwriting commission: 10 cents per share on amount subscribed, 20 cents per share on amount unsubscribed).
[11] Underwriting commission: $1 per share.
[12] Includes profit on sale of unsubscribed stock.
[13] Underwriting commission: $1 per share on amount subscribed, $2 per share on amount unsubscribed.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
May 3, 1928	Ruhr Chemical Corporation 6 percent mortgage bonds, A, due Apr. 1, 1948.	$4,000,000	87¼	92¼	Purchase	89¼–89¼	$3,600,000		$48,897.06	
							1,288,000		4,830.00	
					Banking	87¼–89¾	**402,000		**1,507.50	
							1,061,000	$1,413,000	27,961.56	
					Distributing	89¾–92¼	**402,000	**417,000	**5,695.85	
Nov. 8, 1928	Ruhr Gas Corporation 6½ percent bonds, A, due Oct. 1, 1953.	12,000,000	90	94	Purchase	90–91	4,500,000		12,390.71	$890,000 taken up at 90, being Dillon, Read & Co's share of unsold bonds.
					Distributing	91–94	205,000	277,000	6,448.49	
							**3,136,000	**3,136,000	**15,023.31	
Dec. 6, 1928	Ruhr Housing Corporation first mortgage 6½ percent bonds, due Nov. 1, 1958.	4,600,000	89 14	92	Purchase	88½–88½	920,000		(15)	
					Banking	88½–89	585,000		*3,556.25*	
							**1,000,000		**3,750.00	
					Distributing	89–92	429,000	429,000	12,870.00	
							**850,000	**850,000	**2,000.00	

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May 11, 1928	St. Lawrence Paper Mills Co., Ltd: Allottment certificates (units of 1 share preferred, 1 share common and warrant to buy one half share common.	[16] 190,000	$69 per unit	(17)	Original	$69–$73	(18)		379,993.75	Warrants to buy 20,000 shares common.
	Common stock	[1] 130,000	$27 per share	(17)	do	$27–$28½				
	On 95,000 units handled by Dillon, Read & Co., only:				Primary	73–74	[16] 10,000 [16] **5,000		10,000.00 **5,000.00	
					Banking	74–75	[16] 49,400 [16] **5,750		34,925.00 **4,312.50	
					Distributing	75–78	[16] 35,089 [16] **5,750	[16] 47,086 [16] **5,750	111,946.47 **1,505.11	
Jan. 11, 1928	Seaboard Air Line Railway Co. 5 percent secured notes due Feb. 1, 1931.	7,500,000	97¾	99½	Purchase	97¾–98½	5,437,500		32,271.27	
					Distributing	98½–99½	2,330,000	2,330,000	20,640.00	
Mar. 9, 1928	Spang, Chalfant & Co., Inc., 6 percent cumulative preferred stock ($100 par value).	[1] 25,000	94¾	98	Primary	$94¾–$95	[1] 25,000		6,250.00	
					Purchase	$95–$96	[1] 6,250		3,507.07	
					Distributing	$96–$98	[1] 2,250	[1] 4,366	6,616.00	
Feb. 15, 1928	Spang, Chalfant & Co., Inc., first mortgage 5 percent bonds, due Jan. 1, 1948.	6,808,000	94	99	Purchase	94–96	1,702,000 **1,702,000		32,129.85 **32,129.86	
					Banking	96–97	1,924,000		19,240.00	
					Distributing	97–99	1,414,000	1,414,000	25,045.02	
May 5, 1928	Spencer Kellogg & Sons, Inc., capital stock.	[1] 15,000	$141 per share	$157 per share	Purchase	$141–$152	[1] 4,286		44,243.11	
Oct. 30, 1928	United States & International Security Corporation first preferred stock (with common stock and warrants).	[1] 500,000	$96	$100	Distributing	$152–$157	[1] 6,750	[1] 6,750	33,750.00	
					Purchase	$96–$97	[1] 500,000		500,000.00	
					Banking	$97–$97½	[1] 94,326 [1] **22,220		39,605.03 **7,977.79	
					Distributing	$97½–$100	[1] 193,144 [1] **21,800	[1] 252,393 [1] **21,800	516,893.95	
Dec. —, 1928	Union Oil Co. of California common stock underwriting (offered by company to its stockholders at $35 per share).	[1] 379,993	$35 (underwriting commission, none).	$35	Underwriting		[1] 121,123		[19] 2,057.25	
Do	Union Oil Associates capital stock (offered by company to its stockholders at $35 per share).	[1] 216,077	do	$35	Underwriting		[1] 68,875		[19] 1,208.79	

* Such expenses normally include circular and other printing expenses, advertising, any trading losses and in some cases, legal and blue sky expenses.

[1] Shares.
[14] Profit in banking group reimbursed by corporation.
[15] No profit.
[16] Units.
[17] Offerings were handled as follows:
By Dominion Securities Corporation, Ltd., in Canada, units 95,000.
By Dillon, Read & Co. in United States (offered at 78), units 95,000.
By Flood Barnes, in Canada shares common 130,000.
[18] 40 percent.
[19] Derived from sale of unsubscribed stock at prices in excess of cost.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Feb. 15, 1929	Berlin City Electric Co. 6½-percent debentures, due Feb. 1, 1959.	$15,000,000	90	93½	Purchase	90–90½	$7,391,250		*$4,710.63*	
					Banking	90½–91	918,901		3,445.87	
							**1,996,000		**7,485	
					Distributing	91–93½	364,000	$1,059,000	16,483.38	
							**2,623,000	**5,423,000	**15,729.95	
Feb. 21, 1929	Ernesto Breda Co. first-mortgage 7-percent bonds (with warrants), due Feb. 1, 1954.	5,000,000	91 3/16	96¼	Purchase	91 3/16–91 11/16	5,000,000		25,000.00	Warrants to buy 37,500 shares.
					Primary	91 11/16–93¼	3,500,000		33,039.27	Warrants to buy 35,000 shares.
					Banking	93¼–93¾	1,115,000		4,181.25	
							**825,000		**3,093.75	
					Distributing	93¾–96¼	691,000	1,290,000	21,096.25	
							**950,000	**950,000	**5,675.01	

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Jan. 21, 1929	British Columbia, Province of, 4½ percent debentures, due Jan. 23, 1969.	6,417,000	92.69	94.69	Purchase	92.69–93.69	1,283,400		11,349.37
					Distributing	93.69–94.69	19,500	19,500	195.00
Sept. 18, 1929	British Columbia, Province of, 5-percent debentures, due Sept. 24, 1959.	3,036,500	98.80 (Canada)	100	Original	98.80–98¾	567,300		1,826.01
					Distributing	98¾–100	172,000	172,000	2,150.00
Dec. 2, 1929	British Columbia, Province of, 5½-percent treasury bills:								
	1-year, due Nov. 25, 1930	3,000,000	99¼	100	Purchase	99¼–99¾	560,000		2,593.48
	2-year, due Nov. 25, 1931	3,000,000	99¼	100	do	99¼–99¾	560,000		2,593.48
					Distributing	99¾–100	550,000	550,000	1,350.00
June 18, 1929	Canadian National Ry. Co. 5-percent guaranteed debentures, due July 1, 1969.	60,000,000	98.1597 (Canada).	99¾	Original	98.1597–98½	6,930,622		41,036.43
					Distributing	98½–99¾	2,241,000	2,241,000	27,975.00
							**6,790,000	**6,790,000	**882.50
Nov. 6, 1929	Canadian National Ry. Co. 5-percent guaranteed bonds, due Oct. 1, 1969.	12,540,000	97¼	99½	Original	97¼–98½	1,395,075		17,312.27
					Distributing	98½–99½	1,480,000	1,480,000	14,537.50
June 12, 1929	Central States Electric Corporation convertible preferred stock, optional series of 1929.	[1] 100,000	$94½	$100	Original	$94½–$95½	[1] 100,000		100,000.00
					Special	$95½–$96½	[1] 42,500		42,500.00
							[1] **5,000		**5,000.00
					Banking	$96½–$97	[1] 22,515		8,839.79
							**[1] 12,120		**2,713.03
					Distributing	$97–$100	[1] 24,930	[1] 34,707	86,339.25
							**[1] 12,120	**[1] 12,120	
July 5, 1929	do	[1] 15,500	$95.91	No public offering	Original	$95.91935–$99.47917.	[1] 15,500		55,177.14
					Special	$99.47917–$100.47917.	[1] 10,462½	[1] 15,500	10,462.50
Sept. 10, 1929	Central States Electric Corporation 5½ percent debentures, series due (Sept. 15) 1954.	25,000,000	94¼	99½	Original	94¼–95¼	25,000,000		250,000.00
					Special	95¼–96½	7,187,500		89,843.75
							**7,187,500		**89,843.75
					Banking	96–½97	10,313,000		45,119.37
							**1,250,000		**1,123.67
					Distributing	97–99½	8,005,000	9,105,000	201,482.40
							**1,250,000	**1,250,000	
					Purchase	100–101½	21,000,000		316,000.00
					Primary	101½–102			
Feb. 5, 1929	Commercial Investment Trust Corporation 5½ percent convertible debentures, due Feb. 1, 1949.	35,000,000	100	105			**15,000,000		**75,000.00
					Banking	102–102½	11,037,000		48,286.89
							**350,000		**1,531.25
					Distributing	102½–105	6,011,000	9,622,000	163,034.89
							**350,000	**350,000	

* Such expenses normally include circular and other printing expenses, advertising, any trading losses and in some cases, legal and blue sky expenses.

[1] Shares.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Oct. 3, 1929	Commercial Investment Trust Corporation convertible preferred stock, optional series of 1929.	[1] 400,000	$94½	$100	Original	$94½–$96 on 113,672 shares. $94½–$94½ on 261,328 shares. $94½–$80 on 25,000 shares.	[1] $231,000			
	Common stock	[1] 125,000	$70	No public offering.	do	$70–$70 on 100,000 shares. $70–$75 on 1,750 shares. $70–$38 on 15,000 shares.	[1] 75,000		*$585,639.59*	
	Option to buy 125,000 shares common, at $70 per share.			do	do		[1] 75,000			Option to buy 15,000 shares common, at $70 per share.

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				Groups formed on 150,000 shares preferred. 113,672 shares distributed, taken from original group above.	Primary	$96–$96½				
					Banking	$96½–$97	[1] 15,000 [**1] 2,700		5,625.00 [**] *98.93*	
					Distributing	$97–$100	[1] 15,000 [**1] 2,700	[1] 15,000 [**1] 2,700	29,380.95	
July 16, 1929	Educational Pictures, Inc., common stock underwriting (offered by company to its stockholders at $10 per share).	[1] 10,824	$9½ (underwriting commission 50 cents per share).	$10	Original	50 cents per share.	[1] 5,412		$2,265.69	2,454 shares common taken up at 10 per share.
Mar. 2, 1929	Fisk Rubber Co. common stock underwriting (offered by company to its stockholders at $11 per share).	[1] 851,306	$10 (underwriting commission $1 per share).	$11	Original	25 cents per share.	[1] 638,479		156,636.79	
					Banking	25 cents per share.	[1] 366,331		91,582.75	
					Underwriting.	50 cents per share.	[1] 91,256		44,669.02	
Apr. 18, 1929	General Printing Ink Corp. $6 cumulative preferred stock (with warrants).	[1] 29,796	([20])	$98	Original	94 [20]	65%		177,597.47	18,680 shares common taken up at average of $15.33 per share.
					Banking	94–95	[1] 5,800 [**1] 710		5,075.00 [**] 205.76	
					Distributing	95–98	[1] 11,957 [**1] 710	[1] 11,957 [**1] 710	31,404.00	
Do	General Printing Ink Corp. common stock	[21] 20,000	$42½	$45	Banking	42½–43	[1] 3,530 [**] 140		1,323.00 [**] 52.50	
					Distributing	43–45	[1] 6,686 [**1] 140	[1] 8,462 [**1] 140	12,600.00 [**] 12.40	
Jan. 22, 1929	Milwaukee Electric Railway & Light Co. refunding and first mortgage 5-percent bonds, B, due June 1, 1961.	$10,000,000	97¼	100¼	Purchase	97¼–98¾	$7,000,000		123,734.69	
					Distributing	98¾–100¼	1,770,000	$1,770,000	26,550.00	

[1] Shares.

[20] Original group acquired through reorganization and purchase:

	Shares
Preferred at cost of $79.128 per share	11,959
Preferred at cost of $94 per share	18,974
Total	30,933
Less: Preferred exchanged for 2,690 shares common	1,137
Balance included in public offering	29,796
Common at average cost of $23.64 per share	46,049
Common received in exchange for preferred as above	2,690

[21] Purchased from original group above.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), aftr expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Dec. 20, 1929	Milwaukee Electric Railway & Light Co. refunding and first mortgage 5-percent bonds, B, due June 1, 1961.	$10,000,000	96¼	99¼	Original	96¼–96⅜	$10,000,000		$50,000.00	
					Primary	96⅜–97¾	7,000,000		65,236.88	
					Distributing	97¾–99¼	946,000	$946,000	13,007.50	
Nov. 25, 1929	Minneapolis, St. Paul & Sault Ste. Marie Ry. first refunding mortgage 5½ percent bonds, B, due July 1, 1978.	8,000,000	95	96 (private)	Original	95–96	4,622,200	7,500,000	44,376.79	
May 14, 1929	Missouri-Illinois R.R. Co. first mortgage 5-percent bonds, A, due Jan. 1, 1959.	3,500,000	91.87577	94	Original	91.87577–91½	3,500,000		*22,612.78*	
					Purchase	91½–91¾	2,012,500		5,031.25	
					Banking	91¾–92¼	400,000		1,500.00	
							**100,000		**375.00	
					Distributing	92¼–94	400,000	400,000	7,000.00	
							**100,000	**100,000		

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June 12, 1929	Montreal Metropolitan Commission 5-percent bonds, due May 1, 1966.	3,100,000	98.456 (Canada).	99¾	Purchase	98.456–98¾	784,000		4,097.95	
					Distributing	98¾–99¾	259,000	259,000	2,590.00	
Feb. 14, 1929	Pennsylvania Industries, Inc., units consisting of 1 share 6-percent cumulative preferred stock, one half share common stock, and warrants to buy 1 share common stock.	[6] 50,000	$105 per unit	$110 per unit	Purchase	105–105½	[6] 50,000		25,000.00	Warrants to buy 25,000 shares common.
					Banking	105½–107	[6] 16,667		25,000.00	Warrants to buy 8,333 shares common.
					Distributing	107–110	[6] 10,990	[6] 19,270	43,751.91	
Oct. 11, 1929	Seaboard Air Line Ry. Co. common stock underwriting (offered by company to its stockholders at $12 per share).	[1] 1,892,630	$11 [22]	$12	Original	25 cents	[1] 1,372,157		[23]	267,187 shares at net cost of $2,643,992.69.
					Underwriting	75 cents	[1] 342,510		[23]	
May 15, 1929	Societe Electricite de La Region de Malmedy, capital stock (Serma).	[1] 23,500	Belgian francs 2,000.	Belgian francs 2,050.	Original	Francs 2,000–2,050.	[1] 23,500	[1] 21,800	23,374.84	1,700 shares taken up at Belgian francs 2,050.
Feb. 7, 1929	A. G. Spalding & Bros. common stock.	[1] 50,000	$61	$65	Primary	61–61½	[1] 25,000		12,455.00	
					Underwriting	61½–63	[1] 21,250		30,802.63	
					Distributing	63–65	[1] 25,000	[1] 27,685	45,950.00	
May 10, 1929	Spencer, Kellogg & Son, Inc., capital stock underwriting (offered by company to its stockholders at $32 per share).	[1] 50,000	$30 (underwriting commission $2 per share).	$32	Original	30–31	[1] 14,000		14,000.00	
					Underwriting	31–32	[1] 2,000		2,031.23	
							[1] ** 8,000		** 8,124.91	
Aug. 15, 1929	Sunray Oil Corporation common stock underwriting (offered by company to its stockholders at $10 per share).	[1] 170,532	$9 (underwriting commission $1 per share).	$10	Original	25 cents per share.	[1] 170,532		29,091.83	Warrants to buy 45,257 shares common, 86,595 shares common taken up at average of $9.56 per share.
					Underwriting	75 cents per share.	[1] 64,649			
Dec. 18, 1929	Union Electric Light & Power Co. general mortgage 5 percent bonds, B, due Aug. 1, 1967.	$15,000,000	97	100	Original	97–98½	$15,000,000		225,000.00	
					Primary	98½–99	$8,625,000		62,792.25	
					Distributing	99–100	$2,812,000	$2,812,000	28,120.00	
Apr. 3, 1929	Warner Co. first mortgage 6 percent bonds, due Apr. 1, 1944.	$7,000,000	92½	99	Primary	92½–95	$2,992,500		58,229.77	
					Banking	95–96	$1,335,000		11,681.25	
					Distributing	96–99	$902,000	$1,118,000	26,371.49	

* Such expenses normally include circular and other printing expenses, advertising, any trading losses and, in some cases, legal and blue sky expenses.

[1] Shares.
[6] Units.
[22] Underwriting commission $1 per share.
[23] Profit accruing in these groups applied to write down cost of unsold stock to $2,643,992.69.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Group formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Apr. 5, 1929	Warner Co. $7 first preferred stock (with warrants).	1 31,500	$90½	$99	Primary	$90½–$95	1 13,466		$60,598.13	8,112 shares common.
					Banking	95–95½	1 11,301		4,237.88	
					Distributing	95½–99	1 4,873	1 6,014	16,835.32	
June 16, 1930	Amazon Corporation Capital stock.	1 765,000	$0.19607843	$0.19607843 private.	Purchase		1 573,750	1 191,250	None	382,500 shares taken up at $0.19607843 per share.
Mar. 4, 1930	American & Foreign Power Co., Inc., debentures, 5-percent series due Mar. 1, 2030.	$50,000,000	86	90	Purchase	86–87	$25,000,000		250,000.00	
					Underwriting	87–87½	10,875,000		54,375.00	
					Banking	87½–88	5,967,500		24,114.04	
							**2,505,000		**10,122.44	
					Selling	88–90	3,142,500	$3,142,500	51,601.88	
							**4,965,000	**4,965,000	**1,289.99	

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Apr. 15, 1930	Berlin City Electric Co. Inc., 6-percent debentures, due Apr. 1, 1955.	$15,000,000	86¾	90½	Original	86¾–86⅞	15,000,000		18,750.00	
					Purchase	86⅞–88	7,391,250		65,582.46	
					Banking	88–88½	1,490,000		5,587.50	
							**2,798,000		**9,492.51	
					Selling	88½–90½	891,000	891,000	14,996.82	
							**3,798,000	**3,798,000		
Aug. 19, 1930	British Columbia, Province of, 1-year 3½-percent treasury bills, due Aug. 20, 1931.	$2,500,000	99.6599	100	Purchase	99.6599–100	467,000	250,000	848.56	
Dec. 8, 1930	British Columbia, Province of, 2-year 4-percent treasury bills, due Dec. 15, 1932.	$4,015,000	99½	99.62	do	99½–99.62	737,756.25		687.94	
Jan. 29, 1930	Canadian National Railway Co. 5-percent guaranteed bonds, due Feb. 1, 1970.	$18,000,000	98.086	99½	do	98.086–98¾	2,250,000		9,789.80	
					Distributing	98¾–99½	3,200,000	3,200,000	24,000.00	
Feb. 21, 1930	Canadian National (West Indies) Steamships 5-percent guaranteed bonds, due Mar. 1, 1955.	9,400,000	99.177	100	Purchase	99.177–99½	$1,175,000		6,810.71	
					Distributing	99½–100	$1,175,000	$1,175,000	5,875.00	
May 27, 1930	Kansas Gas & Electric Co. first mortgage bonds, 4½-percent series due 1980.	16,000,000	90½	93½	Original	90½–91	$16,000,000		80,000.00	
					Purchase	91–91½	$9,000,000		38,313.36	
					Banking	91½–92	$4,770,000		17,887.50	
					Distributing	92–93½	$3,495,000	$3,495,000	52,365.00	
Apr. 1, 1930	Louisiana & Arkansas Ry. Co. first mortgage 5-percent bonds, A, due Jan. 1, 1969.	11,500,000	88	92	Original	88–88¼	$9,080,000		22,700.00	
					Intermediate	88¼–88½	$8,760,000		21,900.00	
					Purchase	88½–89	$4,740,000		22,194.25	
					Banking	89–89½	$1,910,000		7,162.50	
					Distributing	89½–92	$657,500	$657,500	15,104.68	
Apr. 1, 1930	Louisiana & Arkansas Ry. Co. first mortgage 5-percent bonds, A, due Jan. 1, 1969	1,000,000	88	92	Original	88–88¼	$1,000,000		2,500.00	
					Distributing	88¼–92	$250,000	$250,000	8,708.75	
July 15, 1930	Louisiana Geophysical Exploration Co., underwriting of 7-percent notes, due July 1, 1935 (with 150,000 shares common stock—150 shares common stock with each $1,000 note). (Notes offered to stockholders of Louisiana Land & Exploration Co. at 100, with common stock.)	1,000,000	([24])	100	Underwriting		$210,000	$191,000	6,354.55	$15,000 notes taken up at 93. 2,250 shares common. Warrants to buy 50,000 shares common.
July 31, 1930	Minneapolis, St. Paul & Sault Ste. Marie Ry. Co. first refunding mortgage 5½-percent bonds, B, due July 1, 1978.	4,106,000	96	99	Original	96–97½	$2,224,100		35,976.55	
					Distributing	97½–99	$1,261,500	$1,261,500	15,453.75	

* Such expense, normally include circular and other printing exenses, advertising, any trade losses and, in some cases, legal and blue-sky expenses.

[1] Shares.

[24] Underwriting commission: $35 per note subscribed, $70 per note unsubscribed.

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EXHIBIT A.—*Issues in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Price offering	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
July 22, 1930	Newfoundland, Government of, 5-percent bonds, due June 30, 1955.	$2,500,000	99.318	100¾	Purchase	99.318–100	$500,000		$2,577.61	
					Distributing	100–100¾	$308,000	$308,000	2,310.00	
Jan. 15, 1930	North American Edison Co. 5 percent debentures, due Nov. 15, 1969.	25,000,000	92¼	95½	Original	92¼–92¾	25,000,000		125,000.00	
					Primary	92¾–93½	11,750,000		96,937.50	
					Banking	93½–94	4,725,000		20,912.44	
					Distributing	94–95½	2,393,000	2,393,000	29,648.75	
Mar. 21, 1930	Royal Dutch Co. 4 percent debentures, A (with warrants), due Apr. 1, 1945.	40,000,000	86	89½	Original	86–86¾	30,000,000		225,000.00	
					Purchase	86¾–87½	3,900,000		24,432.71	
							**500,000		**3,132.40	
					Distributing	87½–89½	8,765,000	8,765,000	158,405.63	
							**9,100,000	**9,100,000	**625.00	
Feb. 4, 1930	Siemens & Halske A. G. participating debentures, A, due Jan. 15, 2930.	[22] 35,000	$882½ per debenture.	$933 per debenture.	Primary	$882½–$887½	[25] 27,250		130,892.75	
					Intermediate	$887½–$897½	[25] 23,500		219,137.50	
					Banking	$897½–$903	[25] 5,925		31,310.70	
							[25] **9,350		**47,417.86	
					Distributing	$903–$933	[25] 25,525	[27] [25] 25,525	15,374.91	
							[25] **9,350	[25] **9,350	**1,955.44	

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Mar. 21, 1930	Union Oil Co. of California 5 percent debentures, due April 1, 1945 (with warrants).	15,000,000	96	99½	Original	96–97	7,500,000		75,000.00	
					Purchase	97–97½	5,600,000		25,386.45	
					Distributing	97½–99½	5,692,000	5,692,000	101,047.49	
Mar. 11, 1931	Beneficial Industrial Loan Corporation 6 percent convertible debentures, due Mar. 1, 1946.	7,000,000	90	98½	Original	90–93½	3,325,000		[26] 159,843.08	18,525 common shares. Option to buy 80,687 additional shares.
					Primary	93½–94½	1,334,000		2,143.95	
					Banking	94½–95	1,334,000		866.25	
					Syndicate	95–98½	1,334,000	1,334,000	6,930.00	
Feb. 17, 1931	British Columbia, Province of, 4¼ percent debentures, due Feb. 15, 1936.	5,000,000	98.40	99.33	Purchase	98.40–99.33	918,750	121,000	5,006.42	
Jan. 21 and 29, 1931.	Canadian National Ry. Co. 4½ percent guaranteed bonds, due Feb. 1, 1956.	70,000,000	96.4077	98¼	Purchase	96.4077–97¼	8,750,000		24,880.16	
					Selling	97¼–98¼	2,248,000	2,248,000	16,710.00	
							[**] 4,100,000	[**] 4,100,000	[**] 5,250.03	
Jan. 9, 1931	Milwaukee Electric Railway & Light Co. first mortgage 5 percent bonds, due Jan. 1, 1971.	15,000,000	97	100	Original	97–97½	15,000,000		75,000.00	
					Primary	97½–98½	9,500,000		97,537.96	
					Banking	98½–99	2,784,000		10,440.00	
					Selling	99–100	4,507,000	4,507,000	44,290.00	
Aug. 13, 1931	Minneapolis, St. Paul & Sault Ste. Marie Ry. Co. 1-year 5 percent notes, due Aug. 1, 1932.	10,000,000	98½	100	Original	98½–99½	5,417,000	[29] 5,417,000	23,554.62	
					Selling	99½–100	36,000	36,000	180.00	
							[**] 10,000	[**] 10,000		

* Such expenses normally inclnde circular and other printing expenses, advertising, any trade losses and, in some cases, legal and blue-sky expenses.

[1] Shares.

[25] Debentures of $400 face amount each.

[26] Debentures.

[27] Of this amount 25,000 debentures were sold at $903 per debenture.

[28] Includes $71,250 as Dillon, Read & Co.'s share of proceeds from sale of 10,000 shares common, at $15 per share, by Dillon, Read & Co. for group account.

[29] Taken up at 98½, and sold at indicated profit of $23,554.62.

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EXHIBIT A.—*Issue in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Amount of issue	Cost price	Offering price	Groups formed	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit of Dillon, Read & Co. and agencies (agencies' profit indicated by **), after expenses (*) charged directly to groups, other direct expense and allowances on resales abroad, but before deducting allowances to domestic financial institutions, salesmen's commission's, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Beginning Jan. 7, 1931	National Trust Shares (A fixed trust. The depositor is National Depositor Corporation, a wholly-owned subsidiary of D. R. & Co.).	[1] [30] 299,500	[31]----------	[32]----------	Original	Difference between cost price and offering price less various concessions.	[33]	[1] 298,002½	[34] *$43,591.65*	
					Selling	Offering price less various concessions-offering price	[1] 224,590	[1] 224,590	[35] $70,968.29	

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Jan. 29, 1931	North American Co. 5 percent debentures, due Feb. 1, 1961.	$25,000,000	93½	97	Original Primary Distributing	93⅛–94½ 94½–95½ 95½–97	$25,000,000 525,000 **1,000,000 2,148,000 **2,140,000	 $2,148,000 **2,140,000	250,000.00 4,608.61 **2,778.25 28,485.00	
Apr. 8, 1931	Panhandle Corporation 6 percent collateral trust notes, due Mar. 15, 1933 (with warrants to buy common stock of M-K. P. L. Co.).	[36] 2,964,000	90⅜	99½	Original	90⅜–97 on $102,000; 90⅜–92.341 average on 2,783,000.	2,964,000	2,783,000	133,124.60	$79,000 notes, 16,344 shares M-K. P. L. Co. common stock, and warrants to buy 12,160 shares of such stock, taken up at total of $159,727.65.
					Distributing	97–99½	28,000	28,000	665.00	
Apr. 30, 1931	Quebec, Province of, 4¼ percent bonds, due May 1, 1961.	7,500,000	98.06, Canada	99.16	Purchase Distributing	98.06–98.66 98.66–99.16	2,000,000 648,000	 648,000	5,899.56 3,240.00	
Apr. 9, 1931	Seaboard Air Line Ry. Co. 1-year 5 percent receivers certificates A, due May 1, 1932.	4,000,000	98¾	99	Purchase	98¾–99	2,175,000	3,900,000	5,617.31	$73,000 certificates taken up at 98¾.

* Such expenses normally include circular and other printing expenses, advertising, any trading losses and, in some cases, legal and blue-sky expenses.

[1] Shares.

[30] (June 7 to Dec. 31, 1931.) Of this amount 1,497½ shares are deposited with the trustee, the income on such shares being retained by the trustee as partial payment of its charges, the shares ultimately to revert to National Depositor Corporation.

[31] Approximate market value of stocks comprised in a unit of shares (including commissions and odd-lot charges), and of accumulations.

[32] Approximate market value of stocks comprised in a unit of shares (including commissions and odd-lot charges), and of accumulations, plus a charge not in excess of 7.527 per-cent to cover trustee's charges, legal and other expenses and profit.

[33] 100 percent; National Depositor Corporation.

[34] Net loss of National Depositor Corporation for 1931, after all expenses, reallowances, taxes, etc.

[35] After certain allowances to domestic financial institutions and others.

[36] Part of total issue of $4,940,000.

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COMMITTEE EXHIBIT No. 39, OCTOBER 13, 1933

(Part of answer to question 9 and part of answer to question 19)

EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
May 10, 1927	Allis Chalmers Manufacturing Co. 5-percent debentures, due May 1, 1937.	Hayden, Stone & Co.	$15,000,000	(1)	99	Banking Selling	97–97½ 97½–99	$250,000 200,000	 $200,000	$1,166.67 2,557.50	
Feb. 4, 1927	Aluminum Co. of America 5-percent debentures, due Mar. 1, 1952.	Union Trust Co., Pittsburgh.	$60,000,000	(1)	100	Banking Selling	98–98½ 98½–100	1,000,000 1,000,000	 1,000,000	4,250.00 13,740.00	

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Feb. 9, 1927	Associated Gas & Electric Co. 5½-percent convertible debentures, due Feb. 1, 1977.	Harris, Forbes & Co., N.Y.	$40,000,000	(1)	95⅝	Banking Selling	92¼–93¼ 93¼–95⅝	1,000,000 500,000	500,000	6,460.17 11,768.75
Aug. 23, 1927	Australia, Commonwealth of, external 5-percent loan, due Sept. 1, 1957.	J. P. Morgan & Co.	$40,000,000	(1)	98	Purchase Distributing	96–96½ 96½–98	300,000 300,000	300,000	1,500.00 3,888.00
June 9, 1927	Baltimore & Ohio R.R. Co. common stock underwriting (offered by company to its stockholders at $107½ per share).	Kuhn, Loeb & Co.	632,425 shares.	(1)	$107½	Underwriting	(Underwriting commission $1.25 per share).	[2] 2,500		3,564.86
Jan. 15, 1927	Boston Consolidated Gas Co. 5-percent debentures, due Feb. 1, 1947.	Bankers Trust Co.	$10,500,000	101.7799	103 flat	Purchase Selling	101.7799–102⅛ 102⅛–103	$5,250,000 1,250,000	1,250,000	10,744.98 10,937.50
Mar. 23, 1927	Chicago, Burlington & Quincy R.R. Co. first mortgage, 4½-percent bonds, B, due Feb. 1, 1977.	J. P. Morgan & Co.	$30,000,000	(1)	97	Distributing	95½–97	250,000	200,000	3,142.50
Feb. 1, 1927	Chile, Republic of, 6-percent external bonds, due Feb. 1, 1961.	Hallgarten & Co.	27,500,000	(1)	93¼	Banking Selling	90¼– 91 91– 93¼	250,000 250,000	250,000	1,250.00 4,860.00
June 9, 1927	Cities Service Power & Light Co. $6 cumulative preferred stock.	A. B. Leach & Co.	75,000 shares.	87⅙	92¾	Original Selling	$87⅙–$89¼ $89¼–$92¾	[2] 7,500 [2] 3,750	[2] 3,750	14,240.18 9,023.50
May 3, 1927	Columbia Gas & Electric Corporation 5-percent debentures, due May 1, 1952.	Guaranty Co.	$40,000,000	(1)	100	Banking Selling	98– 98½ 98½– 100	$250,000 352,000	$352,000	937.50 5,145.00
Jan. 19, 1927	Consolidated Gas Co. of N.Y., $5 cumulative preferred stock underwriting (offered by company to its stockholders at $91 per share.	National City Co.	1,200,000 [2]	(1)	91	Banking Underwriters	$88½–$89 $89–$91	[2] 25,000 [2] 25,000		12,500.00 48,729.08
June 30, 1927	Cuba, Republic of, serial 5½-percent bonds, due July 1928–37, inclusive.	J. P. Morgan & Co.	$9,000,000	100	101.122 average.	Purchase Selling	100–100.372 100.372–101.122	$900,000 250,000	$250,000	1,470.00 1,875.00
Jan. 17, 1927	Danish Export Credit Committee, 4½-percent notes, due Jan. 1, 1929–34, inclusive.	Guaranty Co.	$1,100,000	96.37	98.41 average	Original	96.37–98.41	308,000	375,000	4,937.88
Oct. 19, 1927	Danish Export Credit Committee, guaranteed 4½-percent notes, due semiannually Nov. 1, 1928–34, inclusive.	do	$3,000,000	95.949	98.053, average.	Purchase Selling	95.949–97.053 97.053–98.053	744,000 680,000	680,000	5,704.23 6,600.00

[1] Not known.

[2] Shares.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Jan. 7, 1927	Dominican Republic Customs Administration 5½-percent bonds, first series, due Oct. 1, 1940.	Lee Higginson & Co.	$5,000,000	98.07	100	Purchase Selling	98.07–99 99–100	$1,000,000 1,000,000	 $1,000,000	$8,874.41 8,788.75	
Apr. 1, 1927	Duquesne Light Co. first mortgage 4½-percent bonds, due Apr. 1, 1967.	Ladenburg, Thalmann & Co.	$55,000,000	(1)	95	do	93½–95	500,000	500,000	6,875.00	
Apr. 5, 1927	Federal Land Bank 4¼-percent bonds, due May 1, 1957.	Alex. Brown & Sons, Baltimore.	$100,000,000	(1)	101¼	do	100½–101¼	500,000	500,000	3,568.20	

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Sept. 26, 1927	General Cable Corporation Purchase Account Group formed to purchase the following securities:	Kissell, Kinnicutt & Co.									
	General Cable Corporation first mortgage 5½-percent bonds, due July 1, 1947.		$4,318,000	94.174		Purchase account.	94.174–97	2,159,000			
	Class A stock		5,000 shares	$50		do	$50–$52½	[2] 2,500			
	7 percent cumulative preferred stock (with warrants).		25,000 shares	$100		do	$100–$96.20 on 12,500 shares, $100–$100 on 6,250 shares, $100–$105 on 6,250 shares.	[2] 12,500	[2] 6,250	690, 809. 30	[3].
	Common stock		172,232 shares.	$11.263876		do	$11.263876–$24.504 on 96,366⅔ shares, balance unsold.	[2] 86,116			
	The above group also handled several commission orders and small trading accounts—Dillon, Read & Co.'s share profit reflected in figure in column (11).										
Jan. 29, 1927	General Motors Acceptance Corporation 6 percent debentures, due Feb. 1, 1937.	J. P. Morgan & Co.	$50,000,000	[1]	100	Distribution	98–100	$250,000	300,000	5, 172. 50	
Feb. 15, 1927	General Motors Corporation 7 percent preferred stock.	do	250,000 shares.	[1]	$120	do	$118–$120	[2] 2,500	[2] 2,500	4,670. 00	
Oct. 6, 1927	Great Western Sugar Co., common stock.	White, Weld & Co	200,000 shares.	[1]	$41.15	Special	$37½–$38½	[2] 10,000		6,946. 89	
						Banking	$38½–$39½	[2] 10,000		7,500. 00	
						Selling	$39½–$41.15	[2] 10,000	[2] 10,000	14,000. 00	
Jan. 7, 1927	Gulf Oil Corporation of Pennsylvania 5 percent debentures, due Feb. 1, 1947.	Union Trust Co., Pittsburgh.	$35,000,000	[1]	100	Banking	98–98½	1,000,000		4,100. 00	
						Selling	98½–100	1,000,000	1,000,000	14,130. 00	
June 6, 1927	Hudson Coal Co., first mortgage 5 percent bonds due June 1, 1962.	Kuhn, Loeb & Co.	$35,000,000	[1]	98½	Distributing	96½–98½	250,000	350,000	5,420. 70	

[1] Not known.
[2] Shares.
[3] 37,932⅔ shares common taken up at $11.263876 per share.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Mar. 31, 1927	Humble Oil & Refining Co., 5-percent debentures, due Apr. 1, 1937.	J. P. Morgan & Co.	$25,000,000	(1)	$100	Distributing	$98½–100	$250,000	$250,000	$3,272.50	
Oct. 4, 1927	International Combustion Engineering Corporation $7 cumulative preferred stock.	Otis & Co.	50,000 shares	(1)	$101	Purchase Banking Selling	$94–$97 $97–$98 $98–$101	[2] 10,000 [2] 5,904 [3] 10,000	[2] 10,000	23,956.37 4,428.00 30,000.00	
Nov. 5, 1927	International Match Corporation 5-percent debentures, due Nov. 1, 1947.	Lee, Higginson & Co.	$50,000,000	(1)	98½	Banking Selling	96½–97 97–98½	2,000,000 1,000,000	1,000,000	8,862.70 13,500.00	
June1 4, 1927	International Telephone & Telegraph Corporation 4½-percent debentures, due July 1, 1952.	J. P. Morgan & Co.	$35,000,000	(1)	92	Distributing	90-92	250,000	300,000	4,880.00	

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Federal Reserve Bank of St. Louis

Dec. 3, 1927	Irish Free State external 5-percent loan, due Nov. 1, 1960.	National City Co.	$15,000,000	(1)	97	Distributing Selling	95–95½ 95½–97	250,000 800,000	800,000	546.19 10,927.38
Apr. 25, 1927	Jugoslavia, State Mortgage Bank of, secured 7-percent bonds, due Apr. 1, 1957.	J. & W. Seligman & Co.	$12,000,000	87	92	Purchase Selling	87–89 89–92	5,400,000 750,000	750,000	57,213.92 20,326.25
Nov. 2, 1927	Keith (B. F.) Corporation first and general refunding mortgage 6-percent bonds, A, due Mar. 1, 1946.	Bankers Trust	$2,000,000	96	100	Purchase Selling	96–97¾ 97¾–100	500,000 300,000	300,000	7,204.75 6,750.00
Feb. 7, 1927	Lake St. John Power & Paper Co., Ltd., first mortgage 6½-percent bonds, A, due Feb. 1, 1947.	Dominion Securities Corporation, Ltd.	$5,000,000	(1)	99½	Banking Distributing	95–96½ 96½–99½	500,000 500,000	500,000 **50,000	7,500.00 14,375.00 **437.50
Sept. 8, 1927	Libby, McNeill & Libby first mortgage 5-percent bonds, due Oct. 1, 1942.	Harris Trust & Savings Bank, Chicago.	$12,500,000	(1)	97½	Purchase Banking Selling	94½–95½ 95½–96 96–97½	1,500,000 1,218,000 250,000	250,000	14,983.69 4,567.50 3,538.62
May 18, 1927	Lone Star Gas Corporation 5-percent debentures, due May 1, 1942.	Union Trust Co., Pittsburgh.	$15,000,000	(1)	98¾	Banking Selling	96¾–97¼ 97¼–98¾	250,000 100,000	100,000	942.50 1,500.00
June 21, 1927	P. Lorillard Co. 5½-percent debentures, due July 1, 1937.	Guaranty Co.	$15,000,000	(1)	97½	Banking Selling	95–95¾ 95¾–97½	200,000 250,000	250,000	1,000.00 4,375.00
Jan. 31, 1927	Missouri Pacific R.R. Co. first and refunding mortgage 5-percent bonds, F, due Mar. 1, 1977.	Kuhn, Loeb & Co.	$95,000,000	(1)	100	Distributing	98¼–100	600,000	650,000	9,909.16
Aug. 24, 1927	New England Gas & Electric Association 5-percent convertible debentures, due Sept. 1, 1947.	Harris, Forbes & Co.	$17,000,000	(1)	99	Banking Selling	96¼–97 97–99	400,000 200,000	200,000	2,467.42 3,575.00
Oct. 18, 1927	New York Power & Light Corporation first mortgage 4½-percent bonds, due Oct. 1, 1967.	Bonbright & Co.	$66,000,000	(1)	96	Banking Selling	94–94½ 94½–96	500,000 500,000	500,000	2,500.00 7,137.50
Feb. 1, 1927	New South Wales (Australia), State of, external 5-percent bonds, due Feb. 1, 1957.	Equitable Trust Co., N.Y.	$25,000,000	(1)	96¼	Banking Selling	93¾–94¼ 94¼–96¼	250,000 519,000	519,000	937.50 9,050.00
Apr. 9, 1927	New South Wales (Australia), State of, external 5-percent bonds, due Apr. 1, 1958.	Equitable Trust Co. of of N.Y.	25,000,000	(1)	96¼	Selling	94¼–96¼	400,000	400,000	7,280.00

[1] Not known.
[2] Shares.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Dec. 9, 1927	Niagara Parks Commission 4-percent debentures, guaranteed by Province of Ontario, due Dec. 1, 1928–47, inclusive.	Dominion Securities Corporation, Ltd., Toronto.	$2,000,000	96.317 Canada.	96⅞ (average).	Purchase	96.317–96⅞	$1,000,000		$5,238.45	
Oct. 26, 1927	Ontario, Province of, 4½ percent bonds, due Nov. 1, 1928–57, inclusive.	National City Co.	24,000,000	99.3079	1928–32, inclusive, 100¼; 1933/57 inclusive, 100.	do	99.3079–100.0416 (average).	4,800,000	$2,225,000	25,873.73	
Apr. 13, 1927	Paris-Orleans Ry. Co., 6 percent, due 1977.	Mendelssohn & Co., Amsterdam.	20,000,000 florins placed abroad.	(1)	95%	Underwriting	(Underwriting commission 1½%).	1,000,000		6,000.00	

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Feb. 16, 1927	Pernambuco (Brazil), State of, 7 percent external loan, due Mar. 1, 1947.	White, Weld & Co.	$6,000,000	93	97¾	Purchase	93–94	2,000,000		11,427.51
						Special	94–95	1,750,000		17,500
						Banking	95–95½	503,333		1,887.50
						Selling	95½–97¾	200,000	200,000	3,825
Dec. 20, 1927	Peru Republic of, 6-percent loan, due Dec. 1, 1960.	J. & W. Seligman & Co.	50,000,000	(1)	91½	Special	88–88½	500,000		1,875
						Banking	88½–89	500,000		1,875
						Selling	89–91½	500,000	500,000	12,500
Oct. 17, 1927	Poland, Republic of, stabilization loan 7-percent bonds, due Oct. 15, 1947.	Bankers Trust Co.	$47,000,000	(1)	92	Banking	88–89	375,000		2,725.31
						Selling	89–92	400,000	400,000	9,620
Apr. 6, 1927	Provincial Paper, Ltd. (Canada), 1st mortgage 5½-percent bonds, due May 1, 1947.	Dominion Securities Corporation, Ltd., Toronto.	5,300,000	(1)	95¼	Selling	92¼–95¼	625,000	625,000	18,501.96
July 27, 1927	Pure Oil Co. 5½-percent notes, due Aug. 1, 1937.	Guaranty Co.	20,000,000	94¼	98	Purchase	94¼–95¼	2,800,000		13,866.49
						Banking	95¼–96	757,000		3,785
						Selling	96–98	500,000	500,000	6,420
Mar. 28, 1927	Rome, City of, 6½-percent external loan of 1927, due Apr. 1, 1952.	J. P. Morgan & Co.	30,000,000	(1)	91	Distributing	89–91	250,000	250,000	4,500
Nov. 26, 1927	San Francisco Bay Toll-Bridge Co. 7-percent participating debentures, due Nov. 1, 1942.	Paine, Webber & Co.	$2,000,000	(1)	99½	Purchase	92–95	444,444		12,570.26
						Banking	95–95½	300,000		1,500.00
						Selling	95½–99½	300,000	300,000	11,170.00
Jan. 12, 1927	San Joaquin Light & Power Corporation unifying and refunding mortgage 5-percent bonds, D, due Jan. 1, 1957.	Peirce, Fair & Co.	$25,000,000	(1)	98½	Selling	96–98½	1,000,000	1,000,000	22,500.00
Jan. 10, 1927	Saskatchewan, Province of, 4½-percent debentures, due Jan. 15, 1957.	Dominion Securities Corporation, Ltd., Toronto.	$1,468,500	94.28 Canada.	95¼	Selling	94.28–95¼	734,250		4,370.62
Apr. 6, 1927	Serbs, Croats & Slovenes, Kingdom of, 7-percent secured gold bonds, B, due May 1, 1962.	Blair & Co.	$30,000,000	(1)	92½	Banking	88½–89½	250,000		1,260.19
						Selling	89½–92½	200,000	200,000	4,895.00
Oct. 26, 1927	Shell Pipe Line Corporation 5-percent debentures, due Nov. 1, 1952.	Lee, Higginson & Co.	$30,000,000	(1)	98	Banking	95½–96	750,000		3,750.00
						Distributing	96–98	600,000	600,000	10,277.80
Apr. 15, 1927	Shell Union Oil Corporation 5-percent debentures, due May 1, 1947.	do	$50,000,000	(1)	99½	Banking	97½–98	1,250,000		6,250.00
						Selling	98–99½	1,000,000	1,000,000	14,587.50

[1] Not known.

[2] Florins.

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Federal Reserve Bank of St. Louis

EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations ind cated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Dec. 20, 1927	Sinclair Crude Oil Purchasing Co. 5½-percent bonds, A, due Jan. 1, 1938.	National City Co.	$42,000,000	(1)	98½	Distributing Selling	96¼–97 97–98½	$750,000 750,000	$750,000	$4,675.12 10,687.50	
June 2, 1927	Southern Pacific Co. Oregon Lines, first mortgage 4½ percent bonds, A, due Mar. 1, 1977.	Kuhn, Loeb & Co.	$20,000,000	(1)	100½	Purchase Selling	99–99¾ 99¾–100½	250,000 100,000	100,000	1,542.17 712.50	
Mar. 19, 1927	Tokio, City of, external 5½ percent bonds, due Oct. 1, 1961.	J. P. Morgan & Co.	$20,640,000	(1)	89½	Distributing	87½–89½	250,000	200,000	4,010.00	
May 18, 1927	Union Pacific R.R. Co. 4½ percent bonds, due July 1, 1967.	Kuhn, Loeb & Co.	$26,835,000	(1)	97¼	Purchase Selling	95¾–96½ 96½–97¼	300,000 100,000	100,000	1,918.59 727.50	

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Nov. 11, 1927	Vancouver (B.C.), City of, 4½ percent debentures, due Aug. 1, 1942 and 1967.	Dominion Securities Corporation, Ltd., Toronto.	$500,000 due 8/1/42. $635,000 due 8/1/67.	97.27 Canadian. do	4.60 percent basis. do	Distributing do	97.27—4.60 97.27—4.60 percent.	250,000 317,500	296,000 10,000	5,423.04
Jan. 18, 1927	Victor Talking Machine Co. 7 percent cumulative prior preferred stock.	J. & W. Seligman & Co.	165,000 shares	(1)	$98	Selling	$94½–$98	[2] 10,430	[2] 10,430	30,162.50
Jan. 19, 1927	Victor Talking Machine Co. $6 cumulative convertible preferred stock.	do	95,000 shares	(1)	$90	do	$87–$90	[2] 6,971	[2] 6,971	19,612.00
Nov. 30, 1927	Vienna, City of, external loan 6 percent bonds, due Nov. 1, 1952.	National City Co.	$30,000,000	(1)	90½	Original Purchase Distributing Selling	86½–87 87–87½ 87½–88½ 88½–90½	2,100,000 1,500,000 1,000,000 800,000	 800,000	6,300.00 7,380.36 9,000.00 14,439.26
Nov. 21, 1927	Youngstown Sheet & Tube Co. first mortgage 5 percent bonds, A, due Jan. 1, 1978.	Kuhn, Loeb & Co.	$75,000,000	(1)	101	Distributing	99–101	750,000	900,000	15,180.81
Sept. 25, 1928	Aero Underwriters Corporation capital stock.	Paine Webber & Co.	115,000 [2]	$30	$35	Purchase Underwriting Banking Selling	$30–$31 $31–$31½ $31½–$32½ $32½–$35	[2] 38,333⅓ [2] 20,000 [2] 20,000 [2] 19,700	 [2] 19,700	$30,000.00 10,000.00 19,173.70 28,308.97
June 6, 1928	Aluminum, Ltd., 5-percent debenture bonds, due July 1, 1948.	Union Trust Co. Pitts.	$20,000,000	(1)	100	Banking Selling	98–98½ 98½–100	250,000 250,000	 250,000	1,012.50 3,750.00
Mar. 31, 1928	American Gas & Electric Co. 5-percent debentures, due 2028.	Bonbright & Co.	$50,000,000	(1)	101	Banking Selling	99¼–99¾ 99¾–101	400,000 400,000	 400,000	2,000.00 4,751.54
Jan. 7, 1928	American Rolling Mill Co. 5-percent debentures, due Jan. 1, 1948.	Harris, Forbes & Co.	$25,000,000	(1)	99½	Banking Selling	96½–97¾ 97¾–99½	500,000 500,000	 500,000	6,122.46 7,850.00
Jan. 22, 1928	Associated Gas & Electric Co. convertible 4½ percent debentures, due Jan. 15, 1949.	do	25,000,000	(1)	95	Banking Selling	92–92¾ 92¾–95	175,000 250,000	 250,000	1,134.75 5,312.50
May 7, 1928	Australia, Commonwealth of, 4½-percent external loan, due May 1, 1956.	J. P. Morgan & Co.	$50,000,000	(1)	92½	Distributing	91=92½	250,000	200,000	3,337.50
Sept. 14, 1928	Banca Commercial Italiana (Milan) American shares.	Field, Glore & Co.	125,000 [2]	$68.871	$72½	Purchase Banking Selling	$68.871–$69¾ $69¾–$70¼ $70¼–$72½	[2] 15,625 [2] 6,450 [2] 3,000	 [2] 3,000	31,509.28 3,225.00 2,103.75
Sept. 18, 1928	British Columbia, Province of, 25-year 4½'s, due Oct. 1, 1953.	Dominion Sections Corporation Ltd.	$6,000,000	92¾	93¾	Selling	92¾–93¾	$1,200,000	$600,000	10,642.00

[1] Not known.

[2] Shares.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by other than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Dec. 6, 1928	Chain Store Stocks, Inc., capital stock, no par.	Shields & Co.	300,000 shares	(1)	$37½	Banking	$34¾–$35½	[2] 12,500		$9,375.00	
						Distributing	$35½–$37½	[2] 12,500	[2] 14,841	26,769.75	
Apr. 25, 1928	Chicago, Milwaukee & St. Paul Ry. Co., general mortgage 4½ percent bonds, E, due May 1, 1989.	Kuhn, Loeb & Co.	$24,000,000	(1)	102½	Purchase	101–101½	$250,000		920.30	
						Selling	101½–102½	200,000	$200,000	1,850.00	
Jan. 23, 1928	Chile, Republic of, external railway ref. 6 percent loan, due Jan. 1, 1961.	National City Co.	$45,912,000	(1)	93½	Distributing	90½–91½	$1,000,000		7,931.97	
						Selling	91½–93½	1,000,000	1,000,000	18,750.00	
Aug. 31, 1928	Chile, Republic of, external 6½ percent loan, due Sept. 1, 1961.	do	$16,000,000	(1)	94	Distributing	91–92	300,000		1,965.98	
						Selling	92–94	240,000	240,000	4,060.00	

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Apr. 9, 1928	Cincinnati Gas & Electric Co. 1st 4 percent bonds, due Apr. 1, 1968.	Guaranty Co	$35,000,000	(1)	92½	Banking Selling	90¾–91¼ 91¼–92½	250,000 250,000	250,000	905.61 2,637.50	
July 2, 1928	Compania Hispano American de Electricided (Chade) capital stock (American shares).	do	20,000 shares	500 Swiss francs.	$115½	Purchase Distributing	500 Swiss francs–$104½ $104½–$115½	[2] 2,500 [2] 1166⅔	[2] 718	20,100.53 10,181.93	
Oct. 18, 1928	Danish Producers Loan Fund Committee 5 percent serial bonds, due July 1, 1931–40, inclusive.	do	$2,500,000	98	97⅛ (average)	Purchase	98–96⅛	$310,000			(5)
Apr. 5, 1928	Denmark, Kingdom of, external 4½ percent loan, due Apr. 15, 1962.	do	$55,000,000	93.037	95	Purchase Banking Selling	93.037–93¼ 93¼–93¾ 93¾–95	$15,000,000 3,585,000 2,500,000	$2,500,000	20,745.71 16,528.46 30,150.00	
Jan. 25, 1928	Dominican Republic 5½ percent bonds, due Oct. 1, 1940.	Lee, Higginson & Co.	$5,000,000	97.29	99¼	Purchase Selling	97.29–98¼ 98¼–99¼	$1,250,000 $561,000	$561,000	$7,537.20 5,610.00	
Feb. 20, 1928	General Cable Co. 7-percent cumulative preferred stock.	Kissel, Kinnicutt & Co.	23,971 shares	$104.541 (average).	$107	Purchase	$104.541–$107	[2] 11,985	[2] 11,985	26,581.02	
May 31, 1928	German Provincial & Communal Banks, consolidated agricultural 6½-percent loans, due June 1, 1958.	Lee, Higginson & Co.	$25,000,000	(1)	97½	Banking Selling	95–95½ 95½–97½	$250,000 250,000	$250,000	937.50 4,940.00	
Apr. 11, 1928	International Cement Corporation Convertible 5-percent Debentures, due May 1, 1948.	Hayden, Stone & Co.	$18,000,000	(1)	97	Banking Selling	94¼–95 95–97	250,000 200,000	200,000	1,819.44 3,750.00	
Jan. 23, 1928	Italian Superpower Corporation 6-percent Debentures (with warrants), due Jan. 1, 1963.	Bonbright & Co.	$20,250,000	(1)	100	Banking Selling	96½–97¼ 97¼–100	250,000 250,000	250,000	1,875.00 5,937.25	
Dec. 7, 1928	Karstadt (Rudolph), Inc. Capital Stock (American Shares—40 RM each).	Scholle Bros.	105,000 (American shares).	About $19.12.	$22½	Purchase Selling	$19.12–$21⅜ $21⅜–$22½	[2] 34,650 [2] 29,000	[2] 29,000	57,969.13 16,267.50	
Jan. 30, 1928	Keith Albee Orpheum Corporation 7-percent Conv. Preferred Stock.	Lehman Bros.	100,000 shares.	$93¼	$101	Purchase	$93¼–$98	[2] 10,000		[6] 52,906.37	(7)
	Common stock	do	50,000 shares.	$21½	$24	do	$21½–$23	[2] 5,000			
Sept. 19, 1928	Krueger & Toll Co., participating 5-percent debentures, American certificates (each American certificate 20 kronen).	Lee, Higginson & Co.	1,000,000 certificates.	(1)	$28.14 per certificate.	Banking Distributing	$27.30–$27.44 $27.44–$28.14	[8] 17,800 [6] 8,900	[6] 8,900	2,492.00 5,714.60	

[1] Not known.
[2] Shares.
[5] Dillon, Read & Co. reallotted entire amount.
[6] Includes Dillon, Read & Co.'s share of profit from exercise of option to purchase 50,000 additional shares common at $25 per share.
[7] 2,000 shares common taken up at $25 per share.
[8] Certificate.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
May 22, 1928	Missouri, Kansas & Texas R.R. Co. common stock underwriting (offered by company to its stockholders at $33 per share).	Ladenburg, Thalman & Co.	$287,616 shares	(1)	$33	Underwriting	$31.82½-33	2 10,000		$20,407.48	
Dec. 5, 1928	New York, Chicago & St. Louis R.R. Co., refund 4½-percent bonds, due Sept. 1, 1978.	Guaranty Co.	$11,275,000	(1)	94¼	Banking Selling	92¾-93⅛ 93⅛-94¼	$300,000 300,000	 $300,000	1,724.95 3,363.75	
Feb. 8, 1928	Nippon Electric Power Co. Ltd. first mortgage 6½-percent bonds, due Jan. 1, 1953.	Harris, Forbes & Co.	$9,000,000	(1)	94	Purchase Selling	89⅞-92 92-94	1,350,000 1,000,000	 1,000,000	24,772.34 18,750.00	

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Mar. 6, 1928	Norway, Kingdom of, 5-percent external loan due Mar. 15, 1963.	Guaranty Co.	$30,000,000	95.17	97½	Purchase Banking Selling	95.17–95¾ 95¾–96¼ 96¼–97½	7,000,000 2,368,000 2,000,000	 2,000,000	34,446.10 6,418.79 24,787.50	
Oct. 29, 1928	Oriental Development Co. Ltd. external 5½-percent loans, due Nov. 1, 1958.	National City Co.	$19,900,000	(1)	90	Distributing Selling	87–87¾ 87¾–90	1,000,000 800,000	 800,000	5,025.83 15,087.50	
Nov. 7, 1928	Pennsylvania Co. 4¾-percent bonds, due Nov. 1, 1963.	Kuhn, Loeb & Co.	50,000,000	(1)	99	Distributing	97⅛–99	500,000	450,000	7,914.35	
Oct. 23, 1928	Peru, Republic of Peruvian National 6-percent loan, 2d series, due Oct. 1, 1961.	J. & W. Seligman & Co.	$25,000,000	(1)	91	Special Banking Selling	87½–88 88–88½ 88½–91	$250,000 250,000 250,000	 $250,000	937.50 937.50 5,818.75	
Feb. 11, 1928	Pittsburgh Steel Co. 6-percent debentures, due Feb. 1, 1948.	Union Trust Co., Pitts.	$11,000,000	(1)	101	Banking Selling	99–99 99–101	250,000 125,000	 125,000	2,312.50 2,500.00	
Oct. 11, 1928	Protestant Central Credit Union of Hungary 7-percent bonds, due Sept. 1, 1963.	E. H. Rollins & Sons, N.Y.	$1,250,000	91	No public offering.	Original	91	250,000			$250,000 taken up at 91.
Feb. 28, 1928	Rio de Janeiro, City of, 6½-percent external loan, due Feb. 1, 1953.	White, Weld & Co.	$30,000,000	(1)	97	(9)	(9)	(9)		10,926.84	
Sept. 12, 1928	Rochester Central Power Corporation 5-percent debentures, due Sept. 1, 1953.	Manufacturers Tr. Co.	$22,500,000	(1)	90	Special Selling	87–87½ 87½–90	800,000 800,000	 800,000	4,000.00 17,905.00	
Mar. 1, 1928	St. Louis-San Francisco Ry. Co. consolidated mortgage 4½-percent bonds, A, due Mar. 1, 1978.	Speyer & Co.	$100,000,000	(1)	97	Distributing	95½–97	500,000	500,000	6,345.00	
Mar. 1, 1928	St. Louis-San Francisco Ry. Co. 6 percent preferred stock underwriting (offered by company to its stockholders at $100 per share.)	Speyer & Co.	491,574 shares	(1)	100	Syndicate	(Underwriting commission 50 cents per share.)	[2] 10,000		4,821.30	
July 19, 1928	Societe Generale Forces Hydro Electrique Du Katanga 31-year 6 percent guaranteed bonds.	Mendelssohn & Co., Amsterdam.	[4] 12,000,000	(1)	97 sold in Holland.	Special	1½ percent	[4] 1,000,000		6,030	
Jan. 30, 1928	Southern Pacific Co. 40-year 4½ percent bonds, due Mar. 1, 1968.	Kuhn, Loeb & Co.	$29,400,000	(1)	99¾	Purchase Selling	98¼–99 99–99¾	250,000 150,000	 150,000	1,463.49 1,042.50	

[1] Not known.
[2] Shares.
[4] Florins.
[9] Dillon, Read & Co. did not participate in issue, but was ceded an interest of $1,500,000 from International Acceptance Bank, which had an interest of $5,000,000 in the business on original terms.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Jan. 24, 1928	Temiskaming & Northern Ontario Ry. Commission 4 percent debentures, due Feb. 1, 1939–68, inclusive.	Dominion Securities Corporaton, Ltd., Toronto.	$6,000,000	96.6329 Canada.	4.15 to 4.20 percent; sold in Canada.	Purchase	96.6329–4.20 percent basis on $1,045,000 4.80–1 percent basis on $4,955,000 (Canada terms).	$3,000,000		*259,123.43*	
June 4, 1928	Tokyo Electric Light Co. first mortage 6 percent bonds, due June 15, 1953.	Guaranty Co.	$70,000,000	(1)	90½	Special	87–87¾	7,625,915		47,661.97	
						Banking	87¾–88½	3,000,000		12,500.00	
						Selling	88½–90½	3,000,000	$3,000,000	59,860.00	
Mar. 31, 1928	United Fuel Investments, Ltd., 6 percent cumulative preferred stock (with common stock bonus).	Dominion Securities Corporation Ltd., Toronto.	[2] 90,000	(1)	$100	Banking	$96–97	[2] 2,500		2,500.00	
						Selling	$97–100	[2] 2,500	[2] 2,500	7,187.50	

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Apr. 4, 1928	Wheeling Steel Corporation first and Refunding mortage 4½ percent bonds, B, due Apr. 1, 1953.	Lee, Higginson & Co. N.Y.	$21,000,000	90½	93	Purchase Banking Selling	90½–91 91–91½ 91½–93	4,200,000 4,100,000 1,500,000	 1,500,000	21,000.00 17,479.50 22,200.00
Jan. 31, 1929	Allegheny Corporation 5½-percent cumulative preferred stock, series A (with warrants), $100 par.	Guaranty Co.	250,000 shares	(1)	$100	Special Banking Distributing	$97–$97¾ $97¾–$98½ $98½–$100	[2] 10,000 [2] 7,500 [2] 5,000	 [2] 5,000	6,853.86 4,800.76 7,187.50
Do	Allegheny Corporation common stock, no par.	do	No specific amount.	(1)	$24	Special Distributing	$22–$23½ $23½–$24	[2] 20,000 [2] 10,000	 [2] 10,000	31,446.19 5,000.00
May 14, 1929	Allegheny Corporation 5½-percent cumulative preferred stock, series A (with warrants), $100 par.	do	250,000 shares	(1)	$100	Special Banking Distributing	$97–$97¾ $97¾–$98½ $98½–$100	[2] 10,000 [2] 7,500 [2] 6,500	 [2] 6,500	5,000.00 3,750.00 7,035.50
Aug. 13, 1929	American Equities Co. common stock, no par.	E. H. Rollins & Sons.	600,000 shares	$26	$29½	Special blocked sales. Purchase Distributing	No profit $26–$28¼ $28¼–$29½	 [2] 10,000 [2] 10,000	[2] 6,000 [2] 10,000	 17,500.00 11,250.00
Apr. 25, 1929	American I. G. Chemical Corporation guaranted 5½-percent debentures, due May 1, 1949.	National City Co.	$30,000,000	(1)	95	Distributing Selling	92–93 93–95	250,000 250,000	 250,000	1,594.76 4,375.00
Dec. 2, 1929	Beauharnois Power Corporation, Ltd., 6-percent collateral trust bonds, due Oct. 1, 1959.	Dom. Sec. Corp., Ltd., Toronto.	$30,000,000	(1)	100	Special Banking Selling	93½–95 95–96 96–100	250,000 250,000 250,000	 	3,750.00 2,500.00 5,000.00
Apr. 26, 1929	Bethlehem Steel Corporation common stock underwriting (offered by company to its stockholders at $85 per share).	Guaranty Co.	600,000 shares	(1)	$85	Underwriting	Underwriting commission 1 percent on amount subscribed; 2 percent on amount not subscribed.	[2] 5,000		6,368.17
Sept. 11, 1929	Bethlehem Steel Corporation common stock underwriting (offered by company to its stockholders at $110 per share).	do	800,000 shares	(1)	$110	Underwriting	Underwriting commission 1 percent on amount subscribed, 2 percent on amount not subscribed.	[2] 6,500	[2] 3,234	*42,383.69*

[1] Not known.

[2] Shares.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
June 27, 1929	Canadian Pacific 5 percent equipment trust certificates, due July 1, 1944.	National City Co.	$30,000,000	(1)	99½	Distributing Selling	98–98½ 98½–99½	$1,000,000 800,000	$800,000	$4,574.48 5,950.00	
Aug. 30, 1929	Chemical National Associates, Inc., common stock, no par.	Chemical National Co.	1,500,000 shares.	(1)	$27	Syndicate	$25–$27	[2] 243,750		460,208.05	[10].
Sept. 10, 1929	Chicago & Northwestern Ry. Co. 4¾ percent convertible bonds, due 1949.	Kuhn, Loeb & Co.	$72,335,000	(1)	100	do	98½–100	600,000	400,000	8,649.10	
Mar. 9, 1929	Chile, Republic of, external 6 percent loan, due Mar. 1, 1962.	National City Co.	$10,000,000	(1)	93½	Distributing Selling	90½–91½ 91½–93½	250,000 200,000	200,000	1,653.62 1,150.00	

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Feb. 13, 1929	Copenhagen Telephone Co. external 5-percent bonds, due Feb. 15, 1954.	Guaranty Co.	$7,000,000	(1)	94¾	Purchase Distributing	92¼–92¾ 92¾–94¾	2,100,000 250,000	 250,000	11,945.90 4,235.82	
Mar. 23, 1929	Electric Bond & Share Co. $6 cumulative preferred stock, no par.	Bonbright & Co.	250,000 shares	(1)	$106	Banking Distributing	$103–$103½ $103½–$106	[2] 5,000 [2] 5,000	 [2] 5,000	2,500.00 12,500.00	
Oct. 16, 1929	Firestone Tire & Rubber Co. 6 percent cumulative preferred stock, A, (with warrants) $100 par.	Otis & Co., New York.	600,000 shares	(1)	$99	Special Banking Distributing	$95–$95½ $95½–$96½ $96½–$99	[2] 7,500 [2] 7,500 [2] 10,000	 [2] 10,000	3,750.00 6,337.50 17,250.00	
Jan. 29, 1929	General Realty & Utilities corporation 6 percent preferred stock, option dividend series.	Lehman Bros.	300,000 shares	$95	(1)	Underwriting	(1)	[2] 10,000		11,208.81	
	Common stock		810,000 shares	$10	(1)	do	(1)	[2] 65,000	[2] 45,000	39,021.12	(11).
Jan. 31, 1929	General Realty & Utilities Corporation 6-percent preferred stock, optional dividend series (with warrants).	Lehman Bros.	[2] 300,000	(1)	$100	Distributing	$97½–$100	[2] 10,000	[2] 10,000	18,540.00	
Mar. 15, 1929	Globe Underwriters' Exchange, Inc., capital stock, no par.	Paine, Webber & Co., New York.	[2] 500,000	$21	$25	Original Special Banking Distributing	$21–$22½ $22½–$23 $23–$23½ $23½–$25	[2] 150,000 [2] 96,345 [2] 20,000 [2] 118,670	 [2] 118,670	8,773.67 48,172.50 8,000.00 122,185.00	(12).
Mar. 6, 1929	Kreuger & Toll Co. 5-percent secured debentures (with warrants), due Mar. 1, 1959.	Lee Higginson & Co.	$26,500,000 (American portion).	(1)	$98	Banking Distributing	95½–96 96–98	1,000,000 750,000	 791,000	5,000.00 11,527.50	
Nov. 11, 1929	Kreuger & Toll Co. 5-percent participating debentures, American certificates (each American certificate 20 kronen) purchase and trading account.	do	[3] 1,000,000	$28	Various, as sold at prevailing market prices.	Purchase Trading account.	$28–various (1)	[3] 35,600 [3] 17,800	[3] 89,287	206,967.37	
Nov. 14, 1929	Kreuger & Toll Co. 5-percent participating debentures, American certificates underwriting (offered by company to its stockholders at $23 per certificate).	do	Approximately 1,304,491 certificates.		$23 per certificate.	Underwriting	Underwriting commission, 2 percent on money involved.	[3] 46,434		21,617.11	

[1] Not known.
[2] Shares.
[3] Certificates.
[10] Warrants to buy 40,625 shares common.
[11] 20,000 shares common taken up at $10 per share. Options to buy 12,653 additional shares common.
[12] Warrants to buy 30,000 shares.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Jan. 24, 1929	Kuhlmann, Etablissements, capital stock, francs 250 par value. Underwriting (offered by company to its stockholders at francs 725 per share).	Credit Commerciale de France.	[2] 200,000	----------	725 francs per share.	Underwriting	Underwriting commission, 17½ francs.	[2] 40,000	----------	$6,701.81 **6,701.81	---------- ----------
Mar. 14, 1929	Missouri Pacific R.R. Co. convertible 5½ per cent bonds, A, due May 1, 1949, underwriting (offered by Co. to its stockholders at 97½).	Kuhn, Loeb & Co.	$46,392,000	(1)	97½	do	Underwriting commission, 1½ percent.	$350,000	----------	$5,585.01	

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Nov. 12, 1929	New York, Chicago & St. Louis R.R. Co. 3-yr. 6 percent notes, due Oct. 1, 1932.	Guaranty Co.	20,000,000	(1)	100	Banking Distributing	98½–99 99–100	1,050,000 500,000	 $500,000	3,937.50 2,500.00	
Nov. 18, 1929	Northwest Bank corporation common stock underwriting (offered by company to its stockholders at $72½ per share).	A. G. Becker & Co., Chicago.	150,000 to 175,000 shares.	(1)	$72½	Underwriting	Underwriting commission; $1 per share on amount subscribed, $2 on amount not subscribed.	[2] 5,000	[2] 4,850	*124,711.64*	
May 6, 1929	Ontario, Province of, 5 percent bonds, due May 1, 1959.	National City Co.	$25,000,000	99.15 Canada	100	Purchase Distributing	99.15–99⅜ 99⅜–100	3,571,429 920,000	 920,000	31,604.30 5,750.00	
Aug. 21, 1929	Penn. Dock & Warehouse Co. leasehold mortgage 6 percent bonds, due Aug. 1, 1949.	do	5,750,000	92½	98	Original Purchase Distributing Selling	92½–93½ 93½–94½ 94½–95½ 95½–98	1,150,000 1,150,000 913,000 700,000	 700,000	7,666.66 5,558.34 4,934.29 8,062.50	(13).
Oct. 8, 1929	Pennroad Corporation common stock underwriting (voting trust certificates) no par (offered by company to its stockholders at $16½ per share.)	Kuhn, Loeb & Co.	3,025,000 shares.	(1)	$16½	Underwriting	Underwriting commission; $1 per share on amount subscribed, $1½ per share on amount not subscribed.	[2] 25,000	[2] 15,000	2,317.62	
Jan. 22, 1929	Petroleum Corporation of America capital stock, part paid.	Blair & Co.	3,250,000 shares.	(1)	$34	Banking Distributing	31⅝–32¼ 32¼–34	[2] 15,000 [2] 15,000	 [2] 15,000	*1,901.89* 15,991.50	(14).
May 21, 1929	Richfield Oil Co. of California first mortgage and collateral trust 6 percent convertible bonds, A, due May 1, 1944.	Hemphill, Noyes & Co.	$25,000,000	(1)	99	Special Banking Distributing	94–95 95–96 96–99	500,000 500,000 500,000	 500,000	4,023.98 4,024.00 13,447.50	
Feb. 13, 1929	Roumania Monopolies Institute, Kingdom of, 7 percent loan due Feb. 1, 1959.	Blair & Co.	12,000,000	82	88	Original Special Banking Selling	82–83½ 83½–84 84–85 85–88	4,000,000 2,445,000 1,210,200 750,000	 750,000	194,055.40 9,168.75 7,563.75 18,782.50	
Sept. 12, 1929	Shell Union Oil Corporation 5-percent bonds (with warrants), due Oct. 1, 1949.	Lee, Higginson & Co.	$50,000,000	(1)	100	Banking Distributing	97¼–98¼ 98¼–100	$1,250,000 1,000,000	 $1,000,000	12,111.46 15,387.00	

[1] Not known.
[2] Shares.
[13] 4,333 shares common.
[14] Warrants to buy 1,314 shares.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

(Italic figures indicate bases)

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
June 24, 1929	Shell Union Oil Corporation 5½-percent cumulative convertible preferred stock, $100 par.	Lee, Higginson & Co.	[2] 400,000	[1]	98	Banking	95–96	[2] 10,000		$4,156.82	
						Distributing	96–98	[2] 7,500	[2] 7,500	15,000.00	
July 25, 1929	Shenandoah Corporation optional preferred Stock, $50 par.	Goldman Sachs & Co.	[2] 1,000,000	[1]	50	[1] Underwriting preferred.	1¼ percent of dollar value.	[2] 20,000		11,820.86	
						[1] Underwriting common.		[2] 20,000			
	Common stock, no par	do	[2] 1,000,000	[1]	17½	Distributing (preferred).	$48¼–50	[2] 7,500	[2] 1,850 [2] **5,650	12,875	
						Distributing (common).	$17–17½	[2] 7,500	[2] 1,850 [2] ** 5,650	3,625	

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Mar. 11, 1929	Southern Pacific Co. 4½-percent bonds, due May 1, 1969, underwriting (offered by company to its stockholders at $94).	Kuhn, Loeb & Co.	$65,166,000	[1]	94	Underwriting	Underwriting commission 1½ percent.	[2] 500,000	406,000	6,880.02
Oct. 9, 1929	Texas Corporation 5-percent convertible debentures, due Oct. 1, 1944.	Chase Securities Corp.	100,000,000	[1]	98½	Purchase	95½–96	5,000,000		22,884.67
Feb. 13, 1929	Wesson Oil & Snowdrift Co., Inc., convertible preferred stock, no par.	National City Co.	[2] 400,000	[1]	72½	Distributing Selling	69½–70½ 70½–72½	[2] 5,000 [2] 3,500	[2] 3,500	4,287.73 5,600.00
Mar. 8, 1930	Allegheny Corporation 5½ percent cumulative preferred stock, series A (with warrants), $100 par.	Guaranty Co.	125,000 shares	[1]	98½	Special Banking Selling	95½–96¼ 96¼–97 97–98½	[2] 5,000 [2] 3,750 [2] 2,500	[2] 2,500	$1,489.75 2,297.59 2,908.12
May 26, 1930	Aluminum Limited 6 percent cumulative preferred stock, $100 par.	Union Trust Co., Pittsburgh.	130,000 shares	[1]	99¼	Selling	97–99¼	[2] 2,500	[2] 2,500	5,337.50
June 16, 1930	American & Foreign Power Co. 6-percent cumulative preferred stock, no par.	Bonbright & Co.	250,000 shares	$94	98½	Purchase Special Banking Selling	94–95½ 95½–96 96–96½ 96½–98½	[2] 125,000 [2] 48,150 [2] 24,950 [2] 15,300	[2] 15,300	{** 14,000 {113,762.33 16,575.00 4,975.00 18,680.69
Jan. 10, 1930	American Telephone & Telegraph Co. 5-percent debentures, due Feb. 1, 1965.	J. P. Morgan & Co.	150,000,000	[1]	99½	Syndicate	97½–99½	1,000,000	1,000,000	19,340.00
July 14, 1930	Austria, Republic of, International 7-percent loan, due July 1, 1957.	do	25,000,000	91	95	Original Purchase Selling	91–92 92–93 93–95	1,125,000 500,000 400,000	400,000	9,000.00 3,950.00 6,667.50
Jan. 23, 1930	Baltimore & Ohio R.R. Co. 4½-percent convertible bonds, due Feb. 1, 1960 (offered by company to its stockholders at 95).	Kuhn, Loeb & Co.	63,031,000	[1]	95	Underwriting	Underwriting commission 1½ percent.	500,000		7,591.29
May 24, 1930	Brooklyn Union Gas Co. 5-percent debentures, due June 1, 1950.	National City Co.	18,000,000	[1]	102½	Distributing Selling	100½–101½ 101½–102½	500,000 250,000	250,000	4,176.36 2,500.00
July 7, 1930	Buenos Aires, City of, 6 months Treasury notes, due Jan. 1, 1931.	Chatham & Phenix Corporation, New York.	16,100,000	[1]	100	Selling	99¾–100	255,000	255,000	637.50
Mar. 22, 1930	Buenos Aires, Province of, 6½-percent external bonds, due Aug. 1, 1961.	Harris, Forbes, & Co., New York.	8,000,000	[1]	95½	{Special {Selling	92½–93 93–95½	250,000 250,000	250,000	1,225.00 6,125.00

[1] Not known.

[2] Shares.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

(Italic figures indicate losses)

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Oct. 6, 1930	Canada, Dominion of 4-percent loan, due Oct. 1, 1960.	Chase Securities Corporation.	$100,000,000	(1)	95¼	Selling	94¼–95¼	$250,000	$250,000	$2,343.75	
June 9, 1930	Canadian National Ry. guaranteed 4¾-percent bonds, due June 15, 1955.	Bancamerica Blair Corporation.	50,000,000	(1)	99	Selling	98–99	404,000	404,000	4,040.00	
July 10, 1930	Canadian Pacific Ry. Co. 4½-percent collateral trust bonds, due July 1, 1960.	National City Co.	25,000,000	(1)	98	Distributing Selling	96–96¾ 96¾–98	600,000 550,000	---------- 550,000	4,163.73 6,300.00	
April 10, 1930	Consumers Power Co. first lien and unified 4½-percent bonds, due Nov. 1, 1958.	Bonbright & Co.	20,000,000	(1)	97	Selling	95¼–97	250,000	250,000	4,375.00	

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Feb. 10, 1930	Cuba Public Works, Republic of, 5½-percent bonds, due June 30, 1945.	Chase Securities Corporation.	40,000,000	(1)	98	Special Selling	94½–95½ 95½–98	1,500,000 750,000	750,000	7,500.00 18,500.00
Oct. 16, 1930	Edison Electric Illuminating Co. of Boston, 2-year 4-percent notes, due Nov. 1, 1932.	Lee, Higginson & Co., New York.	20,000,000	(1)	99.62	Selling	99.245–99.62	260,000	260,000	975.00
Jan. 3, 1930	Electric Bond & Share Co. cumulative $5 preferred stock.	Bonbright & Co.	200,000 shares.	(1)	$91½	Banking Selling	$89–$89½ 89½–91½	[2] 5,000 [2] 5,000	[2] 5,000	2,500.00 10,000.00
Feb. 25, 1930	Fox Film Corporation Syndicate formed to underwrite offering to stockholders of $40,000,000 7 percent debentures with warrants and $25,000,000 7 percent cumulative convertible preferred stock.	Bancamerica Blair Corporation.	Not issued			Original Syndicate	Underwriting commission ¾ percent. do	([15]) 8,450,000	([16])	162,500.00
Apr. 29, 1930	Fox Film Corporation, secured 6 percent notes, due Apr. 15, 1931.	Halsey, Stuart & Co.	$55,000,000	(1)	100	Banking Selling	98¼–98¾ 98¾–100	390,000 390,000	390,000	1,712.07 4,387.50
Do	do	Bancamerica Blair Corporation.	[17] $24,750,000 (part of above $55,000,000 issue).	97¾		Original Purchase	[17] 97¾–97¾ [17] 97¾–98¼	([15]) 3,273,700	870,000	365,987.02 6,668.83
June 11, 1930	German Government International 5½ percent loan, due June 1, 1965.	J. P. Morgan & Co.	98,250,000	86	90	Original Underwriting Distributing	86–87 87–87½ 87½–90	4,421,250 2,000,000 1,500,000	1,525,000	35,370.00 10,000.00 30,631.25
Jan. 30, 1930	International Telephone & Telegraph Corporation, 5-percent debentures, due Feb. 1, 1955.	do	$50,000,000	(1)	96½	Distributing	94½–96½	250,000	250,000	4,180.00
May 9, 1930	Japanese Government 5½-percent external loan, due May 1, 1965.	do	do	(1)	90	Intermediate Distributing	87–87½ 87½–90	600,000 400,000	500,000	3,000.00 10,400.00
Mar. 13, 1930	Missouri Pacific R.R. Co. first and refunding 5-percent bonds, due Apr. 1, 1980.	Kuhn, Loeb & Co.	25,000,000	(1)	100¼	Selling	99–100¼	300,000	300,000	3,125.00

[1] Not known.
[2] Shares.
[15] One third interest.
[16] Entire amount reallotted.

[17] The original group purchased the above $24,750,000 notes from Halsey, Stuart & Co. at 97¾, with warrants for 80,000 shares Class A stock and some General Theatres Equipment Common stock. The warrants were sold for $1,660,000 and the stock for $60,075. The purchase group took over the notes at 97¾, with one half of the $1,660,000 above referred to. The original group received one third of the net profits of the purchase group. The purchase group sold the notes in part to the Halsey, Stuart & Co. banking group above, at 98¼.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Mar. 25, 1930	N.Y. Chgo. & St. Louis R.R. refunding 4½-percent bonds, C, due Sept. 1, 1978.	Guaranty Co.	$12,000,000	(1)	97½	Banking	96–96½	$625,000		$2,343.75	
						Selling	96½–97½	325,000	$325,000	2,780.00	
Aug. 27, 1930	do	do	36,600,000	(1)	97¾	Banking	96¼–96¾	1,875,000		7,031.25	
						Selling	96¾–97¾	975,000	975,000	9,180.00	
July 18, 1930	Pacific Power & Light Co. first mortgage, 5-percent bonds, due Aug. 1, 1955.	W. C. Langley & Co.	17,000,000	$92	96	Purchase	92–94	1,000,000		17,138.91	
						Selling	94–96	1,000,000	1,000,000	20,000.00	
Mar. 12, 1930	Pennsylvania R.R. Co. 4½-percent debentures, due Apr. 1, 1970.	Kuhn, Loeb & Co.	60,000,000	(1)	94½	Distributing	93–94½	500,000	450,000	6,109.44	

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Sept. 18, 1930	Public Service Co. of New Hampshire first and refunding 4½-percent bonds, B, due Oct. 1, 1957.	Tucker, Anthony & Co.	5,279,000	95½	99	Original	95½–99	792,000	522,000	26,173.80
May 26, 1930	Public Service Corporation of New Jersey, $5 cumulative preferred stock.	Drexel & Co., Philadelphia.	[2] 150,000	[1]	97½	Distributing	95½–97½	[2] 2,500	[2] 2,500	4,182.72
Mar. 15, 1930	Pure Oil Co. 5½-percent notes, due Mar. 1, 1940.	Guaranty Co.	$20,000,000	$93½	$97½	Purchase Banking Selling	$93½–94½ 94½–95½ 95½–97½	$2,800,000 799,000 500,000	 $500,000	28,000.00 6,169.27 9,960.00
Apr. 4, 1930	Republic Steel Corporation 6-percent cumulative convertible preferred stock.	Otis & Co.	127,820 shares	[1]	95	Banking Selling	91½–92½ 92½–95	[2] 2,500 [2] 2,500	 [2] 2,500	2,187.50 5,625.00
Mar. 19, 1930	Rhine Westphalia Electric Power Co. consolidated mortgage 6-percent bonds (with warrants), due Apr. 1, 1955.	National City Co.	$20,000,000	[1]	93	Selling	91–93	250,000	250,000	3,215.00
Sept. 9, 1930	St. Louis-San Francisco Ry. Co. consolidated 4½-percent bonds, due Mar. 1, 1978.	Speyer & Co.	$10,000,000	[1]	92¾	Selling	91½–92¾	500,000	500,000	6,000.00
Apr. 25, 1930	Sao Paulo, State of, 7-percent coffee realization loan, due Oct. 1, 1940.	do	$35,000,00	[1]	96	Purchase Banking Selling	91–92½ 92½–93¼ 93¼–96	5,308,333 2,742,892 1,500,000	115,000 1,500,000	91,528.73 10,645.71 39,270.00
July 29, 1930	Saxon Public Works, Inc., 5-percent notes, due July 15, 1932.	National City Co.	$10,000,000	[1]	97½	Distributing Selling	95¾–96¼ 96¼–97½	250,000 309,000	 309,000	937.50 3,236.62
Apr. 15, 1930	Southern Pacific Co. Oregon Lines first mortgage 4½-percent bonds, due Mar. 1, 1977.	Kuhn, Loeb & Co.	$41,294,000	[1]	97½	Distributing	96–97½	500,000	100,000	2,668.09
July 24, 1930	Texas Electric Service Co. First Mortgage 5-percent bonds, due July 1, 1960.	Bonbright & Co.	$33,730,000	[1]	97¾	Selling	95¾–97¾	500,000	500,000	9,816.25
May 14, 1930	Toronto, City of, serial 5-percent bonds, due Apr. 1, 1931–50, inclusive.	National City Co.	$13,396,000	100.1679	4- to 4.85-percent basis.	Original	100.1679–4 to 4.85 percent.	1,913,715	484,000	9,777.75

[1] Not known.
[2] Shares.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Feb. 11, 1930	Toronto, City of, serial 4½-percent bonds, 1930-49, inclusive.	National City Co.	$3,201,000	97.597, Canada.	5-percent basis	Original	7.597-5-per-cent basis.	$798,571	$428,000		
Do	Toronto, City of, serial 5-percent bonds, 1930-59, inclusive.	do	$2,380,000							$7,598.62	
Do	Toronto Harbor Commission 5-percent debentures, due Sept. 1, 1953.	do	$2,000,000	98.95, Canada.	99½ Canada	do	98.95-99½	285,714			
June 14, 1930	Union Gulf Corporation collateral trust 5-percent bonds, due July 1, 1950.	Union Trust Co., Pittsburgh.	$60,000,000	(1)	99	Banking Selling	96¾-97¼ 97¼-99	1,250,000 1,000,000	 1,000,000	3,400.00 17,500.00	

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Apr. 23, 1930	Van Sweringen Corporation 5-year 6-percent notes (with warrants), due May 1, 1935.	Guaranty Co.	$30,000,000	(1)	100	Banking Selling	97¾–98½ 98½–100	750,000 750,000	750,000	4,687.50 8,717.50	
Mar. 15, 1930	Wabash Ry. Co. refunding 5-percent bonds, due Apr. 1, 1980.	Kuhn, Loeb & Co.	$15,000,000	(1)	100½	Selling	99¼–100½	250,000	250,000	2,000.00	
Feb. 11, 1930	Western Union Telegraph Co. 5-percent bonds, due Mar. 1, 1960.	do	$35,000,000	(1)	100	Purchase Selling	98¼–99 99–100	500,000 250,000	250,000	1,790.65 2,500.00	
June 23, 1931	Commonwealth Edison Co. first mortgage 4 percent bonds, F, due Mar. 1, 1981.	Halsey, Stuart & Co.	$85,000,000	(1)	94½	Banking Selling	92½–93 93–94½	600,000 600,000	600,000	1,515.00 4,971.25	
May 26, 1931	Consolidated Gas Co. of New York 4½ percent debenture bonds, due June 1, 1951.	National City Co.	$60,000,000	98	101	Original Distributing Selling	98–99 99–99¾ 99¾–101	900,000 1,000,000 1,000,000	1,000,000	7,650.00 6,179.10 12,500.00	
Apr. 9, 1931	Fox Film Corporation 5-year 6 percent convertible debentures, due Apr. 1, 1936.	Chase Securities Corporation.	$30,000,000	92	98	Underwriting Banking Selling	92–94 94–95½ 95½–98	1,000,000			(18).
Do	Film Securities Corporation 2-year 6 percent secured notes, due Apr. 1, 1933.	do	$20,000,000	96	No public offering.	Purchase		4,427,500		16,262.22	(19).
Jan. 12, 1931	International Match Corporation 5 percent convertible debentures, due Jan. 15, 1941.	Lee, Higginson & Co.	$50,000,000	(1)	96	Underwriting Selling	93¼–94 94–96	500,000 298,000	298,000	2,504.94 3,405.00	
Jan. 24, 1931	Kansas City Power & Light Co. first mortgage bonds, 4½ percent series, due Feb. 1, 1961.	Guaranty Co.	$27,000,000	(1)	102¾	Banking Selling	100¾–101¼ 101¼–102¾	300,000 300,000	300,000	1,125.00 3,075.00	
Jan. 26, 1931	Missouri Pacific Railroad Co. first and refunding mortgage 5 percent bonds, I, due Feb. 1, 1981.	J. P. Morgan & Co.	$61,200,000	(1)	95	Distributing	93½–95	300,000	662,000	7,305.00	
Mar. 5, 1931	New York, City of, 4¼ percent bonds and corporate stock, bonds mature serially Mar. 1, 1932–71, inclusive, corporate stock due Mar. 1, 1981.	Kuhn, Loeb & Co.	$100,000,000	101.977	Various basis prices.	Purchase Distributing	101.977–various prices Various prices–various basis prices.	40,000,000 10,219,000 **495,000	10,219,000 **495,000	36,345.26 29,411.25	

[1] Not known.
[18] 4,921 warrants; $940,000 bonds taken up at 92.
[19] 19,750 shares common stock taken up at total of $9,625; $4,427,500 bonds taken up at 96.

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EXHIBIT B.—*Issues in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date offered	Title of security	Manager	Amount of issue	Cost price	Offering price	Groups in which Dillon, Read & Co. or agencies participated	Price spread	Participations of Dillon, Read & Co. and agencies (agencies' participations indicated by **)	Sales of Dillon, Read & Co. and agencies (agencies' sales indicated by **)	Gross cash profit received from managers by Dillon, Read & Co. and agencies (amount received by agencies indicated by **) before deducting allowances to financial institutions, salesmen's commissions, other selling expense, and overhead expense	Securities received by Dillon, Read & Co. and agencies (any received by agencies indicated by **) out of securities acquired with or as a part of those described in column (2)
Column no. (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Mar. 9, 1931	New York Central R.R. Co. refunding and improvement mortgage 4½-percent bonds, A, due Oct. 1, 2013.	J. P. Morgan & Co.	$75,000,000	(1)	100	Selling	98¾-100	$1,100,000	$1,100,000	$9,427.00	
Jan. 7, 1931	Ontario, Province of, 4½ percent bonds, due Jan. 15, 1932-71, inclusive.	National City Co.	$30,000,000	$98.6699 Canada.	99.7623 (average).	Purchase	98.6699-99.7623.	5,000,000	1,154,000	27,223.94	
Apr. 6, 1931	Pennsylvania Power & Light Co. first mortgage bonds, 4½ percent series, due 1981.	Guaranty Co.	$100,000,000	(1)	96½	Banking Selling	94½-95 95-96½	750,000 750,000	---------- 750,000	2,812.50 11,220.00	

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Mar. 9, 1931	Pennsylvania R.R. Co. general mortgage 4½-percent bonds, D, due Apr. 1, 1981.	Kuhn, Loeb & Co.	$50,000,000	(1)	96½	Distributing	95-96½	750,000	650,000	8,060.39
June 17, 1931	St. Louis-San Francisco Ry. Co. consolidated mortgage 6-percent bonds, B, due June 1, 1936.	Chase Securities Corporation.	$10,000,000	93.34	Private sale. Retail price 95.84 less various concessions.	Purchase	93.34-95.84	3,173,000	3,635,000	40,916.68
Mar. 25, 1931	Southern Pacific Co. 50-year 4½-percent bonds, due May 1, 1981.	Kuhn, Loeb & Co.	$50,000,000	(1)	96¾	Distributing	95¼-96¾	750,000	600,000	5,658.23
Mar. 23, 1931	Youngstown Sheet & Tube Co. first-mortgage 5-percent bonds, B, due Apr. 1, 1970.	Bankers Co	$25,000,000	(1)	101	Banking	98¾-99½	250,000		1,526.53
						Selling	99½-101	250,000	250,000	3,600.00

[1] Not known.

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COMMITTEE EXHIBIT No. 40, OCT. 13, 1933

(Part of answer to question 10 and part of answer to question 19)

EXHIBIT C.—*Pools, joint accounts, syndicates and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, and of which Dillon, Read & Co. were managers*

[Italic figures indicate losses]

Date formed	Date terminated	Title of security	Amount for which account formed	Total shares		Participants	Participants' interest (percent)	Gross cash profit or loss before overhead expense (not including commissions on retail sales effected by Dillon, Read & Co. or agencies or representatives for the account)	Unsold stock delivered to participants	Price at which unsold shares delivered
				Bought	Sold					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
May 16, 1927	Sept. 23, 1927	American Chain Co. 7 percent cumulative preferred.	10,000 shares	4,604 1/10	4,345 1/10	Dillon, Read & Co	50		129 1/10	106.6609
						Hemphill, Noyes & Co	50		129 1/10	106.6609
Apr. 1, 1927	June 9, 1927	American Chain Co. 7 percent cumulative preferred with warrants.	No limit	15,023 3/10	15,023 3/10	American Chain Co. 7 percent preferred syndicate.	100	*$16,848.06*		
Nov. 14, 1928	Feb. 5, 1929	American Cities Power & Light A & B stock (units).	do	37,080 units	37,080 units	American Cities Power & Light A & B syndicate.	100	*58,366.15*		
June 3, 1929	Jan. 5, 1931	American Cities Power & Light class A stock.	20,000	34,888 shares	33,388 shares	American Cities Power & Light Corporation.	50		750	65.43795
						Dillon, Read & Co	50		750	65.43795
Jan. 31, 1929	Oct. 30, 1929	Bank of Manhattan Co. capital stock.	1,000	300	300	United States & International Securities Corporation.	50	28,636.83		
						Dillon, Read & Co	50	28,636.82		
Mar. 13, 1931	June 4, 1931	Beneficial Industrial Loan Common.	No limit	1,900	1,900	Beneficial Industrial Loan 6/46 primary group.	100	*1,674.78*		
Dec. 1, 1926	Mar. 14, 1927	Broadway Department Store 7 percent first preferred.	do	1,210	1,210	Broadway Department Store 7 percent syndicate.	100	761.32		
Apr. 25, 1928	June 21, 1928	Central States Electric 6 percent cumulative preferred with warrants.	do	7,400	7,400	Central States Electric 6 percent preferred syndicate.	100	*7,289.23*		

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Sept. 18, 1928	Oct. 25, 1928	Central States Electric convertible preferred, optional dividend.	do	6,664	6,664	Central States Electric Convertible Optional Syndicate.	100	1,226.12		
July 1, 1929	July 29, 1929	Central States Electric Corporation convertible preferred optional series 1929.	do	15,484	15,484	Central States Electric Preferred Syndicate.	100	*1,729.59*		
Dec. 19, 1928	May 20, 1929	Central States Electric Corporation convertible preferred optional dividend.	10,000	12,310	12,310	Central States Electric Corporation.	50	122,549.03		
						Dillon, Read & Co	50	122,549.03		
May 22, 1929	Oct. 21, 1929	Chrysler Common	27,000	7,000	7,000	Dillon, Read & Co	33⅓	5,494.16		
						Oakmont Corporation	33⅓	5,494.17		
						The Brighton Corporation	33⅓	5,494.17		
July 13, 1929	Nov. 12, 1929	Chicago, Rock Island & Pacific R.R. common.	Part of railroad joint account.	27,400		Dillon, Read & Co	50		13,700	138.379342
						United States & International Securities Corporation.	50		13,700	138.379342
Feb. 16, 1928	April 16, 1928	Commercial Investment Trust common.	4,000	1,700	1,700	Dillon, Read & Co	50	2,428.47		
						Commercial Investment Trust Corporation.	50	2,428.47		
Feb. 16, 1928	Aug. 15, 1929	Commercial Investment Trust 6½ and 7 percent preferred.	5,000	7 percent preferred 60.	60	Dillon, Read & Co	50	139.25		
				6½ percent preferred 8,782.	8,782	Commercial Investment Trust Corporation.	50	139.25		
Jan. 31, 1929	Sept. 18, 1929	Commercial Investment Trust common.	10,000	10,513	4,551	Dillon, Read & Co	51	(1)		
						Lehman Bros	34	(1)		
						Commercial Investment Trust Corporation.	15	[2] 21,205.07		
Sept. 18, 1929	Oct. 30, 1929	Commercial Investment Trust common, new account.	10,000	6,068	6,068	Dillon, Read & Co	60	48,411.11		
						Lehman Bros	40	32,274.07		
Aug. 27, 1929	Mar. 3, 1930	Commercial Investment Trust common.	150,000 shares	231,056	161,303	Lazard Freres & Co	10		6,975	74.060972
						Central States Electric Corporation.	45		31,389	74.060972
						Lehman Bros	18		12,555	74.060972
						United States & International Securities Corporation.	13½		9,417	74.060972
						Dillon, Read & Co	13½		9,417	74.060972
Aug. 23, 1929	Oct. 11, 1929	Commercial Investment Trust, old common stock split 2½ for 1 during life account.	50,000 shares	50,000		Lazard Freres & Co	10		12,500	72.80
						Central States Electric Corporation.	45		56,250	72.80
						Lehman Bros	18		22,500	72.80
						United States & International Securities Corporation.	13½		16,875	72.80
						Dillon, Read & Co	13½		16,875	72.80

[1] Long stock 5,962 shares transferred to new account at cost.
[2] Commercial Investment Trust Corporation withdrew Sept. 5, 1928.

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EXHIBIT C.—*Pools, joint accounts, syndicates, and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date formed	Date terminated	Title of security	Amount for which account formed	Total shares		Participants	Participants' interest (percent)	Gross cash profit or loss before overhead expense (not including commissions on retail sales effected by Dillon, Read & Co. or agencies or representatives for the account)	Unsold stock delivered to participants	Price at which unsold shares d 1
				Bought	Sold					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Jan. 22, 1930	Oct. 14, 1930	Commercial Investment Trust convertible preferred optional series 1929.	20,000 shares	1,558	1,558	Lehman Bros Dillon, Read & Co	40 60	$409.35 614.03		
Nov. 15, 1927	Jan. 13, 1928	Consolidated Cigar 6½-percent cumulative preferred, with warrants.	No limit	10,115	10,115	Consolidated Cigar, 6½-percent preferred syndicate.	100	*20,695.44*		
Aug. 7, 1929	Dec. 19, 1929	Doehler Die Casting Co., common.	5,000 shares	5,150	150	Surrey Corporation Dillon, Read & Co	75 25		3,750 1,250	38.69358 38.69358
June 10, 1929	July 29, 1929	Electric Bond & Share, common.		1,400	1,400	Mendelssohn & Co	50	4,911.67		
		Columbia Graphophone, common.		500	500	Dillon, Read & Co	50	4,911.66		
		Goldman Sachs Trading Corporation.		500	500					
Feb. 28, 1927	June 17, 1928	Educational Pictures, Inc., 8-percent preferred cumulative, with warrants.	No limit	705	705	Educational Pictures, Inc., 8-percent syndicate.	100	*659.94*		
June 14, 1927	Aug. 1, 1927	Empire District Electric 6-percent cumulative preferred.	do	260	260	Empire District Electric 6-percent preferred syndicate.	100	*390.00*		
Mar. 25, 1929	Apr. 11, 1929	Fisk Rubber Co. common (old stock).	do Received rights	5,700 2,300	5,700 2,300	Fisk Rubber Co. underwriting syndicate.	100	*3,151.50*		
May 7, 1929	Sept. 16, 1929	General Printing Ink 6-percent cumulative preferred with warrants.	No limit	4,254	4,254	General Printing Ink Corporation 6-percent preferred syndicate.	100	2,753.18		
May 10, 1929	Oct. 9, 1929	General Printing Ink common.	do	1,798	1,798	General Printing Ink common syndicate.	100	*909.00*		

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Aug. 16, 1929	Feb. 17, 1930	General Printing Ink 6-percent cumulative preferred.	7,500 shares	5,415	5,415	Otis & Co., New York City	17½	*4,317.76*		
						R. V. Mitchell & Co	17½	*4,317.76*		
						Bancamerica Blair Corporation.	10	*2,467.29*		
						Dillon, Read & Co	55	*13,570.09*		
May 3, 1929	Oct. 29, 1929	General Printing Ink, common.	No limit	4,802	4,802	Assumed by General Printing Ink common trading account formed Aug. 23, 1929.	100	*1,770.85*		
Aug. 23, 1929	Mar. 17, 1930	General Printing Ink, common stock.	19,505 shares	8,388$^{9}/_{10}$	8,388$^{9}/_{10}$	Otis & Co., New York City	17½	5,149.51		
						R. V. Mitchell & Co	17½	5,149.51		
						Dillon, Read & Co	65	19,126.73		
Oct. 10, 1929	Feb. 7, 1930	General Printing Ink Corporation, common.	25,000 shares	8,320	211	E. Naumburg & Co	10		810	56.92073
						Chain Store Stocks, Inc	10		810	56.92073
						Otis & Co., New York	20		1,622	56.92073
						R. V. Mitchell & Co	20		1,622	56.92073
						Dillon, Read & Co	40		3,245	56.92073
Nov. 4, 1927	Feb. 21, 1928	German Credit & Investment Corporation first preferred allotment certificates.	10,000 shares	10,000		Dillon, Read & Co	50		5,000	21
						United States & Foreign Securities Corporation.	50		5,000	21
June 12, 1928	Oct. 16, 1928	International Printing Ink 6 percent preferred with warrants.	No limit	7,358	7,358	International Printing Ink Preferred Syndicate.	100	17,124.95		
Aug. 15, 1928	Dec. 18, 1928	International Printing Ink 6 percent preferred.	12,500	10,864	10,864	Ladenburg, Thalmann & Co.	8	223.98		
						Bancitaly Corporation	16	447.95		
						Union Trust Co. Bond Department.	8	223.98		
						Otis & Co	12	335.96		
						Hayden, Miller & Co	4	111.99		
						Herrick Co	4	111.99		
						Fifth Third Union Co	4	111.99		
						W. E. Hutton & Co	8	223.98		
						First Investment & Sec. Corporation.	8	223.98		
						Dillon, Read & Co	28	783.90		
Apr. 19, 1929	Oct. 16, 1929	International Printing Ink common.	3,000	1,400	1,400	R. V. Mitchell & Co	17½	1,546.53		
						Otis & Co., New York	17½	1,546.53		
						Dillon, Read & Co	65	5,744.25		
Do	Dec. 13, 1929	International Printing Ink 6 percent preferred.	2,000	844	844	R. V. Mitchell & Co	17½	*153.43*		
						Otis & Co., New York	17½	*153.43*		
						Dillon, Read & Co	65	*569.90*		
Oct. 10, 1929	Feb. 14, 1930	International Printing Ink Corporation common.	25,000 shares	10,860	6,003	E. Naumburg & Co	10		486	69.63789
						Chain Store Stocks Inc	10		486	69.63789
						First Investment Sec. Corporation, Cincinnati.	15		728	69.63789
						W. E. Hutton & Co	15		728	69.63789
						Otis & Co	10		486	69.63789
						R. V. Mitchell & Co	10		486	69.63789
						Dillon, Read & Co	30		1457	69.63789

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EXHIBIT C.—*Pools, joint accounts, syndicates, and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date formed	Date terminated	Title of security	Amount for which account formed	Total shares		Participants	Participants' interest (percent)	Gross cash profit or loss before overhead expense (not including commissions on retail sales effected by Dillon, Read & Co. or agencies or representatives for the account)	Unsold stock delivered to participants	Price at which unsold shares delivered
				Bought	Sold					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Jan. 6, 1928	Jan. 25, 1928	Loew's, Inc. $6.50 cumulative preferred with warrants.	No limit	17,705	17,705	Loew's, Inc. $6.50 cumulative preferred syndicate.	100	*$24,951.65*		
Jan. 24, 1928	Apr. 5, 1928	Loew's, Inc. $6.50 cumulative preferred with warrants.	12,500 shares	10,586	10,586	Blyth Witter & Co	20	*972.69*		
						A. G. Becker & Co	10	*486.35*		
						Dillon, Read & Co	70	*3,404.43*		
Oct. 3, 1929	Dec. 10, 1929	May Department Stores common.	20,000 shares	7,750⅞	7,750⅞	U.S. & International Securities Corporation.	50			
						Dillon, Read & Co	50			
July 9, 1926	Dec. 7, 1927	National Cash Register Co. common A.	50,000 shares	154,887	127,238	Brown Bros. & Co	5			
						George, Haines & Halsey	5			
						U.S. & Foreign Securities Corporation.	5			
						Dominion Securities Corporation, Canada.	5			
						Baker, Trubee & Putnam, Buffalo.	2			
						Pistell, Deans & Co., Buffalo.	10		(3)	
						Robt. Garrett & Sons, Baltimore.	4			
						(Dillon, Read & Co., reallotted.)	13			
						Cass, Howard & Sanford, Los Angeles.	1			
						Dewar & Co., San Diego	2			

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						Stevens, Paige & Sterling, San Diego.	2				
						M. H. Lewis & Co., Los Angeles.	2				
						Anglo London & Paris Co. San Francisco.	4				
						Bond, Goodwin & Tucker, San Francisco.	5				
						Geo. H. Burr Conrad Broom, San Francisco.	2				
						Babcock, Rushton & Co., Chicago.	2				
						A. G. Becker & Co., Chicago.	5				
						Alfred L. Baker & Co., Chicago.	2				
						Farnum Winter & Co., Chicago.	2				
						H. T. Holtz & Co., Chicago.	2		[3]		
						Mitchell Hutchins & Co., Chicago.	2				
						Stevenson Perry & Stacy Co., Chicago.	2				
						Taylor Ewart & Co., Chicago.	2				
						Lane, Piper & Jaffray, Minneapolis.	2				
						Knight Dyshart & Gamble, St. Louis.	2				
						Stix & Co	2				
						Caldwell & Co., Nashville	2				
						Joe B. Palmer & Co., Nashville.	2				
						Townsend, Jackson & Co., Tacoma.	4				
Jan. 9, 1928	Dec. 17, 1928	National Park Bank	2,000	6,178	6,178	Noble & Corwin	50	[4] $149,475.65			
						Dillon, Read & Co	50	141,546.65			
Dec. 17, 1928	Aug. 31, 1929	National Park Bank (stock dividend—6 new for 1 old and rights).	12,000 old	4,116	3,487	Noble & Corwin	50		[5]		
			new	6,315	6,398	Dillon, Read & Co	50				
			Exch. old new	3,774		Noble & Corwin	50	[6] 266,536.78			
Aug. 31, 1929	Nov. 15, 1929	National Park Bank merged Chase National Bank account.	12,000	14,911	14,911	Dillon, Read & Co	50	263,096.78			
Feb. 10, 1925	Jan. 9, 1928	National Park Bank	1,500 shares	13,506	12,327	Dillon, Read & Co	66⅔		786	523.491789	
						Noble & Corwin	33⅓		393	523.491789	

[3] Dec. 7, 1927, Dillon Read & Co. assumed long position in account of 27,649 shares at 47.73065 thereby relieving participants of liability.
[4] Includes dividends of $7,929.00.
[5] 3,691 shares to new account at $387,229.78.
[6] Includes dividends of $3,440.00.

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EXHIBIT C.—*Pools, joint accounts, syndicates, and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date formed	Date terminated	Title of security	Amount for which account formed	Total shares		Participants	Participants' interest (percent)	Gross cash profit or loss before overhead expense (not including commissions on retail sales effected by Dillon, Read & Co. or agencies or representatives for the account)	Unsold stock delivered to participants	Price at which unsold shares delivered
				Bought	Sold					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Dec. 14, 1928	Apr. 15, 1929	Newport Co. "A" convertible stock, $50 par.	No limit	22,908	22,908	Newport Co. "A" convertible stock syndicate.	100	*$3,927.47*		
June 8, 1928	Oct. 5, 1928	Pennsylvania Bankshares & Securities corporation 5 percent preferred, with warrants.	do	4,483	4,483	Pennsylvania Bankshares & Securities 5 percent preferred syndicate.	100	*1,678.28*		
Sept. 24, 1928	July 22, 1930	Pennsylvania Bankshares & Securities 5 percent preferred, with warrants.	6,000	9,384	4,361	Hillman Investment Co	25		1,256	45.51481
						J. H. Holmes & Co	25		1,256	45.51481
						Hill, Wright & Frew	16⅔		837	45.51481
						Dillon, Read & Co	33⅓		1,674	45.51481
Mar. 1, 1929	June 29, 1929	Pennsylvania Industries, Inc., 6 percent preferred and common.	No limit	18,757	18,757	Pennsylvania Industries preferred and common syndicate.	100	17,062.82		
June 14, 1929	Jan. 22, 1930	Pennsylvania Industries 6-percent preferred and common units.	4,000	6,469	6,469	Hillman Investment Co	25	4,663.58		
						J. H. Holmes & Co	25	4,663.58		
						Hill, Wright & Frew	25	4,663.58		
						Dillon, Read & Co	25	4,663.58		
July 13, 1929	Nov. 12, 1929	Pennsylvania R.R. common.	Part of railroad joint account.	10,000		do	50		5,000	98.982858
						United States & International Securities Corporation.	50		5,000	98.982858
May 11, 1928	Sept. 24, 1928	St. Lawrence Paper Mills Co., Ltd. preferred allotment certificates.	No limit	15,364	15,364	St. Lawrence Paper Mills Preferred Allot. Syndicate.	100	*9,580.14*		

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Federal Reserve Bank of St. Louis

July 13, 1929	Nov. 12, 1929	St. Louis-San Francisco R.R. common.	Part of railroad joint account.	32,100		Dillon, Read & Co	50		16,050	130.385647
						United States & International Securities Corporation.	50		16,050	130.385647
Do	do	Southern Pacific R.R. common.	do	10,000		Dillon, Read & Co	50		5,000	145.731088
						United States & International Securities Corporation.	50		5,000	145.731088
Do	do	Southern Ry. common	do	15,300		Dillon, Read & Co	50		7,650	159.77003
						United States & International Securities Corporation.	50		7,650	159.77003
Feb. 19, 1929	Apr. 16, 1929	A. G. Spalding Bros. common.	No limit	12,204	6,495	Lehman Bros	10		571	62.2483
						Shields & Co., Inc	5		285	62.2483
						Hathaway & Co	21¼		1,213	62.2483
						Smith, Moore & Co	21¼		1,213	62.2483
						Dillon, Read & Co	42½		2,427	62.2483
Mar. 16, 1928	Apr. 10, 1928	Spang, Chalfant & Co., Inc., 6-percent cumulative preferred.	do	2,933	2,933	Spang, Chalfant 6-percent Preferred Syndicate.	100	*730.67*		
Nov. 2, 1928	Apr. 19, 1929	United States & International Securities Corporation, preferred with warrants.	do	78,172	78,172	United States & International Securities Preferred Syndicate.	100	*57,262.96*		
Apr. 25, 1929	July 18, 1929	Warner Co., $7 preferred, with warrants.	do	1,759	1,759	Warner Co., $7 Preferred Syndicate.	100	*516.67*		
June 10, 1927	Oct. 10, 1927	Wiener Bank Verein (Amer. Trust Certificates.).	do	2,819	2,819	Weiner Bank Verein Syndicate.	100	1,012.05		
Nov. 30, 1928.	Still open	Various securities of The Seaboard Air Line Ry. Co.	$10,085,000			Dillon, Read & Co	24.7892	(7)		
						Coverdale & Colpitts	4.9578			
						Southwestern Investors, Inc.	7.9325			
		Seaboard Air Line common.		776,904 shares	402,119 shares	Caldwell & Co	4.9578			
						Hillman Investment Co	.99157			
		Seaboard Air Line preferred.		42,000 shares.		John Nickerson & Co	.99157			
						J. B. Tigrett	[8].99157			
		Seaboard Air Line Adjusted 5s, 1949.		2,029,000	1,453,000 exch.	American National Co	3.9662			
						Gen'l. W. W. Atterbury	.99157			
		Balance 1,453,000 exchanged for following:			576,000	Frank M. Swacker	.99157			
						Cotton & Franklin Special No. 2.	.99157			
		$726,500 Seaboard Air Line 6/45, 21,795 shares, Seaboard Air Line Com. transferred to respective accounts, marked X.				V. Everit Macy	2.47892			
						Leonard A. Yerkes	.99157			
						United States & Foreign Securities Corporation.	4.9578			
						B. M. May	.49578			
		1,453 Seaboard common warrants.				Clarence H. Mackay	.99157			
						Marcus L. Bell	.24789			

[7] Activities of account terminated Mar. 10, 1931, but account not finally closed.
[8] Withdrew July 10, 1931.

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EXHIBIT C.—*Pools, joint accounts, syndicates, and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, and of which Dillon, Read & Co. were managers*—Continued

[Italic figures indicate losses]

Date formed	Date terminated	Title of security	Amount for which account formed	Total shares		Participants	Participants' interest (percent)	Gross cash profit or loss before overhead expense (not including commissions on retail sales effected by Dillon, Read & Co. or agencies or representatives for the account)	Unsold stock delivered to participants	Price at which unsold shares delivered
				Bought	Sold					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Nov. 30, 1928	Still open—Continued.	Seaboard Air Line refunding 4/59.		278,000	20,000	Arthur J. Rosenthal & Co.	0.49578			
		Seaboard Air Line Consolidated 6/45. X		2,040,500	6,000	George F. Brownell	.09915			
		Seaboard Air Line 5 per cent/31.		695,000	51,000	L. H. Windholz	.49578			
		Seaboard All Flor. 6/35 "A".		1,286,000	7,500	Chas. D. Barney & Co	4.9578			
		Seaboard All Flor. 6/35 "B".		287,000	16,000	Robert C. Lassiter	4.9578			
		Jacksonville, Gainesville & Gulf 6/51 "A".		15,000	15,000	American International Corp.	.99157			
		Seaboard, Atlanta, & Birmingham 4/33.		125,000	125,000	E. Naumburg & Co	.99157			
						Chase Securities Corporation.	9.91571			
						Paul V. Shields	.99157			
						Equitable Trust Co	4.9578			
						E. A. Yates	2.47892			
						Robt. C. Ream	.99157			
						Niagara Share Corporation of Maryland.	4.9578			
Oct. 8, 1927	Still open	Various securities of Louisiana & Arkansas Ry. Co.	$10,000,000			Dillon, Read & Co	[9]30			
						R. G. Pack	7½			
						H. C. Couch & Associates	35			
		Louisiana & Arkansas Ry. common, old.		50,000 shares.		Rogers Caldwell	[10]81½			
						C. S. McCain	6½			
		Louisiana & Arkansas Ry. common, new.		100,000 shares.		Coverdale & Colpitts	2½			
						J. A. Moffett	10			
		Louisiana Ry. & Navigation of Texas 6/54.		$750,000,						

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		Louisiana & Arkansas & Texas Ry. capital stock.	----------	4,000 shares.							
		Louisiana & Arkansas Ry. preferred.	----------	100,000 shares	100,000 shares exchanged.						
		From exchange of preferred to prior preferred:									
		Louisiana & Arkansas Ry. prior preferred.	----------	60,000 shares	2,000 shares.						
		From exchange preferred to 6 percent preferred:									
		Louisiana & Arkansas Ry. 6 percent preferred.	----------	40,000 shares.							
		Louisiana & Arkansas Ry. second 5½/49.	----------	$4,000,000	$4,000,000 exchanged.						
		From exchange 5½/49 to 5/69:									
		Louisiana & Arkansas Ry., first 5/69.	----------	$4,000,000	12,000,000.						
		Louisiana & Arkansas Ry., first 5/69.	----------	$8,000,000							
Dec. 17, 1928	Mar. 10, 1930	German Electrical stocks	6,400,000 Reichsmarks.	----------	----------	Surrey Corporation	31.25	*$103,654.17*	----------	----------
						American Cities Power & Light Corporation.	31.25	(11)	----------	----------
						Elektrizitaetz, A. G. Vermals Schuckert & Co.	6.25	(11)	----------	----------
						Mendelssohn & Co., Berlin.	15.625	(11)	----------	----------
						Mendelssohn & Co., Amsterdam.	15.625	(11)	----------	----------

[9] Dillon, Read & Co. reallotted one third their part to A. Iselin & Co.
[10] Withdrew from account, June 8, 1931.
[11] Mendelssohn & Co., Amsterdam, handled books covering these accounts and made settlement direct.

NOTE.—The above table does not include a few accounts of which Dillon, Read & Co. were managers, though not participants, and in which neither Dillon, Read & Co. nor any of its agencies or representatives made any profit or loss.

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COMMITTEE EXHIBIT No. 41, OCT. 13, 1933

(Part of answer to question 10 and part of answer to question 19)

EXHIBIT D.—*Pools, joint accounts, syndicates and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, but which were managed by others than Dillon, Read & Co.*

[Italic figures indicate losses]

Date formed	Date terminated	Title of security	Managers	Amount for which account formed	Total shares		Participations of Dillon, Read & Co. and agencies or representatives (participations of agencies or representatives indicated by **), other participants generally not known (percent)	Gross cash profit or loss of Dillon, Read & Co. and agencies or representatives (profit or loss of agencies or representatives indicated by **) before overhead expense (not including commissions on retail sales effected by Dillon, Read & Co. or agencies or representatives for the account)	Unsold stock delivered to Dillon, Read & Co. and agencies or representatives (any delivered to agencies or representatives indicated by **)	Price at which unsold shares delivered
					Bought	Sold				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Apr. 10, 1929	Apr. 29, 1929	Allegheny Corporation common stock.	Guaranty Co.	50,000 shares	(1)	(1)	4	$8,659.35		
Apr. 11, 1929	Aug. 1, 1929	Allegheny Corporation 5½ percent preferred. "A"	Guaranty Co.	25,000 shares	(1)	(1)	4			
Jan. 25, 1927	Mar. 14, 1927	Amerada Corporation common.	Henry G. Lapham & Co.	15,000 shares	(1)	(1)	66⅔		6,866	$32.91600
Jan. 25, 1927	Mar. 17, 1927	American Chain class A	Hemphill, Noyes & Co.	10,000 shares	(1)	(1)	50	7,286.93		
Sept. 20, 1930	Dec. 15, 1930	American & Foreign Power $6 cumulative preferred.	Bonbright & Co.	18,804 shares	18,804	18,804	50	32,570.50		
Sept. 27, 1928	Apr. 4, 1929	Banca Commerciale Italiana-Milan, American shares.	Field, Glore & Co., Inc.	25,000 shares	(1)	(1)	12½		625	75.754670
Sept. 7, 1926	Apr. 18, 1927[3]	Banque De Bruxelles capital stock, quarto account.	Mendelssohn & Co. Amsterdam.	34,000 shares[2]	(1)	(1)	[3] 8,500	104,658.20		

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May 27, 1926	Mar. 21, 1928	Banque Nationale de Belgique joint account.	do	$100,000	2,113	2,113	[4] 50,000	34,083.60		
May 2, 1927	July 9, 1928	Brompton Pulp & Paper common.	Dominion Securities Corporation, Ltd.	45,000 shares	(1)	(1)	33⅓		6,666	35.30000
Apr. 8, 1929	Mar. 12, 1930	Central States Electric Corporation 6 percent cumulative preferred, Ex-War.	J. G. White & Co.	7,595 shares	(1)	(1)	6.66	9.09	350	84.00000
Nov. 13, 1929	Jan. 8, 1930	Chase National Bank	Noble & Corwin	$100,000	(1)	(1)	50	9,983.42		
Dec. 30, 1929	July 10, 1930	do	do	$100,000	(1)	(1)	50	4,322.40		
May 15, 1930	Aug. 13, 1930	Chase National Bank and Chase Securities Corporation capital stock.	Chase Securities Corporation, J. & W. Seligman & Co.	90,000 shares	(1)	(1)	8.33		6,108	170.82932
Aug. 12, 1930	Nov. 19, 1930	do	Metpotan Securities Corporation.	16,000	(1)	(1)	8.33		22	122.779
Oct. 1, 1928	July 5, 1929	Colt Patent Fire Arms, capital stock.	C. Lester Horn & Co.	6,000 shares	6,009	160	41.666		2,437	38.807215
May 27, 1926	Mar. 21, 1928	Credit Lyonnais joint account	Mendelssohn & Co. Amsterdam.	$2,000,000	33,200	33,200	50	458,632.19		
Mar. 21, 1928	Dec. 10, 1928	Credit Lyonnais Trio account	do	41,000 shares	41,000	41,000	33⅓	178,811.37		
Dec. 30, 1929	Aug. 1, 1930	Chemical National Associates common stock	Chemical National Co. Inc.	50,000 shares	(1)	(1)	16¼	17,571.36		
June 4, 1928	July 16, 1929	Consolidated Cigar Common, Ceded to United States & Foreign Securities Corporation, one half Dillon, Read & Co. interest equal 7½ percent total account. Delivered one half to United States & Foreign Securities Corporation or 1,185 shares at 92.5759.	C. D. Barney & Co.	50,000 shares	(1)	(1)	15		2,370	92.5759
Dec. 16, 1927	Apr. 20, 1928	Consolidated Cigar Corporation, common.	do	15,000 shares	(1)	(1)	35	22,337.84		
May 13, 1927	June 18, 1928*	First National Bank of New York.	Noble & Corwin	200 shares	1,978	1,978	50	74,964.66		
June 1, 1926	Oct. 5, 1926	French & Belgium Iron, Steel & Coal Co.'s Securities Trio account. [5]	Mendelssohn & Co. Amsterdam.	30,000,000 francs	16,062		[6] 10,000,000			
July 20, 1929	Feb. 6, 1930	General Realty & Utilities Corporation, common.	Lehman Bros.	25,000 shares long. 117,000 shares short.	(1)	(1)	[7] 1.346	[7] 7,960.60	354	31.312646

* Date on which Dillon, Read & Co.'s interest terminated, although a/c continued.

[1] Not known.

[2] Dillon, Read & Co.'s interest in this account was ceded to United States & Foreign Securities Corporation on Apr. 18, 1927, at cost and ½ the estimated profit in the account as of Apr. 1, 1927.

[3] Shares.

[4] Dollars.

[5] Dillon, Read & Co.'s interest in this Trio account was ceded to United States & Foreign Securities Corporation on Oct. 5, 1926 at cost.

[6] Francs.

[7] Of these amounts, Dillon, Read & Co. re-alloted to others a total of .829 percent participation and $4,909.04 profit.

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EXHIBIT D.—*Pools, joint accounts, syndicates and/or trading accounts in stocks, in which Dillon, Read & Co. or agencies or representatives participated, but which were managed by other than Dillon, Read & Co.*—Continued

[Italic figures indicate losses]

Date formed	Date terminated	Title of security	Managers	Amount for which account formed	Tota. shares		Participations of Dillon, Read & Co. and agencies or representatives (participations of agencies or representatives indicated by **), other participants generally not known (percent)	Gross cash profit or loss of Dillon, Read & Co. and agencies or representatives (profit or loss of agencies or representatives indicated by **) before overhead expense (not including commissions on retai. sales effected by Dillon, Read & Co. or agencies or representatives for the account)	Unsold stock delivered to Dillon, Read & Co. and agencies or representatives (any delivered to agencies or representatives indicated by **)	Price at which unsold shares delivered
					Bought	Sold				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Sept. 3, 1929	Nov. 30, 1929	General Realty & Utility preferred stock dividend.	Lehman Bros.	18,000 shares	(1)	(1)	3	$123.10		
Jan. 29, 1929	Oct. 29, 1929	General Realty & Utility Corporation.	do	60,000 shares	(1)	(1)	16⅔	200.22		
July 27, 1929	Jan. 28, 1930	Globe Underwriters Exchange, Inc., capital stock.	Paine Webber & Co.	50,000 shares	(1)	(1)	30			
Sept. 5, 1928	Dec. 18, 1928	International Printing Ink, common.	W. E. Hutton & Co.	12,000 shares	(1)	(1)	26	9,235.32		
Feb. 2, 1928	Sept. 6, 1928	Keith-Albee Orpheum Corporation, common trading account.	Lehman Bros.	50,000 shares	(1)	(1)	5	1,095.92		
Do	Sept. 17, 1928	Keith-Albee Orpheum Corporation, preferred and common trading account.	do	Preferred, 10,000 shares; common, 10,000 shares.	(1)	(1)	10	*551.64*		
Dec. 18, 1928	Nov. 18, 1929	Louisiana Land & Exploration, capital stock.	Dominick & Dominick	200,000 shares	(1)	(1)	11	6,244.76	[8] 1,100	
Aug. 7, 1929	Nov. 14, 1931	Newport Co., common stock[9]	Robert Sealy	35,000 shares	(1)	(1)	15		[10] 831 [11] 5,402	$247,842.92

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Aug. 19, 1929	Nov. 12, 1929	Republic Brass Corporation, 7 percent cumulative preferred.	Kissel, Kinnicutt & Co.	20,700 shares	(1)	(1)	33⅓	*30,944.70*	
June 6, 1929	July 8, 1929	Ritter Dental Manufacturing Co., Inc. common.	E. Naumburg & Co	1,149 shares	(1)	(1)	50	235.31	
Feb. 16, 1928	July 23, 1928	St. Gobain Chemical Co. common.	Etablissements Kuhlmann.	$2,000,000	(1)	(1)	50	4,265.24	
Apr. 17, 1929	Sept. 9, 1929	St. Lawrence Paper Mills, 75 percent paid units.	Dominion Securities Corporation, Ltd.	25,000 units	(1)	(1)	40	4,154.79	
Aug. 9, 1929	Dec. 31, 1929	do	do	40,000 units	(1)	(1)	10	*16,050.09*	[12] 1,623	(13)
Apr. 14, 1930	Sept. 15, 1930	Seaboard Air Line common	Dominick & Dominick. / E. Naumburg & Co	25,000 shares	(1)	(1)	[17]		700	6.0436
Apr. 1, 1930	Jan. 11, 1931	Societe Generale de Belgique, capital stock.	Banque De L'Union Parisienne.	25,000 shares	(1)	(1)	2	[6] 1,255 42/100		
Mar. 7, 1929	Feb. 20, 1930	"The Sofina"	Mendelssohn & Co. Amsterdam.	3,000 shares	926	926	15	*155,515.77*		
Mar. 1, 1928	Aug. 20, 1928	Spang Chalfant, common stock	Dominick & Dominick.	37,500 shares	(1)	(1)	25	36,738.21		
May 8, 1928	Dec. 28, 1928	Spencer Kellogg, common stock	C. D. Barney & Co	5,000 shares	(1)	(1)	11.44	652.21		
Apr. 3, 1929	(14)	Tennessee, Alabama & Georgia Ry. Co. securities.	Coverdale & Colpitts	$1,000,000	(1)	(1)	10	(15)		
Oct. 29, 1929	June 30, 1930	Union Oil Co. California common or Union Oil associates.	E. W. Clark & Co	200,000 shares	(1)	(1)	4		1,045	42.303
Apr. 28, 1930	June 30, 1931	do	do	200,000 shares	(1)	(1)	2		[16] 1,436 / [17] 799	42.622
June 22, 1929	Aug. 23, 1929	United States & Foreign Securities Corporation common.	Dominick & Dominick.	20,000 shares	(1)	(1)	25	55,722.04		
May 12, 1926	Nov. 23, 1928	Universal Chain Theatres Corp., preferred.	Shields & Co	2,500 sbares	(1)	(1)	50		1,802	81.53176
Feb. 28, 1927	May 17, 1927	Victor Talking Machine Co. common.	J. & W. Seligman & Co.	50,000 shares	(1)	(1)	6	13,650.46		
Dec. 25, 1926	May 31, 1927	do	do	$35,000,000	(1)	(1)	[18] 2.86	[18] 91,850		

[1] Not known.
[6] Francs.
[8] Shares free.
[9] Dillon, Read & Co. share of long position was 5,402 Newport common which was exchanged by the account and delivered to Dillon, Read & Co. as Newport, Ind., common, and Dupont 6 percent.
[10] Dupont 6 per cent.
[11] Newport, Ind.
[12] Warrants.
[13] Free.
[17] Dillon, Read & Co. for Seaboard Air Line Railway Purchase Syndicate, 40 percent.
[14] Open.
[15] Account still open.
[16] Union Oil common.
[17] Union Oil Associates.
[18] Of these amounts Dillon, Read & Co. realloted to others a total of 1.23 per cent participation and $39,466.85 profit.

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COMMITTEE EXHIBIT No. 42, OCT. 13, 1933

(Part of answer to question 12 and part of answer to question 15)

EXHIBIT E.—*Bond or debenture issues of which Dillon, Read & Co. or any of its agencies were syndicate managers, offered during the period Jan. 1, 1927 to Dec. 31, 1931, which have been or are now in default as to interest and/or principal at maturity*

Date offered	Title of security	Amount of issue	Date of initial default	Nature of initial default	Amount outstanding at date of initial default	Amount outstanding Apr. 1, 1933	Market quotations of securities as of approximately Apr. 1, 1933	Secretary of protective or reorganization committees	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	DOMESTIC ISSUES						*Per cent*		
February 1927	Seaboard Air Line Ry. Co. first and consolidated mortgage 6 percent bonds, A, due Sept. 1, 1945.	$5,000,000	Mar. 1, 1931	Interest	$5,000,000	$5,000,000	1-2½	H. R. Powell, 52 Broadway, New York City.	
Do	Seaboard-All Florida Railway, first mortgage 6 percent bonds, B, due Aug. 1, 1935.	2,000,000	Feb. 1, 1931	do	2,000,000	2,000,000	1 to 1½	Alfred H. Phillips, 165 Broadway, New York City.	
Do	Sun-Maid Raisin Growers Association first mortgage 6½ percent bonds, due Feb. 1, 1942.	5,500,000	Feb. 1, 1930 Aug. 1, 1930	do	4,474,500	See Remarks	See Remarks		Offer made in January 1930 by Sun-Maid Raisin Growers of California to purchase bonds at 90 percent and interest. Accepted by all holders except approximately $115,000 bonds and payment made for purchased bonds in March 1930, at which time Feb. 1, 1930, interest paid on all bonds. In the latter part of 1931, offer made to purchase the remaining bonds at 90 percent flat was accepted by all holders except about $8,000 bonds.

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June 1927	Rossman Corporation 6½ percent debentures (with warrants), due May 1, 1942.	2,000,000	Nov.	1, 1930	do	1,785,000	1,785,000	(1)	Henry F. Whitney, 120 Broadway, New York City.	
Do	Seaboard Air Line Ry. Co., 4½ percent equipment trust certificates, series AA, due Jan. 1 and July 1, 1928–1942.	850,000	Jan.	1, 1932	See Remarks	626,000	See Remarks	(2)		Principal and/or interest due on the $168,000 certificates maturing Jan. 1, 1932, to July 1, 1934, inclusive, have not been paid. Receivers certificates have been accepted by holders in exchange for the $168,000 equipment trust certificates. The warrants on the remaining $458,000 equipment trust certificates are being purchased at face value by the receivers.
January 1928	Fulton-Flatbush Corporation certificates of participation in first mortgage fee 6 percent loan, due Jan. 1, 1948.	2,500,000	Jan.	1, 1931	Interest	2,442,500	Mortgage foreclosed.	See Remarks	E. A. Nebolsine, 65 Cedar St., New York City.	Property purchased at foreclosure sale on behalf of holders of $2,215,000 certificates deposited. Deposited certificates received a payment of 12½ percent on account of principal and depositors retain their certificates of deposit, the market quotation, as of approximately Apr. 1, 1933, for which was about 2 percent. No reorganization plan yet formulated.
Do	Seaboard Air Line Ry. Co., 5 percent secured notes, due Feb. 1, 1931.	7,500,000	Feb.	1, 1931	Interest and principal.	7,500,000	7,500,000	1¼	Harold F. Healey, 111 William St., New York City.	
April 1929	Warner Co., first mortgage 6 percent bonds, due Apr. 1, 1944.	7,000,000	Apr.	1, 1933	Interest	5,840,000	5,840,000	15–16	Miles S. Altemose, 135 S. Broad St., Philadelphia, Pa.	
April 1931	Seaboard Air Line Ry. Co. receivers certificates, series A.	4,000,000	May	1, 1932	Interest and principal.	4,000,000	50,000, see remarks.	No quotation.		Holders of $3,950,000 certificates have exchanged for series B receivers' certificates.

[1] No quotation; 4 percent paid on account of principal.
[2] No quotation; sold privately.

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EXHIBIT E.—*Bond or debenture issues of which Dillon, Read & Co. or any of its agencies were syndicate managers, offered during the period Jan. 1, 1927 to Dec. 31, 1931, which have been or are now in default as to interest and/or principal at maturity*—Continued

Date offered	Title of security	Amount of issue	Date of initial default	Nature of initial default	Amount outstanding at date of initial default	Amount outstanding Apr. 1, 1933	Market quotations of securities as of approximately Apr. 1, 1933	Secretary of protective or reorganization committees	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
August 1931	Minneapolis, St. Paul & Saut Ste. Marie Ry. Co. 1-yr. 5 percent notes, due Aug. 1, 1932.	$10,000,000	Aug. 1, 1932	Principal	$145,000	None; see Remarks.	See Remarks.		The holders of all the notes have accepted an offer of 50 percent of their notes in cash and 50 percent in new 6 percent secured notes, maturing Aug. 1, 1934.
April 1931	Panhandle Corporation, 6 percent collateral trust notes (with warrants) due Mar. 15, 1933.	[3] 2,964,000	Mar. 15, 1933	do	4,940,000	$4,940,000	No quotation.		As of Mar. 31, 1933, holders of $4,315,000 notes had agreed to extension of maturity of notes for 1 year.
	FOREIGN ISSUES								
October 1927	Brazil, United States of, 6½ percent external bonds, due Oct. 15, 1957.	41,500,000	Apr. 15, 1932	Interest	39,709,000	39,709,000	23		The Government of Brazil on Mar. 14, 1932, published the "United States Brazil funding plan" which provides, among other things, that interest payable on this loan during the period not exceeding 3 years from Oct. 1, 1931, is to be funded by the issuance of 20-year 5 percent funding loan due 1951. Interest on the funding bonds is currently being paid in cash semi-annually.
February 1927	Bolivia, republic of, 7 percent external bonds, due July 1, 1958.	14,000,000	Jan. 1, 1931	Interest	13,364,000	13,364,000	5		

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September 1927	Deutsche Bank, 5-year 6 percent note, due Sept. 1, 1932, American participation certificates.	25,000,000	Sept. 1, 1932	Principal	(4)	Less than $100,000; see remarks.	80¾		The German governmental authorities, under existing emergency decrees, would not permit payment in dollars at maturity. On Aug. 1, 1932, Deutsche Bank offered to pay the principal due on Sept. 1 in "blocked" reichsmarks or, alternatively, asked bondholders to extend the time for payment of the principal to Sept. 1, 1935. Holders of practically all the outstanding certificates accepted one of the offers; less than $100,000 principal amount of unextended certificates are still outstanding.
September 1928	Bolivia, Republic of, 7 percent external bonds, due Mar. 1, 1969.	23,000,000	Mar. 1, 1931	Interest	22,690,000	22,690,000	5		

[3] Part of total issue of $4,940,000.
[4] Exact amount not known.

The above exhibit (prepared as of Apr. 1, 1933) does not include issues where no default has occurred as to interest, or principal at maturity, but where there may have been technical defaults, nor does it include San Francisco Bay Toll-Bridge Co., first mortgage 6½ percent sinking fund bonds ($4,303,000 now outstanding) in which the sinking fund instalments due Aug. 1, 1932, and Feb. 1, 1933, have not been paid, which payments were waived by the holders of more than 75 percent of the bonds, nor Rudolph Karstadt, A. G. first mortgage collateral 6 percent sinking fund bonds ($13,793,000 now outstanding) in which the sinking fund instalment due Nov. 1, 1932, was not paid, and on which interest was not paid on May 1, 1933.

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COMMITTEE EXHIBIT 43 OCT. 13, 1933

(Part of answer to question 12 and part of answer to question 15)

EXHIBIT F.—*Bond or debenture issues of which Dillon, Read & Co. or any of its agencies were syndicate managers, offered during the period Jan. 14, 1921 to Dec. 31, 1926, which were in default as to interest and/or principal at maturity during the period Jan. 1, 1927 to Dec. 31, 1931*

Date offered	Title of security	Amount of issue	Date of initial default	Nature of initial default	Amount outstanding at date of initial default	Amount outstanding Apr. 1, 1933	Market quotations of securities as of approximately Apr. 1, 1933	Secretary of protective or reorganization committee	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	DOMESTIC ISSUES						*Percent*		
Sept. 1921	Fisk Rubber Co. first mortgage 8 percent bonds, due Sept. 1, 1941.	$10,000,000	Mar. 1, 1931	Interest	$7,620,000	$7,620,000	57	Thomas F. Troxell, 65 Cedar Street, New York City.	
Jan. 1924	Vanderbilt Avenue Building Corporation first mortgage leasehold 6½ percent bonds, due Jan. 15, 1944.	2,000,000	July 15, 1931	do	1,531,000	1,528,000	5-15	R. A. D. Preston, 65 Cedar Street, New York City.	
Apr. 1924	Grand Rapids Railway Co. first mortgage 7 percent bonds, due May 1, 1939.	3,200,000	Nov. 1, 1931	do	2,781,500	2,781,500	1-4	Gordon B. Wheeler, Lock Box T, Chicago, Ill.	
June 1924	S. B. & B.W. Fleisher, Inc., first mortgage, 6 percent bonds, due June 1, 1939.	2,000,000	June 1, 1930	do	1,311,500	Mortgage foreclosed.	(1)	F. F. Spellissy, Market Street National Bank, Philadelphia, Pa.	Property purchased at foreclosure sale on behalf of holders of certificates of deposit representing $1,249,500 bonds
June 1924	Detroit United Railway, first mortgage and collateral trust 5-year 6 percent bonds, due July 1, 1929.	9,000,000	July 1, 1925	do	8,275,000	do	See remarks.	C. E. Sigler, 70 Broadway, New York City.	During receivership, 31 percent was paid on account of principal. In reorganization in 1928 the depositors received an additional payment of 5 percent together with adjustment mortgage bonds and common stock of Eastern Michigan Railways Co. Eastern Michigan Railways Co. now in receivership.

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Nov. 1924	Miami, City of, 4½-percent bonds, due Oct. 1, 1926-34.	759,000	Oct. 1, 1930 Oct. 1, 1932	Principal Interest.	427,000	427,000	23-27	Harry A. Dunn, 115 Broadway, New York City.	
Dec. 1924	Fisk Tire Fabric Co. first mortgage 6½-percent bonds, due Jan. 1, 1935.	2,000,000	Jan. 1, 1931	Interest	900,000	Mortgage foreclosed.	See remarks	George A. Hill, State Street Trust Co., Boston, Mass.	Property purchased after foreclosure by receivers of The Fisk Rubber Co. Bondholders received in cash 50 percent of the principal amount of their bonds in final settlement.
July 1925	Seaboard-All Florida Ry. first mortgage 6-percent bonds, A, due Aug. 1, 1935.	25,000,000	Feb. 1, 1931	do	25,000,000	25,000,000	1-2½	Alfred H. Phillips, 165 Broadway, New York City.	
Sept. 1925 July 1926	Seaboard Air Line Ry. Co. first and consolidated mortgage 6-percent bonds, A, due Sept. 1, 1945.	18,000,000	Mar. 1, 1931	do	18,000,000	18,000,000	do	H. R. Powell, 52 Broadway, New York City.	
Nov. 1925	Nevada Irrigation District, 5½-percent bonds, due July 1, 1936-65.	6,000,000	July 1, 1931	do	6,000,000	See Remarks	(2)	Justin M. Jacobs, 1001 Financial Centre Building, San Francisco, Calif.	Holders of approximately 95 percent of the bonds have agreed to accept new refunding bonds in exchange for their old bonds.
Jan. 1926	Fisk Rubber Co., 5½-percent notes, due Jan. 1, 1931.	10,000,000	Jan. 1, 1931	Principal and interest.	8,199,500	8,199,500	48	Thomas F. Troxell, 65 Cedar Street, New York City.	
	FOREIGN ISSUES								The Government of Brazil on Mar. 14, 1932, published the "United States of Brazil Funding Plan" which provides, among other things, that interest payable on these loans during the period not exceeding 3 years from Oct. 1, 1931 is to be funded by the issuance of 20-year 5-percent funding loan bonds due 1951. Interest on the funding bonds is currently being paid in cash semi-annually.
June 1922	Brazil, United States of, Central Railway electrification loan, 7-percent bonds, due June 1, 1952.	25,000,000	Dec. 1, 1931	Interest	17,503,000	17,503,000	20¼		
May 1921 Aug. 1921	Brazil, United States of, 8 percent external bonds, due June 1, 1941.	50,000,000	Dec. 1, 1931	do	31,352,500	31,352,500	24½		

[1] Certificates of deposit 11 percent to 13 percent.
[2] 34½ percent to 35½ percent for new refunding bonds.

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EXHIBIT F.—*Bond or debenture issues of which Dillon, Read & Co. or any of its agencies were syndicate managers, offered during the period Jan. 14, 1921 to Dec. 31, 1926, which were in default as to interest and/or principal at maturity during the period Jan. 1, 1927, to Dec. 31, 1931*—Continued

Date offered	Title of security	Amount of issue	Date of initial default	Nature of initial default	Amount outstanding at date of initial default	Amount outstanding Apr. 1, 1933	Market quotations of securities as of approximately Apr. 1, 1933	Secretary of protective or reorganization committee	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	FOREIGN ISSUES—con.								
Aug. 1924	Cespedes Sugar Co. first mortgage 7½-percent bonds, due Sept. 1, 1939.	$3,000,000	Sept. 1, 1931	Interest	$1,991,000	$1,991,000	2-4	G. M. Hopfenbeck, 54 Wall Street, New York City.	

The above exhibit (prepared as of Apr. 1, 1933) does not include issues where no default has occurred as to interest, or principal at maturity, but where there may have been technical defaults, nor does it include The Bradford (210 West 70th Corporation) first mortgage fee 15-year 6 percent sinking fund loan, which failed to pay interest and sinking fund on Jan. 15, 1929 ($1,070,000 outstanding at that date), and which was paid off in May, 1930 in full, at par and accrued interest to date of payment; nor United Railways of Havana 15-year 7½ percent equipment-trust certificates due Feb. 15, 1936 ($2,200,000 now outstanding), on which interest has been paid to date but on which sinking fund installments due Feb. 15, 1931, and subsequent have not been paid; nor Witherbee, Sherman & Co. first mortgage 6 percent sinking fund gold bonds, series A ($3,600,000 now outstanding) on which sinking-fund installments were not paid in 1931 or since, and on which interest was not paid on May 1, 1932, or since; nor city of Rio de Janeiro 8-percent bonds due Oct. 1, 1946 ($8,055,000 now outstanding), nor city of Montevideo 7 percent bonds due June 1, 1952 ($5,604,000 now outstanding), on which issues sinking fund installments were not paid during the last half of 1931 or since, and on which interest was not paid during the first half of 1932 or since.

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COMMITTEE EXHIBIT NO. 44, OCT. 13, 1933

(Part of answer to question 15)

EXHIBIT G.—*Bond or debenture issues, in which Dillon, Read & Co. or agencies participated to the extent of $250,000 or more, but which were managed by others than Dillon, Read & Co., offered during the period Jan. 1, 1927 to Dec. 31, 1931, which have been or are now in default as to interest and/or principal at maturity*

Date offered	Title of security	Manager	Amount of issue	Sales of Dillon, Read & Co. and agencies (agencies, sales indicated by **)	Date of initial default	Nature of initial default	Amount outstanding at date of initial default	Amount outstanding at Apr. 1, 1933	Market quotations of securities as of approximately Apr. 1, 1933	Secretary of protective or reorganization committee
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	DOMESTIC ISSUES								*Percent*	
Nov. 5, 1927	International Match Corporation 5 percent debentures, due Nov. 1, 1947.	Lee, Higginson & Co.	$50,000,000	$1,000,000	May 1, 1932	Interest	$47,430,500	$47,430,500	9–9¾	W. R. Biggs, 48 Wall Street, New York City.
Nov. 26, 1927	San Francisco Bay Toll-Bridge Co. 7 percent participating debentures, due Nov. 1, 1942.	Paine, Webber & Co.	2,000,000	300,000	Nov. 1, 1931	do	2,000,000	2,000,000	½–3	G. S. Gilpatrick, 25 Broad Street, New York City.
Mar. 1, 1928	St. Louis-San Francisco Ry. Co., consolidated mortgage 4½ percent bonds, A, due Mar. 1, 1978.	Speyer & Co.	100,000,000	500,000	Mar. 1, 1933	do	99,866,000	99,866,000	10½–11	C. W. Michel, secretary, Readjustment Managers, 120 Broadway, New York City.
Nov. 12, 1929	N. Y., Chicago & St. Louis R.R. Co. 3-year 6 percent notes, due Oct. 1, 1932.	Guaranty Co.	20,000,000	500,000	Oct. 1, 1932	Interest and principal.	20,000,000	(1)	41–44	
May 21, 1929	Richfield Oil Co. of California first mortgage and collateral trust 6 percent convertible bonds, A, due May 1, 1944.	Hemphill, Noyes & Co.	25,000,000	500,000	May 1, 1931	Interest	24,981,000	24,981,000	20–23	Lou Fritch, 225 Rowan Building, Los Angeles, Calif.
Aug. 21, 1929	Penn Dock & Warehouse Co., leasehold mortgage 6 percent bonds, due Aug. 1, 1949.	National City Co.	5,750,000	700,000	Aug. 1, 1931	do	5,750,000	5,750,000	34–35	Nelson Stuart, 22 William Street, New York City.

[1] Holders of about 91 percent have accepted an offer of exchange.

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EXHIBIT G.—*Bond or debenture issues, in which Dillon, Read & Co. or agencies participated to the extent of $250,000 or more, but which were managed by others than Dillon, Read & Co., offered during the period Jan. 1, 1927, to Dec. 31, 1931, which have been or are now in default as to interest and/or principal at maturity*—Continued

Date offered	Title of security	Manager	Amount of issue	Sales of Dillon, Read & Co. and agencies (agencies) sales indicated by **	Date of initial default	Nature of initial default	Amount outstanding at date of initial default	Amount outstanding at Apr. 1, 1933	Market quotations of securities as of approximately Apr. 1, 1933	Secretary of protective or reorganization committee
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	DOMFSTIC ISSUES—continued								*Percent*	
Sept. 9, 1930	St. Louis-San Francisco Ry. Co. consolidated mortgage 4½ percent bonds, A, due Mar. 1, 1978.	Speyer & Co.	$10,000,000	$500,000	Mar. 1, 1933	Interest	$10,000,000	$10,000,000	10½–11	C. W. Michel, secretary, Readjustment Managers, 120 Broadway, New York City.
Mar. 15, 1930	Wabash Railway Co. refunding and general 5 percent bonds, D, due Apr. 1, 1980.	Kuhn, Loeb & Co.	15,000,000	250,000	Apr. 1, 1932	do	15,000,000	15,000,000	6–8	A. Goodwin Cooke, 31 Nassau Street, New York City.
Jan. 12, 1931	International Match Corporation 5-percent convertible debentures, due Jan. 15, 1941.	Lee, Higginson & Co.	50,000,000	298,000	July 15, 1932	do	48,979,000	48,979,000	9 – 9¾	W. R. Biggs, 48 Wall Street, New York City.
Apr. 9, 1931	Fox Film Corporation 6-percent convertible debentures, due Apr. 1, 1936.	Chase Securities Corporation.	30,000,000		Apr. 1, 1933	do	30,000,000	30,000,000	10 –13	
Do	Film Securities Corporation 6-percent secured notes, due Apr. 1, 1933.	do	20,000,000		do	Principal	20,000,000	20,000,000	(2)	
June 17, 1931	St. Louis-San Francisco Ry. Co. consolidated mortgage 6-percent bonds, B, due June 1, 1936.	do	10,000,000	3,635,000	Dec. 1, 1932	Interest	10,000,000	10,000,000	(3)	C. W. Michel, secretary readjustment managers, 120 Broadway, New York City.
	FOREIGN ISSUES									
Feb. 1, 1927	Chile, Republic of, 6-percent external bonds, due Feb. 1, 1961.	Hallgarten & Co.	27,500,000	250,000	Aug. 1, 1931	do	25,935,000	25,935,000	6½– 7	
Dec. 20, 1927	Peru, Republic of, 6-percent loan, due Dec. 1, 1960.	J. & W. Seligman & Co.	50,000,000	500,000	June 1, 1931	do	48,383,000	48,383,000	5 – 5½	Frederick G. Curry, 22 William Street, New York City, and H. Sumnich, 175 Broadway, New York City.

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Apr. 6, 1927	Serbs, Croats, and Slovenes, Kingdom of, 7-percent secured bonds, B, due May 1, 1962.	Blair & Co.	30,000,000	200,000	Nov. 1, 1932	do	28,929,000	28,929,000	14 -15	A. G. Burland, 44 Wall Street, New York City.
Apr. 25, 1927	Jugoslavia, State Mortgage Bank of, secured 7-percent bonds, due Apr. 1, 1957.	J. & W. Seligman & Co.	12,000,000	750,000	Oct. 1, 1932	do	10,693,500	10,693,500	12 -16	Stayman L. Reed, 54 Wall Street, New York City.
Feb. 16, 1927	Pernambuco, State of, 7-percent external loan, due Mar. 1, 1947.	White, Weld & Co.	6,000,000	200,000	Sept. 1, 1931	do	5,233,000	5,233,000	8 -10	
Nov. 30, 1927	Vienna, City of, external loan 6-percent bonds, due Nov. 1, 1952.	National City Co.	30,000,000	800,000	Nov. 1, 1932	do	26,857,500	26,857,500	59 -60	
Oct. 11, 1928	Protestant Central Credit Union of Hungary 7-percent bonds, due Sept. 1, 1963.	E. H. Rollins & Sons.	1,250,000	----------	Mar. 1, 1932	do	1,212,000	1,212,000	(3)	
Jan. 23, 1928	Chile, Republic of, external railway refunding 6-percent loan, due Jan. 1, 1961.	National City Co.	45,912,000	1,000,000	Jan. 1, 1932	do	44,152,000	44,152,000	6½-7	
Aug. 31, 1928	Chile, Republic of, external 6 percent loan, due Sept. 1, 1961.	do	16,000,000	240,000	Sept. 1, 1931	do	15,577,000	15,577,000	6½-7	
Sept. 19, 1928	Kreuger & Toll 5-percent participating debentures, American certificates.	Lee, Higginson & Co.	1,000,000 Certificates.	8,900 Certificates.	1932	do	(4)	(4)	(3)	
Nov. 11, 1929	Kreuger & Toll Co. 5-percent participating debentures, American certificates.	do	1,000,000 Certificates.	89,287 Certificates.	1932	do	(4)	(4)	(3)	
Nov. 14, 1929	Kreuger & Toll Co. 5-percent participating debentures, American certificates.	do	Approximately 1,304,491 Certificates.	----------	1932	do	(4)	(4)	(3)	
Oct. 23, 1928	Peru, Republic of, Peruvian national 6-percent loan, second series, due Oct. 1, 1961.	J. & W. Seligman & Co.	$25,000,000	$250,000	Apr. 1, 1931	do	24,469,500	24,469,500	4½-5½	Frederick G. Curry, 22 William Street, New York City, and H. Sumnich 175 Broadway, New York City.
Feb. 28, 1928	Rio de Janeiro, City of, 6½-percent external loan, due Feb. 1, 1953.	White, Weld & Co.	30,000,000	----------	Aug. 1, 1931	do	29,492,000	29,492,000	8½-11½	
Mar. 9, 1929	Chile, Republic of, external 6 percent loan, due Mar. 1, 1962.	National City Co.	10,000,000	200,000	Sept. 1, 1931	do	9,790,000	9,790,000	6½-8	

[3] No quotation.
[3] No quotation—entire issue was sold and is held privately.
[4] Not known.

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EXHIBIT G.—*Bond or debenture issues, in which Dillon, Read & Co. or agencies participated to the extent of $250,000 or more, but which were managed by others than Dillon, Read & Co., offered during the period Jan. 1, 1927, to Dec. 31, 1931, which have been or are now in default as to interest and/or principal at maturity*—Continued

Date offered	Title of security	Manager	Amount of issue	Sales of Dillon, Read & Co. and agencies (agencies) sales indicated by **	Date of initial default	Nature of initial default	Amount outstanding at date of initial default	Amount outstanding at Apr. 1, 1933	Market quotations of securities as of approximately Apr. 1, 1933	Secretary of protective or reorganization committee
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	FOREIGN ISSUES—continued								*Percent*	
Mar. 6, 1929	Kreuger & Toll Co. 5-percent secured debentures (with warrants), due Mar. 1, 1959.	Lee, Higginson & Co.	[5] $26,500,000	$791,000	Sept. 1, 1932	Interest	[6] $47,596,500	[6] $47,596,500	12¼–13½	Bernard Heinick, 46 Wall Street, New York City, and Tristan Antell, 52 Broadway, New York City.
Dec. 2, 1929	Beauharnois Power Corporation, Ltd., 6-percent collateral trust bonds due Oct. 1, 1959.	Dominion Securities Corporation, Ltd.	30,000,000	----------	Apr. 1, 1932	-----do------	30,000,000	30,000,000	31½–32½	W. L. Gatehouse, P.O. Box 2524, Montreal, Canada.
July 29, 1930	Saxon Public Works, Inc., 5-percent notes, due July 15, 1932.	National City Co.	10,000,000	309,000	July 15, 1932	Principal and interest. [7]	7,000,000	7,000,000	[8] 60 –61	
Feb. 7, 1927	Lake St. John Power & Paper Co. Ltd., first mortgage 6½-percent bonds, A, due Feb. 1, 1947.	Dominion Securities Corporation Ltd.	5,000,000	500,000 **50,000	Aug. 1, 1932	Interest	4,700,000	4,700,000	15 –18	D. H. McDougall, chairman, care of National Trust Co., Montreal, Canada. Name of Secretary not known to us.
Mar. 22, 1930	Buenos Aires, Province of, 6½-percent external bonds, due Aug. 1, 1961.	Harris, Forbes & Co. New York.	8,000,000	250,000	Feb. 1, 1933	Interest [9]	[10] 10,904,500	[10] 10,904,500	20 –23	

[5] American portion.
[6] Includes foreign portion.
[7] Offer of partial payment and extension made to holders.
[8] For extended notes.
[9] Partial payment plan published Feb. 22, 1933.
[10] Includes bonds additional to the $8,000,000 issue.

The above exhibit (prepared as of Apr. 1, 1933) does not include issues where no default has occurred as to interest, or principal at maturity, but where there may have been technical defaults, nor does it include State of Sao Paulo (Brazil) 7 percent coffee realization loan, due Oct. 1, 1940 ($27,989,000 now outstanding), on which the sinking fund instalment due Apr. 1, 1933 was not paid; nor Dominican Republic customs administration 5½ percent bonds due Oct. 1, 1940, first and second series ($8,280,000 now outstanding) on which the sinking fund instalments due Nov. 1, 1931 and subsequently, were not paid.

The information given above, where facts were not directly known to us, has been obtained from current published sources.

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COMMITTEE EXHIBIT NO. 45, OCTOBER 13, 1933

(Answer to question 16)

EXHIBIT H.—*Issues of which Dillon, Read & Co. or agencies were managers, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying groups but not in distributing, banking or general dealer groups*

Security (1)	Amount (2)	Groups (3)	Other participants (4)	Participations (5)
Alberta, Province of, 4½ percent debentures, due June 1, 1967.	$3,875,000	Original	Dominion Securities Corporation	$1,937,500.00
American Chain Co. Inc., 7 percent cumulative preferred stock (with warrants), par value $100.	110,000 shares	do	Hemphill, Noyes & Co	[1] 55,000
Bankitaly Mortgage Co. real-estate first mortgage collateral 5½ percent bonds, due July 1, 1947.	$5,000,000	Purchase	Blyth, Witter & Co	$1,750,000.00
			Continental & Commercial Co	500,000.00
			Bank of Italy National Trust & Savings Association	250,000.00
			Bancitaly Corporation	250,000.00
			Marshall Field, Glore Ward & Co	250,000.00
Batavian Petroleum Co. 4½ percent guaranteed debentures, due Jan. 1, 1942.	$25,000,000	do	Mendelssohn & Co	12,500,000.00
			United States & Foreign Securities Corporation	3,125,000.00
Bolivia, Republic of, 7 percent external bonds, due July 1, 1958.	$14,000,000	Intermediate	Sir Alex McKenzie	1,250,000.00
			J. V. W. Reynders	500,000.00
			Central States Electric Corporation	4,000,000.00
			J. Dreyfus & Co	500,000.00
			Mendelssohn & Co	1,000,000.00
Brazil, United States of, 6½ percent external bonds, due Oct. 15, 1957.	$41,500,000	Purchase	National City Co	10,375,000.00
			Lee, Higginson & Co	2,500,000.00
Canadian National Railways 4½ percent equipment trust certificates, due May 1, 1928–42, inclusive.	$15,000,000	do	Dominion Securities Corporation	2,025,000.00
			National City Co	2,456,250.00
			Guaranty Co. of New York	2,456,250.00
			Lee, Higginson & Co	2,456,250.00
			White, Weld & Co	1,500,000.00
			Harris, Forbes & Co	825,000.00
			Bankers Trust Co	825,000.00
Consolidated Cigar Corporation 6½-percent cumulative prior preferred stock (with warrants), $100 par value.	110,000 shares	Original	Hemphill, Noyes & Co	[1] 33,000
			Charles D. Barney & Co	[1] 11,000
			Shields & Co	[1] 5,500
Empire District Electric Co. 6-percent cumulative preferred stock, $100 par.	35,000 shares	do	H. L. Doherty & Co	[1] 3,500
			A. B. Leach & Co	[1] 7,875
			Federal Securities Corporation	[1] 7,875
Goodyear Tire & Rubber Co. first mortgage and collateral 5-percent bonds, due May 1, 1957.	$60,000,000	Purchase	National City Co	$9,000,000.00
			Blair & Co., Inc	4,000,000.00
			Lee, Higginson & Co	4,000,000.00
Loew's, Inc., $6.50 cumulative preferred stock (with warrants), no par.	150,000 shares	Underwriting	Blyth, Witter & Co	[1] 30,000
			A. G. Becker & Co	[1] 15,000

[1] Shares.

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EXHIBIT H.—*Issues of which Dillon, Read & Co. or agencies were managers, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying groups, but not in distributing, banking, or general-dealer groups*—Continued

Security (1)	Amount (2)	Groups (3)	Other participants (4)	Participations (5)
Milan, City of external (Italy), 6½-percent bonds, due Apr. 1, 1952.	$30,000,000	Purchase	Marshall Field, Glore Ward & Co	$6,000,000.00
			Lazard Bros. & Co	1,000,000.00
			Bankers Trust Co	7,666,667.00
			Guaranty Co. of New York	7,667,667.00
Montreal Metropolitan Commission 4½-percent bonds, due Nov. 1, 1953-54-61.	$6,037,000	do	Bankers Trust Co	1,512,000.00
			Dominion Securities Corporation	1,512,000.00
			Banque Canadian Nationale	750,000.00
			Canadian Bank of Commerce	500,000.00
			First National Corporation of Boston	250,000.00
New Orleans Public Service, Inc., first and refunding mortgage 5-percent bonds, due June 1, 1955.	$8,000,000	do	Electric Bond & Share Co	2,000,000.00
			Brown Bros. & Co	1,098,500.00
			Hibernia Securities Co., Inc	800,000.00
			Old Colony Trust Co	725,500.00
			M. H. Newman & Co	100,000.00
Nova Scotia, Province of, Canada 4½-percent debentures, due Sept. 15, 1952.	$12,370,000	do	Equitable Trust Co	3,080,000.00
			Dominion Securities Corporation	3,080,000.00
			International Acceptance Bank	1,026,500.00
			Canadian Bank of Commerce	1,026,500.00
			First National Corporation of Boston	513,000.00
			Northern Trust Co., Chicago	513,000.00
Obio Power Co., first and refunding mortgage 4½-percent bonds, due June 1, 1956.	$9,702,000	do	Lee, Higginson & Co	1,455,300.00
Oil Well Supply Investment Co., 5½ percent collateral trust notes (with warrants), due Mar. 1, 1932.	$2,000,000	do	Continental & Commercial Co	970,200.00
			Blair & Co., Inc	750,000.00
			Hillman Investment Co	500,000.00
Quebec, Province of, Canada, 4½ percent bonds, due May 1, 1957.	$4,000,000	do	Bankers Trust Co	1,333,333.00
			Dominion Securities Corporation	1,333,334.00
Rossman Corporation, 6½ percent debentures, (with warrants), due May 1, 1942.	$2,000,000	do	Union Cleveland Co	100,000.00
			J. J. Spearman	5,000.00
			T. S. Cobbey	5,000.00
			Carruthers & Brady	10,000.00
			H. F. Jordan	10,000.00
			Nixon & Co., Inc	50,000.00
			Wm. C. Simons & Co., Inc	50,000.00
San Francisco Bay Toll-Bridge Co., first mortgage 6½ percent bonds, due Nov. 1, 1957.	$4,500,000	do	Kissel, Kinnicutt & Co	1,000,000.00
			Paine, Webber & Co	1,000,000.00
			M. H. Lewis & Co	375,000.00
			Shingle, Brown & Co	375,000.00
			Banks, Huntley & Co	375,000.00
			California Co	375,000.00
Seaboard Air Line Railway Co., first and consolidated mortgage 6 percent bonds, B, due Sept. 1, 1945.	$5,000,000	do	The Continental Co	500,000.00
			Ladenburg, Thalmann & Co	1,237,500.00

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Seaboard Air Line Railway Co., 4½ percent equipment trust, series AA, due Jan. 1, and July 1, 1928–42.	$850,000	do	The Continental Co	42,500.00
			Ladenburg, Thalmann & Co	222,062.50
Seaboard-All Florida Railway first mortgage 6-percent bonds, B, due Aug. 1, 1935.	$2,000,000	do	The Continental Co	200,000.00
			Ladenburg, Thalmann & Co	495,000.00
Sun Maid Raisin Growers Association first mortgage 6½-percent bonds, due Feb. 1, 1942.	$5,500,000	do	First Securities Co	1,000,000.00
			Anglo London Paris Co	500,000.00
Union Electric Light & Power Co. (Mo.) general mortgage 5-percent bonds, B, due Aug. 1, 1967.	$10,000,000	do	G. H. Walker & Co	1,500,000.00
United Steel Works Corporation, 6½-percent debentures, due July 1, 1947.	$30,000,000	do	German Credit & Investment Corporation	3,000,000.00
			International Acceptance Bank	5,700,000.00
United Steel Works Corporation 6½-percent mortgage bonds, C, due June 1, 1951.	$4,225,000	do	Dr. Alex. Kreuter	211,250.00
			International Acceptance Bank	802,750.00
Universal Pictures Co., Inc. 6-percent notes, due Jan. 1, 1930.	$2,500,000	Primary	Shields & Co., Inc	750,000.00
White Eagle Oil & Refining Co. 5½-percent debentures, (with warrants) due Mar. 15, 1937.	$5,000,000	Original	Commerce Trust Co., Kansas City	500,000.00
			L. L. Marcell	220,000.00
			Mary V. Marcell	80,000.00
			Genevieve E. Marcell	80,000.00
			H. Vanderslice	100,000.00
Wiener Bank-Verein (Vienna, Austria) American trust certificates representing capital stock.	25,000 [2]	Purchase	United States & Foreign Securities Corporation	[1]6,250.00
National Cash Register Co. common A stock underwriting.	60,000 shares	Original	Dominick & Dominick	[1] 30,000
National Transcontinental Railway Branch Lines Co. first mortgage 4½-percent bonds, due Oct. 1, 1955.	$3,396,000	Purchase	White, Weld & Co	$1,358,400.00
New Orleans Public Service, Inc., first and refunding 5-percent bonds, B, due June 1, 1955.	$5,000,000	do	Electric Bond & Share Co	1,250,000.00
			Brown Bros. & Co	689,000.00
			Hibernia Securities Co	500,000.00
			Old Colony Corporation	455,500.00
			H. W. Newman & Sons	50,000.00
Newport Co. class A convertible stock, $50 par value	130,000 shares	Primary	Scholle Brothers	[1] 39,000
			Shields & Co., Inc	[1] 13,000
			A. G Becker & Co., Chicago	[1] 19,500
North American Eddison Co. 5½-percent debentures, series B, due Aug. 15, 1963.	$20,000,000	Special	National City Co	$3,500,000.00
Ohio Power Co. first and refunding mortgage 4½-percent bonds, D, due June 1, 1956.	$10,018,000	Purchase	Lee Higginson & Co	1,502,700
			Continental National Co	1,001,800
			W. C Langley & Co	500,900
Pennsylvania Bankshares & Securities Corporation 5-percent cumulative preferred stock ($50 par value).	60,000 shares	do	Peoples Savings & Trust Co., Pittsburgh	[1] 5,000
Ritter Dental Mfg. Co. common stock	do	do	E. Naumburg & Co	[1] 20,000
			Shields & Co., Inc	[1] 20,000
Ruhr Chemical Corporation 6-percent mortgage bonds. A, due Apr. 1, 1948.	$4,000,000	do	International Acceptance Bank	$400,000.00
Ruhr Gas Corporation 6½-percent bonds, A, due Oct. 1, 1953.	$12,000,000	do	Halsey, Stuart & Co	4,500,000.00
			International Acceptance Bank	1,200,000.00
			Henry Schroder Banking Corporation	1,200,000.00
			A. G. Becker & Co	600,000.00
Ruhr Housing Corporation first mortgage 6½-percent bonds, due Nov. 1, 1958.	$4,600,000	do	Ladenburg, Thalmann & Co	920,000.00
			Blyth, Witter & Co	920,000.00
			Speyer & Co. and Associates	1,840,000.00

[1] Shares.

[2] Certificates.

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EXHIBIT H.—*Issues of which Dillon, Read & Co. or agencies were managers, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying groups, but not in distributing, banking, or general-dealer groups*—Continued

Security (1)	Amount (2)	Groups (3)	Other participants (4)	Participations (5)
St. Lawrence Paper Mills Co., Ltd., allotment certificates. (Units of 1 share preferred 1 share common and warrants to buy one half share common stock.)	190,000 units 130,000 shares common.	Original	Dominion Securities Corporation, Ltd Flood, Barnes & Co	[3] $40 [3] 20
	95,000 units	Primary	American Exchange Security Corporation Bank Italy Corporation Central Union Trust Co International Acceptance Bank Ladenburg, Thalmann & Co Oakmont Corporation Shields & Co., Inc White, Weld & Co George, Haines & Halsey Ernest Tracy Henry Schroder Banking Corporation Hillman Investment Co H. T. Holtz & Co Union Trust Co	[4] 10,000 [4] 10,000 [4] 5,000 [4] 5,000 [4] 5,000 [4] 10,000 [4] 5,000 [4] 5,000 [4] 2,500 [4] 2,500 [4] 5,000 [4] 5,000 [4] 5,000 [4] 5,000
Seaboard Air Line Railway Co. 5-percent secured notes, due Feb. 1, 1931.	$7,500,000	Purchase	Ladenburg, Thalmann & Co	$2,062,500.00
Spang, Chalfant & Co., Inc., 6-percent cumulative preferred stock ($100 par value).	25,000 shares	do	Dominick & Dominick Hill, Wright & Frew J. H. Holmes & Co	[1] 6,250 [1] 6,250 [1] 6,250
Spang, Chalfant & Co., Inc., first mortgage 5-percent bonds due Jan. 1, 1948.	$6,808,000	do	Hillman Investment Corporation	$3,404,000.00
Spencer Kellogg & Sons, Inc., capital stock	15,000 shares	do	Baker, Trubee & Putnam Glenny, Monro & Moll Manufacturers & Traders Peoples Trust Co	[1] 4,286 [1] 2,142 [1] 4,286
Union Oil Co. of California common stock underwriting	379,993 shares	Underwriting	Union Oil Co. Provident fund Wm. R. Staats & Co First Securities Co Blair & Co., Inc Bond Goodwin & Tucker	[1] 94,998 [1] 56,999 [1] 56,999 [1] 28,499 [1] 21,375
Union Oil Associates capital stock underwriting	216,077 shares	do	Union Oil Associates Provident fund Wm. R. Staats & Co First Securities Co Blair & Co., Inc Bond & Goodwin & Tucker	[1] 54,019 [1] 22,411 [1] 32,412 [1] 16,206 [1] 12,154
American Cities Power & Light Corporation allotments certificates representing units of class A and class B stocks.	400,000 units	Primary	E. H. Rollins & Sons, Boston Dominick & Dominick Brown Bros. & Co Hemphill, Noyes & Co Shields & Co., Inc	[4] 40,000 [4] 20,000 [4] 80,000 [4] 40,000 [4] 20,000

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Bolivia, Republic of, 7-percent external bonds, due Mar. 1, 1969.	$23,000,000	Special	Dominion Securities Corporation, Toronto	$2,500,000.00
			Dominion Securities Corporation, London	620,000.00
			Bancitaly Corporation	1,000,000.00
			E. H. Rollins & Sons, Boston	1,000,000.00
			E. B. Smith & Co	750,000.00
British Columbia, Province of, 4-percent Treasury bills, due Aug. 1, 1928.	$4,000,000	Purchase	Dominion Securities Corporation, Ltd	1,333,333.00
			Canadian Bank of Commerce	1,333,333.00
Central States Electric Corporation 6-percent cumulative preferred stock (with warrants), $100 par value.	100,000 shares	Primary	E. H. Rollins & Sons	[1] 5,000
			Stone & Webster and Blodget	[1] 20,000
			Dominick & Dominick	[1] 5,000
			Shields & Co., Inc	[1] 5,000
Central States Electric Corporation convertible preferred stock, optional dividend ($6) series.	100,000 shares	Special	E. H. Rollins & Sons	[1] 5,000
			Stone & Webster and Blodget	[1] 20,000
			Dominick & Dominick	[1] 2,500
			Shields & Co., Inc	[1] 5,000
Central Vermont Ry. Co. 4½ percent-receiver's certificates due Jan. 16, 1930.	$5.000,000	Original	White, Weld & Co	$1,250,000.00
Commercial Investment Trust Corporation, 6-percent convertible debentures, due Mar. 1, 1948.	$15,000,000	Primary	Blyth, Witter & Co	1,500,000.00
			A. G. Becker & Co., Chicago	1,500,000.00
			Cassatt & Co., Philadelphia	1,000,000.00
			Shawmut Corporation, Boston	1,000,000.00
			Shields & Co., Inc	400,000.00
Commercial Investment Trust Corporation, common stock underwriting.	127,429 shares	Original	Lehman Bros	[1] 50,971
		Special	Blyth, Witter & Co	[1] 12,742
			Shields & Co., Inc	[1] 3,398
			A. G. Becker & Co., Chicago	[1] 12,742
			Cassatt & Co., Philadelphia	[1] 8,495
			Shawmut Corporation, Boston	[1] 8,495
			Lehman Bros	[1] 32,623
Educational Pictures, Inc., common stock underwriting	35,944 shares	Original	Whitehall Trust, Ltd	[1] 17,972
Gelsenkirchen Mining Corporation 6-percent notes due Mar. 1, 1934.	$15,000,000	Purchase	International Acceptance Banking Inc	$1,500,000.00
			J. Henry Schroder Banking Corporation	6,750,000.00
International Printing Ink Corporation	70,000 shares preferred. 115,000 shares common.	Primary	Central States Electric Corporation	1,350,000.00
			E. B. Smith & Co., New York City	450,000.00
			Princeton Securities Co	75,000.00
			L. A. Mathey & Co	75,000.00
			E. B. Tracy	100,000.00
			United States & Foreign Securities Corporation	450,000.00
			Bancitaly Corporation	400,000.00
			Ladenburg, Thalmann & Co	175,000.00
			G. M. P. Murphy & Co	150,000.00
			Shields & Co., Inc	450,000.00
			Central Union Trust Co	250,000.00
			Donald Symington	100,000.00
			James Bruce	200,000.00
			Continental Co., Baltimore	75,000.00
			Oakmont Corporation	950,000.00
			Rose Brae Corporation	100,000.00
			W. E. Hutton & Co	1,000,000.00

[1] Shares. [3] Percent. [4] Units.

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EXHIBIT H.—*Issues of which Dillon, Read & Co. or agencies were managers, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying groups, but not in distributing, banking, or general-dealer groups*—Continued

Security (1)	Amount (2)	Groups (3)	Other participants (4)	Participations (5)
International Printing Ink Corporation—Continued	70,000 shares preferred. 115,00 shares common—Continued.	Primary—Contd	First Investment & Securities Corporation	$1,000,000.00
			Union Trust Co., Cleveland	700,000.00
			Hayden, Miller & Co	400,000.00
			Otis & Co	700,000.00
			R. V. Mitchell & Co	200,000.00
			Collin, Norton & Co	200,000.00
			First National Bank, Boston	100,000.00
			Hillman Investment Co	200,000.00
			A. C. Robinson	50,000.00
			The Herrick Co	75,000.00
Kuhlmann, Etablissements, capital stock (250 francs par value).	50,000 shares	Original	United States & Foreign Securities Corporation	[1] 12,500.00
Rudolph Karstadt, Inc., first mortgage collateral 6-percent bonds, due Nov. 1, 1943 (with American shares representing capital stock).	$15,000,000	Purchase	Scholle Bros	3,187,500.00
			International Acceptance Banking, Inc	2,250,000.00
		Special	Bankers Co. of New York	250,000.00
			Scholle Bros	2,009,950.00
			International Acceptance Bank, Inc	1,148,200.00
			Shields & Co., Inc	200,000.00
			White, Weld & Co	500,000.00
			Bancitaly Corporation	1,000,000.00
			Kissel, Kinnicutt & Co	1,000,000.00
			George, Haines & Halsey	250,000.00
			Equitable Trust Co	500,000.00
			National Republic Co	300,000.00
			Continental National Co	500,000.00
Berlin City Electric Co. 6½ percent debentures, due Feb. 1, 1959.	$15,000,000	Purchase	Hallgarten & Co	4,162,500.00
			Harris, Forbes & Co	1,125,000.00
			Bankers Trust Co	1,500,000.00
			International Acceptance Bank	821,250.00
Ernesto Breda Co. last mortgage 7-percent bonds (with warrants), due Feb. 1, 1954	$5,000,000	Primary	Hemphill, Noyes & Co	500,000.00
			E. H. Rollins & Sons	1,000,000.00
British Columbia, Province of, 4½-percent debentures, due Jan. 23, 1969.	$6,417,000	Purchase	Dominion Securities Corporation	1,283,400.00
			Wood, Gundy & Co	1,283,400.00
			Canadian Bank of Commerce	1,283,400.00
			A. E. Ames & Co	1,283,400.00
British Columbia, Province of, 5-percent debentures, due Sept. 24, 1959.	$3,036,500	Original	A. E. Ames & Co., Ltd	567,300.00
			Wood, Gundy & Co	567,300.00
			Dominion Securities Corporation	567,300.00
			Canadian Bank of Commerce	567,300.00
			Royal Bank of Canada	200,000.00

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British Columbia, Province of, 5½-percent treasury bills, 1-year due Nov. 25, 1930.	$3,000,000	Purchase	Dominion Securities Corporation	560,000.00
			Canadian Bank of Commerce	560,000.00
			A. E. Ames & Co., Ltd	560,000.00
			Wood, Gundy & Co., Inc	560,000.00
			Royal Bank of Canada	200,000.00
British Columbia, Province of, 5½-percent treasury bills, 2-year, due Nov. 25, 1931.	$3,000,000	Purchase	Dominion Securities Corporation	560,000.00
			Canadian Bank of Commerce	560,000.00
			A. E. Ames & Co., Ltd	560,000.00
			Wood, Gundy & Co., Inc	560,000.00
			Royal Bank of Canada	200,000.00
Canadian National Railway Co. 5-percent guaranteed debentures, due July 1, 1969.	$60,000,000	Original	American group:	
			National City Co	6,930,623.00
			Guaranty Co. of N.Y	6,930,622.00
			Bankers Co. of N.Y	6,930,623.00
			Canadian group.	
			Bank of Montreal, Canadian Bank of Commerce, Royal Bank of Canada, Dominion Securities Corporation, Wood, Gundy & Co., and A. E. Ames & Co.	32,277,510.00
Canadian National Railway Co. 5 percent guaranteed bonds, due Oct. 1, 1969.	$12,540,000	do	American group:	
			National City Co	1,395,075.00
			Guaranty Co. of New York	1,395,075.00
			Bankers Co. of New York	1,395,075.00
			Harris, Forbes & Co	689,700.00
			Dominion Securities Corporation, Ltd., for account Canadian group.	6,270,000.00
Central States Electric Corporation convertible preferred stock, optional series of 1929.	100,000 shares	Special	E. H. Rollins & Sons, Boston	[1] 15,000
			Stone & Webster and Blodget	[1] 10,000
			Dominick & Dominick	[1] 2,500
			Shields & Co., Inc	[1] 5,000
			E. G. Wilmer	[1] 20,000
Do	15,500 shares	do	E. H. Rollins & Sons	[1] 2,325
			Stone & Webster and Blodget	[1] 1,550
			Dominick & Dominick	[1] 387½
			Shields & Co., Inc	[1] 775
Central States Electric Corporation 5½ percent debentures, series due (Sept. 15) 1954.	$25,000,000	do	E. H. Rollins & Sons	$3,750,000.00
			Stone & Webster and Blodget	2,500,000.00
			Dominick & Dominick	625,000.00
			Shields & Co., Inc	1,250,000.00
			E. G. Wilmer	2,500,000.00
Commercial Investment Trust Corporation 5½ percent convertible debentures, due Feb. 1, 1949.	$35,000,000	Purchase	Lehman Bros	14,000,000.00
		Primary	Shields & Co., Inc	750,000.00
			A. G. Becker & Co., Chicago	2,000,000.00
			Cassatt & Co., Philadelphia	1,500,000.00
			E. H. Rollins & Sons, Boston	750,000.00
			Lehman Bros	12,000,000.00
			American Cities Power & Light Corporation	3,000,000.00

[1] Shares.

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EXHIBIT H.—*Issues of which Dillon, Read & Co. or agencies were managers, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying groups, but not in distributing, banking, or general-dealer groups*—Continued

Security (1)	Amount (2)	Groups (3)	Other participants (4)	Participation (5)
Commercial Investment Trust Corporation convertible preferred stock, optional series of 1929.	400,000 shares preferred.	Original	Lehman Bros	[5] $154,000
			Commercial Investment Trust, Inc	[5] 15,000
Common stock	125,000 shares common.		Lehman Bros	[6] 50,000
Options to purchase	do		do	[7] 50,000
		Primary	Commercial Investment Trust, Inc	[5] 15,000
			E. H. Rollins & Sons, Boston	[5] 6,420
			A. G. Becker & Co., Chicago	[5] 8,565
			Shields & Co., Inc	[5] 3,210
			Lehman Bros	[5] 46,725
			E. G. Wilmer	[5] 10,000
			New Empire Corporation	[5] 60,080
Educational Pictures, Inc., common stock underwriting	10,824 shares	Original	The Whitehall Trust, Ltd	[1] 5,412
Fisk Rubber Co. common stock underwriting	851,306 shares	do	Estabrook & Co	[1] 212,827
General Printing Ink Corporation $6 cumulative preferred stock (with warrants), common stock.	29,796 shares, preferred.	do	Otis & Co	[3] 17½
	20,000 shares, common.	do	R. V. Mitchell & Co	[3] 17½
Milwaukee Electric Railway & Light Co. refunding and first mortgage 5-percent bonds, B, due June 1, 1961.	$10,000,000	Purchase	Spencer Trask & Co	$750,000
			Harris, Forbes & Co	2,250,000
Do	$10,000,000	Primary	Spencer Trask & Co	750,000
			Harris, Forbes & Co	2,250,000
Minneapolis, St. Paul & Sault Ste. Marie Ry. first refunding mortgage 5½-percent bonds, B, due July 1, 1978.	$8,000,000	Original	National City Co	1,777,800
			Lane, Piper & Jaffray	800,000
			First Bank Stock Corporation	800,000
Missouri-Illinois R.R. Co. first mortgage 5-percent bonds, A, due Jan. 1, 1959.	$3,500,000	Purchase	Spencer Trask & Co	262,500
			Stone & Webster & Blodget	350,000
			Harris, Forbes & Co	875,000
Montreal Metropolitan Commission 5-percent bonds, due May 1, 1966.	$3,100,000	do	Bankers Co. of New York	783,000
			Dominion Securities Corporation, Toronto	783,000
			Banque Canadienne Commerciale	375,000
			Canadian Bank of Commerce	250,000
			First National Corporation of Boston, and New York City	125,000
Seaboard Air Line Ry. Co. common stock underwriting	1,892,630 shares	Original	Ladenburg, Thalmann & Co	[1] 520,473
A. G. Spalding & Bros. common stock	50,000 shares	Primary	Hathaway & Co	[1] 12,500
			Smith, Moore & Co	[1] 12,500
		Underwriting	Lehman Bros	[1] 5,000
			Shields & Co	[1] 2,500
			Hathaway & Co	[1] 10,625
			Smith, Moore & Co	[1] 10,625

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Federal Reserve Bank of St. Louis

Spencer Kellogg & Sons, Inc., capital stock underwriting	50,000 shares	Original	Baker, Trubee & Putnam	[1] 12,000
			Pan American Share Corporation	[1] 12,000
			Glenny, Monro & Moll	[1] 7,000
			Manufacturers & Traders Peoples Trust Co	[1] 5,000
Union Electric Light & Power Co. general mortgage 5 percent bonds, B, due Aug. 1, 1967.	$15,000,000	Primary	Harris, Forbes & Co	$3,750,000.00
			Spencer Trask & Co	1,125,000.00
			Stone & Webster and Blodget	1,500,000.00
Warner Co. first mortgage 6 percent bonds, due Apr. 1, 1944.	$7,000,000	do	Laird, Bissell & Meads	280,000.00
			Chandler & Co	1,575,000.00
			Janney & Co	1,295,000.00
			J. S. Wilson & Co	525,000.00
			Hemphill, Noyes & Co	332,500.00
Warner Co. $7 first preferred stock (with warrants)	31,500 shares	do	Laird, Bissell & Meads	[2] 1,260
			Chandler & Co	[1] 7,087½
			Janney & Co	[1] 5,827½
			J. S. Wilson & Co	[1] 2,362½
			Hemphill, Noyes & Co	[1] 1,496¼
Amazon Corporation capital stock	765,000 shares	Purchase	Ernest B. Tracy	[1] 191,250
American & Foreign Power Co., Inc., debentures, 5-percent series due Mar. 1, 2030.	$50,000,000	do	Bonbright & Co., Inc	$25,000,000.00
		Underwriting	do	9,875,000.00
			National City Co	7,000,000.00
			Lee, Higginson & Co	3,000,000.00
			Harris, Forbes & Co	3,000,000.00
			Bankers Co. of New York	2,250,000.00
			Chase Securities Corporation	1,500,000.00
			Guaranty Co. of New York	3,000,000.00
			W. C. Langley & Co	1,000,000.00
			White, Weld & Co	2,000,000.00
			First National Old Colony Corporation	3,000,000.00
			Halsey, Stuart & Co	1,000,000.00
			Mendelssohn & Co. Amsterdam	2,500,000.00
Berlin City Electric Co., Inc., 6-percent debentures, due Apr. 1, 1955.	$15,000,000	Purchase	Hallgarten & Co	4,162,500.00
			Bankers Co. of New York	1,500,000.00
			Harris, Forbes & Co	1,125,000.00
			International Manhattan Co	821,250.00
British Columbia, Province of, 1-year 3½-percent treasury bills, due Aug. 20, 1931.	$2,500,000	do	A. E. Ames & Co. Ltd	467,000.00
			Dominion Securities Corporation	467,000.00
			Wood, Gundy & Co., Inc	467,000.00
			Canadian Bank of Commerce	467,000.00
			Royal Bank of Canada	165,000.00
British Columbia, Province of, 2-year 4-percent treasury bills, due Dec. 15, 1932.	$4,015,000	do	A. E. Ames & Co. Ltd	737,756.25
			Dominion Securities Corporation	737,756.52
			Wood, Gundy & Co	737,756.25
			Canadian Bank of Commerce	737,756.25
			Royal Bank of Canada	326,218.75
Canadian National Railway Co., 5-percent guaranteed bonds, due Feb. 1, 1970.	$18,000,000	do	National City Co	2,250,000.00
			Guaranty Co. of New York	2,250,000.00
			Bankers Co. of New York	2,250,000.00
			Dominion Securities Corporation as managers Canadian Group.	9,000,000.00

[1] Shares. [2] Shares preferred. [6] Shares common. [7] Shares option on common.

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Federal Reserve Bank of St. Louis

EXHIBIT H.—*Issues of which Dillon, Read & Co. or agencies were managers, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying groups, but not in distributing, banking, or general-dealer groups*—Continued

Security (1)	Amount (2)	Groups (3)	Other participants (4)	Participations (5)
Canadian National (West Indies) Steamships 5-percent guaranteed bonds, due Mar. 1, 1955.	$9,400,000	Purchase	National City Co	$1,175,000.00
			Guaranty Co. of New York	1,175,000.00
			Bankers Co. of New York	1,175,000.00
			Dominion Securities Corporation as managers Canadian group.	4,700,000.00
Kansas Gas & Electric Co. 1st mortgage bonds, 4½-percent series, due 1980.	$16,000,000	do	Lee, Higginson & Co	1,500,000.00
			National City Co	1,000,000.00
			Harris, Forbes & Co	1,500,000.00
			First National Old Colony, Boston	1,000,000.00
			Tucker, Anthony & Co	1,000,000.00
			A. G. Becker & Co., Chicago	250,000.00
			Central Illinois Co., Chicago	250,000.00
			Continental Illinois Co	250,000.00
			Foreman State Corporation	250,000.00
Louisiana & Arkansas Ry. Co. first mortgage 5-percent bonds, A, due Jan. 1, 1969.	$11,500,000	Original	Southern Securities Co	150,000.00
			Caldwell & Co	2,270,000.00
		Intermediate	Southern Securities Co	150,000.00
			A. Iselin & Co	400,000.00
			Caldwell & Co	2,190,000.00
		Purchase	Chase Securities Corporation	3,500,000.00
			Foreman State Corporation, Chicago	500,000.00
			Caldwell & Co., Nashville	350,000.00
			Southern Securities Co., Little Rock	160,000.00
			A. G. Becker & Co	500,000.00
			Central Illinois Co	500,000.00
			Canal Bank & Trust Co., New Orleans	250,000.00
			E. H. Rollins & Sons	1,000,000.00
Louisiana Geophysical Exploration Co. Underwriting of 7-percent notes, due July 1, 1935 (with common stock).	$1,000,000	Underwriting	Empire Trust Co	325,000.00
			Ernest B. Tracy	255,000.00
			H. H. Timken	210,000.00
Minneapolis, St. Paul & Sault Ste. Marie Ry. Co. First refunding mortgage 5½-percent bonds, B, due July 1, 1978.	$4,106,000	Original	National City Co	855,400.00
			First Securities Corporation	410,600.00
			Lane, Piper & Jaffray	410,600.00
			Banc Northwest Co	205,300.00
Newfoundland, Government of, 5-percent bonds, due June 30, 1955.	$2,500,000	Purchase	Lee, Higginson & Co	500,000.00
			Bank of Montreal	500,000.00
			Dominion Securities Corporation	500,000.00
			Wood, Gundy & Co	500,000.00

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Federal Reserve Bank of St. Louis

North American Edis Co., 5-percent debentures, due Nov. 15, 1969.	$25,000,000	Primary	National City Co	5,000,000.00
			Lee, Higginson & Co	3,000,000.00
			Guaranty Co. of New York	2,000,000.00
			Harris, Forbes & Co	2,000,000.00
			Chase Securities Corporation	750,000.00
			Stone & Webster and Blodget	500,000.00
Royal Dutch Co. 4-percent debentures, A (with warrants), due Apr. 1, 1945.	$40,000,000	Original	Mendelssohn & Co., Amsterdam	10,000,000.00
Siemens & Halske, A. G., Participating debentures, A, due Jan. 15, 2930.	35,000 debentures of $400 face amount each.	Primary	Mendelssohn & Co., Amsterdam	[8] 5,250
			Mrs. Elizabeth Bancroft Phillips	[8] 2,500
		Intermediate	Mendelssohn & Co., Amsterdam	[8] 5,250
			Bancamerica Blair Corporation	[8] 3,500
			Mrs. Elizabeth Bancroft Phillips	[8] 2,500
			Fritz Thyssen	[8] 250
Union Oil Co. of California 5-percent debentures, due Apr. 1, 1945 (with warrants).	$15,000,000	Original	Bancamerica Blair Corporation	$1,500,000.00
			Wm. R. Staats Co	3,000,000.00
			Security First National Co	3,000,000.00
Beneficial Industrial Loan Corporation 6-percent convertible debentures, due Mar. 1, 1946.	$7,000,000	Original	H. M. Byllesby & Co	1,662,500.00
			Blyth & Co., Inc	1,662,500.00
			MacKubin, Goodrich & Co	350,000.00
		Primary	Gillet & Co., Baltimore, Md	199,000.00
			H. M. Byllesby & Co	947,000.00
			Blyth & Co., Inc	947,000.00
			MacKubin, Goodrich & Co	225,000.00
			Bodell & Co	900,000.00
			Clarence Hodson & Co., Inc	425,000.00
			Jackson & Curtis	200,000.00
			Midland Corporation	250,000.00
			Singer, Deane & Scribner	100,000.00
			American International Corporation	500,000.00
British Columbia, Province of, 4¼-percent debentures, due Feb. 15, 1936.	$5,000,000	Purchase	A. E. Ames & Co., Ltd	918,750.00
			Dominion Securities Corporation	918,750.00
			Wood, Gundy & Co	918,750.00
			Canadian Bank of Commerce	918,750.00
			Royal Bank of Canada	406,250.00
Canadian National Railway Co. 4½-percent guaranteed bonds, due Feb. 1, 1956.	$70,000,000	do	National City Co	8,750,000.00
			Guaranty Co. of New York	8,750,000.00
			Bankers Co. of New York	8,750,000.00
			Dominion Securities Corporation	5,833,333.33
			Bank of Montreal	5,833,333.33
			Royal Bank of Canada	5,833,333.33
			Canadian Bank of Commerce	5,833,333.33
			Wood, Gundy & Co	5,833,333.34
			A. E. Ames & Co., Ltd	5,833,333.34
Milwaukee Electric Railway & Light Co. first mortgage 5-percent bonds, due Jan. 1, 1971.	$15,000,000	Primary	Spencer, Trask & Co	1,125,000.00
			Harris, Forbes & Co	3,375,000.00
			Blyth & Co., Inc	1,000,000.00
Minneapolis, St. Paul & Sault Ste. Marie Ry. Co. 1-year 5-percent notes, due Aug. 1, 1932.	$10,000,000	Original	National City Co	2,083,000.00
			Lane, Piper & Jaffray	1,000,000.00
			Bancnorthwest Co	500,000.00
			First Securities Co	1,000,000.00

[8] Debentures.

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EXHIBIT H.—*Issues of which Dillon, Read & Co. or agencies were manager's, showing participants (other than Dillon, Read & Co. or agencies) in originating or underlying groups, but not in distributing, banking, or general-dealer groups*—Continued

Security (1)	Amount (2)	Groups (3)	Other participants (4)	Participations (5)
North American Co. 5-percent debentures, due Feb. 1, 1961.	$25,000,000	Primary	Empire Trust Co	$250,000.00
			Central Hanover Bank & Trust Co	2,000,000.00
			Chemical Securities Corporation	2,000,000.00
			Blyth & Co., Inc	2,500,000.00
			New York Trust Co	1,000,000.00
			Chase Securities Corporation	3,000,000.00
			United States & Foreign Securities Corporation	1,500,000.00
			National City Co	3,000,000.00
			Lee, Higginson & Co	1,000,000.00
			Bankers Co. of New York	1,500,000.00
			Guaranty Co. of New York	2,000,000.00
			E. H. Rollins & Sons	250,000.00
			Stone & Webster and Blodget	1,500,000.00
			Cassatt & Co., Philadelphia	250,000.00
			Philadelphia National Co., Philadelphia	175,000.00
			Northern Trust Co., Chicago	200,000.00
			A. G. Becker & Co	500,000.00
			Nichols, Terry & Dickinson	100,000.00
			A. B. Leach & Co	250,000.00
			Hill, Joiner & Co	100,000.00
			First Wisconsin Co	200,000.00
			Morris F. Fox & Co	100,000.00
			Fidelity & Columbia Trust Co	100,000.00
Quebec, Province of, 4¼-percent bonds, due May 1, 1961	$7,500,000	Purchase	Bankers Co	2,000,000.00
			Dominion Secutities Corporation	2,000,000.00
			Canadian Bank of Commerce	750,000.00
			Bank of Nova Scotia	750,000.00
Seaboard Air Line Ry. Co. 1-year 5-percent receivers, certificates, due May 1, 1932.	$4,000,000	Original	Chase National Bank	1,000,000.00
			Landenburg, Thalmann & Co	825,000.00

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Federal Reserve Bank of St. Louis

COMMITTEE EXHIBIT No. 48, OCTOBER 13, 1933

Recapitulation of issues offered during period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers

Year	Classification	Number of issues	Amount of issue	Total participation of Dillon, Read & Co. and agencies in one or more of the groups specified			
				Original and/or Primary and/or Purchase	Intermediate	Banking	Distributing and/or Selling
1927	Domestic bonds	12	$112,618,000	$142,763,700.00		$20,065,000	$14,071,000
	Domestic railroad bonds	3	7,850,000	5,152,937.50			636,500
	Domestic public utility bonds	5	54,602,000	45,952,500.00		12,430,000	9,966,500
	Canadian provincial R.R. and industrial bonds	5	41,282,000	10,371,083.00			5,062,000
	Foreign bonds	8	177,375,000	116,827,666.00	$6,750,000	15,052,000	13,949,500
		33	393,727,000	321,067,886.50	6,750,000	47,547,000	43,685,500
1927	Public utility stocks	1	[1] 35,000	[1] 15,750		[1] 8,153	[1] 4,827
	Domestic stocks	5	[1] 1,390,000	[1] 1,285,500	[1] 105,000	[1] 80,758½	[1] 37,316
	Foreign stocks	1	[2] 25,000	[2] 18,750			[2] 9,024
		7	[3] 1,450,000	[3] 1,320,000	[1] 105,000	[1] 88,911½	[3] 51,167
1928	Domestic bonds	3	24,308,000	30,504,000.00		5,014,000	3,547,000
	Domestic railroad bonds	2	12,500,000	9,187,500.00			2,330,000
	Domestic public utility bonds	3	35,018,000	29,068,100.00	16,500,000	9,792,750	6,221,000
	Canadian provincial R.R. and industrial bonds	2	7,396,000	3,370,934.00		556,000	3,406,000
	Foreign bonds	6	73,600,000	48,332,500.00	24,471,850	20,842,250	21,517,500
		16	152,822,000	120,463,034.00	40,971,850	36,205,000	37,021,500
1928	Domestic stocks	18	[1] 3,045,700	[1] 2,714,721	[1] 116,434	[1] 456,234	[1] 470,223
	Canadian stocks	2	[5] 320,000	[5] 143,000		[4] 55,150	[4] 40,839
	Foreign stocks	1	[1] 50,000	[1] 37,500			
		21	[5] 3,415,700	[5] 2,895,221	[1] 116,434	[5] 511,384	[5] 511,062

[1] Shares. [2] Certificates. [3] Shares and certificates.
[4] Units. [5] Shares and units.

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Recapitulation of issues offered during period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers—Continued

Year	Classification	Number of issues	Amount of issue	Total participation of Dillon, Read & Co. and agencies in one or more of the groups specified			
				Original and/or Primary and/or Purchase	Intermediate	Banking	Distributing and/or Selling
1929	Domestic bonds	3	$67,000,000	$63,992,500.00	$14,375,000	$24,285,000	$16,518,000
	Domestic railroad bonds	2	11,500,000	10,134,700.00		500,000	500,000
	Domestic public utility bonds	3	35,000,000	47,625,000.00			5,528,000
	Canadian provincial R.R. and industrial bonds	7	91,093,500	12,080,397.00			11,511,500
	Foreign bonds	2	20,000,000	15,891,250.00		4,854,901	4,628,000
		17	224,593,500	149,723,847.00	14,375,000	29,639,901	38,685,500
1929	Domestic stocks	15	[1] 3,922,088	[1] 2,804,913	[1] 79,212½	[1] 456,814	[1] 623,521
	Foreign stocks	1	[1] 23,500	[1] 23,500			
		16	[1] 3,945,588	[1] 2,828,413	[1] 79,212½	[1] 456,814	[1] 623,521
1930	Domestic bonds	2	16,000,000	13,100,000.00	210,000		5,692,000
	Domestic railroad bonds	3	16,606,000	17,044,100.00	8,760,000	1,910,000	2,169,000
	Domestic public utility bonds	3	91,000,000	86,750,000.00	10,875,000	17,967,500	13,995,500
	Canadian provincial R.R. and industrial bonds	5	36,415,000	5,129,756.25			4,683,000
	Foreign bonds	3	69,000,000	67,691,250.00	9,400,000	10,398,000	36,504,000
		16	229,021,000	189,715,106.25	29,245,000	30,275,500	63,043,500
1930	Domestic stocks	1	[1] 765,000	[1] 573,750			
1931	Domestic bonds	2	9,964,000	7,623,000.00		1,334,000	1,362,000
	Domestic railroad bonds	2	14,000,000	7,592,000.00			46,000
	Canadian provincial R.R. and industrial bonds	3	82,500,000	11,668,750.00			6,996,000
	Domestic public utility bonds	2	40,000,000	51,025,000.00		2,784,000	8,795,000
		9	146,464,000	77,908,750.00		4,118,000	17,199,000
1931	Domestic stocks	1	[1] 299,500	[1] 299,500			[1] 224,590
	Grand total	137	1,146,627,500	858,878,623.75	91,341,850	147,785,401	199,635,000
			[6] 9,875,788	[6] 7,916,884	[1] 300,646½	[5] 1,057,109½	[6] 1,410,340

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1927	Domestic stocks	5	[1] 1,390,000	[1] 1,285,500	[1] 105,000	[1] 80,758½	[1] 37,316
1928	do	18	[1] 3,045,700	[1] 2,714,721	[1] 116,434	[1] 456,234	[1] 470,223
1929	do	15	[1] 3,922,088	[1] 2,804,913	[1] 79,212½	[1] 456,814	[1] 623,521
1930	do	1	[1] 765,000	[1] 573,750			
1931	do	1	[1] 299,500	[1] 299,500			[1] 224,590
		40	[1] 9,422,288	[1] 7,678,384	[1] 300,646½	[1] 993,806½	[1] 1,355,650
1927	Foreign stocks	1	[2] 25,000	[2] 18,750			[2] 9,024
1928	do	1	[1] 50,000	[1] 37,500			
1929	do	1	[1] 23,500	[1] 23,500			
1930	do						
1931	do						
		3	[3] 98,500	[3] 79,750			[2] 9,024
1928	Canadian stocks	2	[5] 320,000	[5] 143,000		[4] 55,150	[4] 40,389
1927	Public utility stocks	1	[1] 35,000	[1] 15,750		[1] 8,153	[1] 4,827
	Total stocks	46	[6] 9,875,788	[6] 7,916,884	[1] 300,646½	[5] 1,057,109½	[6] 1,410,340
	SUMMARY BONDS						
1927	All bonds	33	$393,727,000	$321,067,886.50	$6,750,000	$47,547,000	$43,685,500
1928	do	16	152,822,000	120,463,034.00	40,971,850	36,205,000	37,021,500
1929	do	17	224,593,500	149,723,847.00	14,375,000	29,639,901	38,685,500
1930	do	16	229,021,000	189,715,106.25	29,245,000	30,275,500	63,043,500
1931	do	9	146,464,000	77,908,750.00		4,118,000	17,199,000
	Total bonds	91	1,146,627,500	858,878,623.75	91,341,850	147,785,401	199,635,000
	SUMMARY STOCKS						
1927	All stocks	7	[3] 1,450,000	[3] 1,320,000	[1] 105,000	[1] 88,911½	[3] 51,167
1928	do	21	[5] 3,415,700	[5] 2,895,221	[1] 116,434	[5] 511,384	[5] 511,062
1929	do	16	[1] 3,945,588	[1] 2,828,413	[1] 79,212½	[1] 456,814	[1] 623,521
1930	do	1	[1] 765,000	[1] 573,750			
1931	do	1	[1] 299,500	[1] 299,500			[1] 224,590
	Total stocks	46	[6] 9,875,788	[6] 7,916,884	[1] 300,646½	[5] 1,057,109½	[6] 1,410,340
	SUMMARY STOCKS AND BONDS						
[7]1927–31	Total bonds	91	1,146,627,500	858,878,623.75	91,341,850	147,785,401	199,635,000
[7]1927–31	Total stocks	46	[6] 9,875,788	[6] 7,916,884	[1] 300,646½	[5] 1,057,109½	[6] 1,410,340
	Grand total	137					

[1] Shares. [2] Certificates. [3] Shares and certificates. [4] Units.
[5] Shares and unit. [6] Shares, units and certificates. [7] Inclusive.

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Recapitulation of issues offered during period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co., or agencies participated and of which Dillon, Read & Co. were managers—Continued

[Italic figures indicate losses]

Year	Classification	Number of issues	Gross cash profit of Dillon, Read & Co. and agencies in one or more of the groups specified as shown in column 10 exhibit A in reply to questionnaire				
			Original and/or Primary and/or Purchase	Intermediate	Banking	Distributing and/or Selling	Total
1927	Domestic bonds	12	$495,566.19		$49,603.62	$270,422.19	$815,592.00
	Domestic railroad bonds	3	33,070.09			7,104.37	40,174.46
	Domestic public utility bonds	5	680,061.80		58,200.08	132,434.44	870,696.32
	Canadian provincial R.R. and industrial bonds	5	45,595.70			30,110.62	75,706.32
	Foreign bonds	8	1,532,746.64	$135,000.00	52,428.27	332,103.20	2,052,278.11
		33	2,787,040.42	135,000.00	160,231.97	772,174.82	3,854,447.21
1927	Public utility stocks	1	39,375.00		4,076.50	11,383.47	54,834.97
	Domestic stocks	5	286,044.50	94,500.00	41,670.43	141,584.12	563,799.05
	Foreign stocks	1	70,362.32			22,292.62	92,654.94
		7	395,781.82	94,500.00	45,746.93	175,260.21	711,288.96
1928	Domestic bonds	3	268,206.49		30,640.13	96,091.10	394,937.72
	Domestic railroad bonds	2	32,271.27			20,640.00	52,911.27
	Domestic public utility bonds	3	333,861.16	82,500.00	38,966.23	103,029.34	558,356.73
	Canadian Provincial R.R. and industrial bonds	2	56,368.26		4,961.08	10,121.25	71,450.59
	Foreign bonds	6	308,317.40	135,016.98	78,512.24	257,014.18	778,860.80
		16	999,024.58	217,516.98	153,079.68	486,895.87	1,856,517.11
1928	Domestic stocks	18	4,110,109.67	45,983.50	185,175.50	1,057,687.89	5,398,956.56
	Canadian stocks	2	394,993.75		39,237.50	113,451.58	547,682.83
	Foreign stocks	1	80,052.01				80,052.01
		21	4,585,155.43	45,983.50	224,413.00	1,171,139.47	6,026,691.40
1929	Domestic bonds	3	699,229.77	179,687.50	107,742.43	390,888.78	1,377,548.48
	Domestic railroad bonds	2	26,765.26		1,875.00	7,000.00	35,640.26
	Domestic public utility bonds	3	526,763.82			67,677.50	594,441.32
	Canadian Provincial R.R. and industrial bonds	7	80,808.99			49,680.00	130,488.99
	Foreign bonds	2	53,328.64		18,205.87	58,984.59	130,519.10
		17	1,386,896.48	179,687.50	127,823.30	574,230.87	2,268,638.15

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1929	Domestic stocks	15	47,182.46	88,765.13	144,555.78	321,098.99	601,602.36
	Foreign stocks	1	23,374.84				23,374.84
		16	70,557.30	88,765.13	144,555.78	321,098.99	624,977.20
1930	Domestic bonds	2	100,386.45	6,354.55		101,047.49	207,788.49
	Domestic railroad bonds	3	83,370.80	21,900.00	7,162.50	39,267.18	151,700.48
	Domestic public utility bonds	3	590,250.86	54,375.00	73,036.42	134,905.62	852,567.90
	Canadian Provincial R.R. and industrial bonds	5	20,714.62			32,185.00	52,899.62
	Foreign bonds	3	467,790.32	219,137.50	93,808.57	191,357.80	972,094.19
		16	1,262,513.05	301,767.05	174,007.49	498,763.09	2,237,050.68
1930	Domestic stocks	1					None
1931	Domestic bonds	2	295,111.63		866.25	7,595.00	303,572.88
	Domestic railroad bonds	2	29,171.93			180.00	29,351.93
	Canadian Provincial R.R. and industrial bonds	3	35,786.14			25,200.03	60,986.17
	Domestic public utility bonds	2	429,924.82		10,440.00	72,775.00	513,139.82
		9	789,994.52		11,306.25	105,750.03	907,050.80
1931	Domestic stocks	1	*43,591.65*			70,968.29	27,376.64
	Grand total	137	12,233,371.95	1,063,220.16	1,041,164.40	4,176,281.64	18,514,038.11
1927	Domestic stocks	5	$286,044.50	$94,500.00	$41,670.43	$141,584.12	$563,799.05
1928	do	18	4,110,109.67	45,983.50	185,175.50	1,057,687.89	5,398,956.56
1929	do	15	47,182.46	88,765.13	144,555.78	321,098.99	601,602.36
1930	do	1					
1931	do	1	*43,591.65*			70,968.29	27,376.64
		40	4,399,744.98	229,248.63	371,401.71	1,591,339.29	6,591,734.61
1927	Foreign stocks	1	70,362.32			22,292.62	92,654.94
1928	do	1	80,052.01				80,052.01
1929	do	1	23,374.84				23,374.84
1930	do						
1931	do						
		3	173,789.17			22,292.62	196,081.37
1928	Canadian stocks	2	394,993.75		39,237.50	113,451.58	547,682.80
1927	Public utility stocks	1	39,375.00		4,076.50	11,383.47	54,834.97
	Total stocks	46	5,007,902.90	229,248.63	414,715.71	1,738,466.96	7,390,334.20

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Recapitulation of issues offered during period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co., or agencies participated and of which Dillon, Read & Co. were managers—Continued

[Italic figures indicate losses]

Year	Classification	Number of issues	Gross cash profit of Dillon, Read & Co. and agencies in one or more of the groups specified as shown in column 10 exhibit A in reply to questionnaire				
			Original and/or Primary and/or Purchase	Intermediate	Banking	Distributing and/or Selling	Total
	SUMMARY BONDS						
1927	All bonds	33	$2,787,040.42	$135,000.00	$160,231.97	$772,174.82	$3,854,447.21
1928	do	16	999,024.58	217,516.98	153,079.68	486,895.87	1,856,517.11
1929	do	17	1,386,896.48	179,687.50	127,823.30	574,230.87	2,268,638.15
1930	do	16	1,262,513.05	301,767.05	174,007.49	498,763.09	2,237,050.68
1931	do	9	789,994.52		11,306.25	105,750.03	907,050.80
	Total bonds	91	7,225,469.05	833,971.53	626,448.69	2,437,814.68	11,123,703.95
	SUMMARY STOCKS						
1927	All stocks	7	395,781.82	94,500.00	45,746.93	175,260.21	711,288.96
1928	do	21	4,586,155.43	45,983.50	224,413.00	1,171,139.47	6,026,691.40
1929	do	16	70,557.30	88,765.13	144,555.78	321,098.99	624,977.20
1930	do	1	None.				
1931	do	1	*43,591.65*			70,968.29	27,376.64
	Total stocks	46	5,007,902.90	229,248.63	414,715.71	1,738,466.96	7,390,334.20
	SUMMARY STOCKS AND BONDS						
[7]1927–31	Total bonds	91	7,225,469.05	833,971.53	626,448.69	2,437,814.68	11,123,703.95
[7]1927–31	Total stocks	46	5,007,902.90	229,248.63	414,715.71	1,738,466.96	7,390,334.20
	Grand total	137	12,233,371.95	1,063,220.16	1,041,164.40	4,176,281.64	18,514,038.15

[7] Inclusive.

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Recapitulation of issues offered during period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.

Year	Classification	Number of issues	Amount of issues	Total participation of Dillon, Read & Co. and agencies in one or more of the groups specified			
				Purchase and/or original	Special and/or underwriting	Banking	Distributing and/or selling
1927	Domestic bonds	18	$622,818,000	$7,403,444		$9,475,000	$9,150,000
	Domestic railroad bonds	4	171,835,000			550,000	1,050,000
	Public-utility bonds	9	303,500,000	5,250,000		2,400,000	4,652,000
	Canadian provincial railroad and industrial bonds	7	38,903,500	5,800,000		500,000	2,426,750
	Foreign bonds	18	384,240,000	13,052,000	$2,650,000	4,578,333	7,549,000
		56	1,521,296,500	31,505,444	2,650,000	17,503,333	24,827,750
1927	Railroad stocks	1	[1] 632,425				[1] 2,500
	Public-utility stocks	2	[1] 1,275,000	[1] 7,500		[1] 25,000	[1] 28,750
	Domestic stocks	8	[1] 962,232	[1] 121,116		[1] 15,904	[1] 39,901
		11	[1] 2,869,657	[1] 128,616		[1] 40,904	[1] 71,151
1928	Domestic bonds	4	$75,000,000	$4,200,000		$5,100,000	$2,325,000
	Domestic railroad bonds	5	214,675,000			800,000	1,650,000
	Public-utility bonds	4	132,500,000			1,625,000	1,700,000
	Canadian provincial railroad and industrial bonds	3	32,000,000	3,000,000		250,000	1,450,000
	Foreign bonds	17	437,752,000	25,310,000	$8,275,915	13,853,892	12,351,446
		33	891,927,000	32,510,000	8,275,915	21,628,892	19,476,446
1928	Domestic stocks	5	[1] 588,971	[1] 65,318⅓	[1] 20,000	[1] 32,500	[1] 32,200
	Railroad stocks	2	[1] 779,190				[1] 20,000
	Canadian stocks	1	[1] 90,000			[1] 2,500	[1] 2,500
	Foreign stocks	3	[1] 250,000	[1] 52,775		[1] 6,450	[1] 33,166⅔
		11	[1] 1,708,161	[1] 118,093⅓	[1] 20,000	[1] 41,450	[1] 87,866⅔
1929	Domestic bonds	5	$210,750,000	$7,300,000	$500,000	$2,913,000	$2,450,000
	Domestic railroad bonds	4	203,893,000			1,050,000	1,950,000
	Canadian provincial railroad and industrial bonds	3	85,000,000	3,571,429	250,000	1,250,000	1,970,000
	Foreign bonds	6	113,500,000	7,595,200	3,512,982	2,460,200	1,950,000
		18	613,143,000	18,466,629	4,262,982	7,673,200	8,320,000

[1] Shares.

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Recapitulation of issues offered during period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.—Continued

Year	Classification	Number of issues	Amount of issues	Total participation of Dillon, Read & Co. and agencies in one or more of the groups specified			
				Purchase and/or original	Special and/or underwriting	Banking	Distributing and/or selling
1929	Domestic stocks	20	[1] 16,010,000	[1] 150,000	[1] 263,845	[1] 87,500	[1] 496,420
	Foreign stocks	1	[1] 200,000		[1] 40,000		
		21	[1] 16,210,000	[1] 150,000	[1] 303,845	[1] 87,500	[1] 496,420
1930	Domestic bonds	6	$205,000,000	$27,657,033		$8,389,000	$2,640,000
	Domestic railroad bonds	8	262,925,000			2,500,000	3,850,000
	Public-utility bonds	9	349,009,000	1,000,000		1,000,000	4,552,000
	Canadian provincial railroad and industrial bonds	7	195,986,000	2,998,000		600,000	1,204,000
	Foreign bonds	9	302,350,000	10,854,583		7,842,892	5,614,000
		39	1,315,270,000	42,509,616		20,331,892	17,860,000
1930	Domestic stocks	3	[1] 502,820	[1] 83,333⅓	[1] 5,000	[1] 38,750	[1] 5,000
	Public-utility stocks	3	[1] 600,000	[1] 125,000	[1] 48,150	[1] 29,950	[1] 22,800
	Canadian stocks	1	[1] 130,000				[1] 2,500
		7	[1] 1,232,820	[1] 208,333⅓	[1] 53,150	[1] 68,700	[1] 30,300
1931	Domestic bonds	5	$225,000,000	$45,427,500		$750,000	$11,262,000
	Domestic railroad bonds	5	246,200,000	3,173,000			2,900,000
	Public-utility bonds	4	272,000,000	900,000		2,650,000	2,650,000
	Canadian provincial railroad and industrial bonds	1	30,000,000	5,000,000			
		15	773,200,000	54,500,500		3,400,000	16,812,000
	SUMMARY—BONDS						
1927	All bonds	56	$1,521,296,500	$31,505,444	$2,650,000	$17,503,333	$24,827,750
1928	All bonds	33	891,927,000	32,510,000	8,275,915	21,628,892	19,476,446
1929	All bonds	18	613,143,000	18,466,629	4,262,982	7,673,200	8,320,000
1930	All bonds	39	1,315,270,000	42,509,616		20,331,892	17,860,000
1931	All bonds	15	773,200,000	54,500,500		3,400,000	16,812,000
		161	5,114,836,500	179,492,189	15,188,897	70,537,317	87,296,196
	SUMMARY—STOCKS						
1927	All stocks	11	[1] 2,869,657	[1] 128,616		[1] 40,904	[1] 71,151
1928	All stocks	11	[1] 1,708,161	[1] 118,093⅓	[1] 20,000	[1] 41,450	[1] 87,866⅔
1929	All stocks	21	[1] 16,210,000	[1] 150,000	[1] 303,845	[1] 87,500	[1] 496,420
1930	All stocks	7	[1] 1,232,820	[1] 208,333⅓	[1] 53,150	[1] 68,700	[1] 30,300
		50	[1] 22,020,638	[1] 605,042⅔	[1] 376,995	[1] 238,554	[1] 685,737⅔

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	SUMMARY—BONDS AND STOCKS						
1927–1931[7]	Total bonds	161	$5,114,836,500	$179,492,189	$15,188,897	$70,537,317	$87,296,196
1927–1932[7]	Total stocks	50	[1] 22,020,638	[1] 605,042⅔	[1] 376,995	[1] 238,554	[1] 685,737⅔
		211					
	BONDS						
1927	Domestic bonds	18	$622,818,000	$7,403,444		$9,475,000	$9,150,000
1928	do	4	75,000,000	4,200,000		5,100,000	2,325,000
1929	do	5	210,750,000	7,300,000	500,000	2,913,000	2,450,000
1930	do	6	205,000,000	27,657,033		8,389,000	2,640,000
1931	do	5	225,000,000	45,427,500		750,000	11,262,000
		38	1,338,568,000	91,987,977	500,000	26,627,000	27,827,000
1927	Domestic railroad bonds	4	171,835,000			550,000	1,050,000
1928	do	5	214,675,000			800,000	1,650,000
1929	do	4	203,893,000			1,050,000	1,950,000
1930	do	8	262,925,000			2,500,000	3,850,000
1931	do	5	246,200,000	3,173,000			2,900,000
		26	1,099,528,000	3,173,000		4,900,000	11,400,000
1927	Public utility bonds	9	303,500,000	5,250,000		2,400,000	4,652,000
1928	do	4	132,500,000			1,625,000	1,700,000
1929	do						
1930	do	9	349,009,000	1,000,000		1,000,000	4,552,000
1931	do	4	272,000,000	900,000		2,650,000	2,650,000
		26	1,057,009,000	7,150,000		7,675,000	13,554,000
1927	Canadian provincial R.R. and industrial bonds	7	38,903,500	5,800,000		500,000	2,426,750
1928	do	3	32,000,000	3,000,000		250,000	1,450,000
1929	do	3	85,000,000	3,571,429	250,000	1,250,000	1,970,000
1930	do	7	195,986,000	2,998,000		600,000	1,204,000
1931	do	1	30,000,000	5,000,000			
		21	381,889,500	20,369,429	250,000	2,600,000	7,050,750
1927	Foreign bonds	18	384,240,000	13,052,000	2,650,000	4,578,333	7,549,000
1928	do	17	437,752,000	25,310,000	8,275,915	13,853,892	12,351,446
1929	do	6	113,500,000	7,595,200	3,512,982	2,460,200	1,950,000
1930	do	9	302,350,000	10,854,583		7,842,892	5,614,000
1931	do						
		50	1,237,842,000	56,811,783	14,438,897	28,735,317	27,464,446
	Total bonds	161	5,114,836,500	179,492,189	15,188,897	70,537,317	87,296,196

[1] Shares.

[7] Inclusive.

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Recapitulation of issues offered during period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.—Continued

Year	Classification	Number of issues	Amount of issues	Total participation of Dillon, Read & Co. and agencies in one or more of the groups specified			
				Purchase and/or original	Special and/or underwriting	Banking	Distributing and/or selling
	STOCKS		*Shares*	*Shares*	*Shares*	*Shares*	*Shares*
1927	Domestic corporations	8	962,232	121,116		15,904	39,901
1928		5	588,971	65,318⅓	20,000	32,500	32,200
1929		20	16,010,000	150,000	263,845	87,500	496,420
1930		3	502,820	83,333⅓	5,000	38,750	5,000
1931							
		36	18,064,023	419,767⅔	288,845	174,654	573,521
1927	Public utilities	2	1,275,000	7,500		25,000	28,750
1928							
1929							
1930		3	600,000	125,000	48,150	29,950	22,800
1931							
		5	1,875,000	132,500	48,150	54,950	51,550
1927	Railroads	1	632,425				2,500
1928		2	779,190				20,000
1929							
1930							
1931							
		3	1,411,615				22,500
1927	Canadian						
1928		1	90,000			2,500	2,500
1929							
1930		1	130,000				2,500
1931							
		2	220,000			2,500	5,000
1927	Foreign						
1928		3	250,000	52,775		6,450	33,166⅔
1929		1	200,000		40,000		
1930							
1931							
		4	450,000	52,775	40,000	6,450	33,166⅔
	Total stock	50	22,020,638	605,042⅔	376,995	238,554	685,737⅔

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Recapitulation of issues offered during period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.

[Italic figures indicate losses]

Year	Classification	Gross cash profit of Dillon, Read & Co. and agencies in one or more of the groups specified as shown in column 11 exhibit B of reply to questionnaire				
		Number of issues	Purchase and/or original	Special and/or underwriting	Banking	Distributing and/or selling	Total
1927	Domestic bonds	18	$109,638.53		$43,906.99	$144,348.63	$297,894.15
	Domestic railroad bonds	4			3,460.76	14,491.66	17,952.42
	Public-utility bonds	9	10,744.98		13,307.59	74,318.75	98,371.32
	Canadian provincial R.R. and industrial bonds	7	31,112.18		7,500.00	43,108.12	81,720.30
	Foreign bonds	18	101,838.31	$25,375.00	22,451.69	127,384.64	277,049.64
		56	253,334.00	25,375.00	90,627.03	403,651.80	772,987.83
1927	Railroad stocks	1				3,564.86	3,564.86
	Public-utility stocks	2	14,240.18		12,500.00	57,752.58	84,492.76
	Domestic stocks	8	660,699.22		11,928.00	98,444.50	[1] 771,071.72
		11	674,939.40		24,428.00	159,761.94	[1] 859,129.34
1928	Domestic bonds	4	21,000.00		27,733.90	36,300.00	85,033.90
	Domestic railroad bonds	5			4,108.74	20,515.60	24,624.34
	Public-utility bonds	4			8,040.36	30,606.54	38,646.90
	Canadian provincial R.R. and industrial bonds	3	*259,123.43*		1,012.50	14,392.00	*243,718.93*
	Foreign bonds	17	73,655.85	54,629.47	81,385.37	202,803.10	412,473.79
		33	*164,467.58*	54,629.47	122,280.87	304,617.24	317,060.00
1928	Domestic stocks	5	109,487.39	10,000.00	28,548.70	55,078.72	[2] 203,114.81
	Railroad stocks	2				25,228.78	25,228.78
	Canadian stocks	1			2,500.00	7,187.50	9,687.50
	Foreign stocks	3	109,578.94		3,225.00	28,553.18	141,357.12
		11	219,066.33	10,000.00	34,273.70	116,048.18	[2] 379,388.21
1929	Domestic bonds	5	36,109.67	4,023.98	22,664.51	41,272.00	[3] 104,070.16
	Domestic railroad bonds	4			3,937.50	9,854.09	13,791.59
	Canadian provincial R.R. and industrial bonds	3	31,604.30	3,750.00	7,074.48	16,700.00	59,128.78
	Foreign bonds	6	412,968.67	30,785.86	14,217.37	35,695.82	493,667.72
		18	480,682.64	38,559.84	47,893.86	103,521.91	[3] 670,658.25

[1] Not including 37,932⅔ shares common stock taken up at $11.263876 per share.

[2] Not including 2,000 shares common stock taken up at $25 per share.

[3] Not including 4,333 shares common stock.

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Recapitulation of issues offered during period Jan. 1, 1927, to Dec. 31, 1931 in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.—Continued

[Italic figures indicate losses.]

Year	Classification	Gross cash profit of Dillon, Read & Co. and agencies in one or more of the groups specified as shown in column 11 exhibit B of reply to questionnaire					
		Number of issues	Purchase and/or original	Special and/or underwriting	Banking	Distributing and/or selling	Total
1929	Domestic stocks	20	*$8,773.67*	$32,561.70	$49,430.92	$680,549.65	[4] $753,768.60
	Foreign stocks	1		13,403.62			13,403.62
		21	*8,773.67*	45,965.32	49,430.92	680,549.65	[4] 767,172.22
1930	Domestic bonds	6	500,655.85		15,968.84	40,565.00	557,189.69
	Domestic railroad bonds	8			9,375.00	39,453.82	48,828.82
	Public-utility bonds	9	17,138.91		5,967.01	89,860.05	112,965.97
	Canadian provincial railroad and industrial bonds	7	17,376.37		4,163.73	12,683.75	34,223.85
	Foreign bonds	9	135,898.73		37,258.21	118,682.87	291,839.81
		39	671,069.86		72,732.79	301,245.49	1,045,048.14
1930	Domestic stocks	3	62,500.00	1,489.75	4,485.09	8,533.12	77,007.96
	Public-utility stocks	3	127,762.33	16,575.00	7,475.00	32,863.41	184,675.74
	Canadian stocks	1				5,337.50	5,337.50
		7	190,262.33	18,064.75	11,960.09	46,734.03	267,021.20
1931	Domestic bonds	5	52,607.48		4,031.47	36,416.25	[5] 93,055.20
	Domestic railroad bonds	5	40,916.68			30,450.62	71,367.30
	Public-utility bonds	4	7,650.00		11,631.60	31,766.25	51,047.85
	Canadian provincial railroad and industrial bonds	1	27,223.94				27,223.94
		15	128,398.10		15,663.07	98,633.12	[5] 242,694.29
	SUMMARY—BONDS						
1927	All bonds	56	253,334.00	25,375.00	90,627.03	403,651.80	772,987.83
1928	All bonds	33	*164,467.58*	54,629.47	122,280.87	304,617.24	317,060.00
1929	All bonds	18	480,682.64	38,559.84	47,893.86	103,521.91	670,658.25
1930	All bonds	39	671,069.86		72,732.79	301,245.49	1,045,048.14
1931	All bonds	15	128,398.10		15,663.07	98,633.12	242,694.29
		161	1,369,017.02	118,564.31	349,197.62	1,211,669.56	3,048,448.51
	SUMMARY—STOCKS						
1927	All stocks	11	674,939.40		24,428.00	159,761.94	859,129.34
1928	All stocks	11	219,066.33	10,000.00	34,273.70	116,048.18	379,388.21
1929	All stocks	21	*8,773.67*	45,965.32	49,430.92	680,549.65	767,172.22
1930	All stocks	7	190,262.33	18,064.75	11,960.09	46,734.03	267,021.20
		50	1,075,494.39	74,030.07	120,092.71	1,003,093.80	2,272,710.97

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	SUMMARY—BONDS AND STOCKS						
1927–1931[6]	Total bonds	161	1,369,017.02	118,564.31	349,197.62	1,211,669.56	3,048,448.51
1927–1931[6]	Total stocks	50	1,075,494.39	74,030,07	120,092.71	1,003,093.80	2,272,710.97
		211	2,444,511.41	192,594.38	469,290.33	2,214.763.36	5,321,159.48
	BONDS						
1927	Domestic bonds	18	109,638.53		43,906.99	144,348.63	297,894.15
1928	do	4	21,000.00		27,733.90	36,300.00	85,033.90
1929	do	5	36,109.67	4,023.98	22,664.51	41,272.00	104,070.16
1930	do	6	500,655.85		15,968.84	40,565.00	557,189.69
1931	do	5	52,607.48		4,031.47	36,416.25	93,055.20
		38	720,011.53	4,023.98	114,305.71	298,901.88	1,137,243.10
1927	Domestic railroad bonds	4			3,460.76	14,491.66	17,952.42
1928	do	5			4,108.74	20,515.60	24,624.34
1929	do	4			3,937.50	9,854.09	13,791.59
1930	do	8			9,375.00	39,453.82	48,828.82
1931	do	5	40,916.68			30,450.62	71,367.30
		26	40,916.68		20,882.00	114,765.79	176,564.47
1927	Public utility bonds	9	10,744.98		13,307.59	74,318.75	98,371.32
1928	do	4			8,040.36	30,606.54	38,646.90
1929	do						
1930	do	9	17,138.91		5,967.01	89,860.05	112,965.97
1931	do	4	7,650.00		11,631.60	31,766.25	51,047.85
		26	35,533.89		38,946.56	226,551.59	301,032.04
1927	Canadian Provincial R.R. and industrial bonds	7	31,112.18		7,500.00	43,108.12	81,720.30
1928	do	3	*259,123.43*		1,012.50	14,392.00	*243,718.93*
1929	do	3	31,604.30	3,750.00	7,074.48	16,700.00	59,128.78
1930	do	7	17,376.37		4,163.73	12,683.75	34,223.85
1931	do	1	27,223.94				27,223.94
		21	*151,806.64*	3,750.00	19,750.71	86,883.87	*41,422.06*
1927	Foreign bonds	18	101,838.31	25,375.00	22,451.69	127,384.64	277,049.64
1928	do	17	73,655.85	54,629.47	81,385.37	202,803.10	412,473.79
1929	do	6	412,968.67	30,785.86	14,217.37	35,695.82	493,667.72
1930	do	9	135,898.73		37,258.21	118,682.87	291,839.81
1931	do						
		50	724,361.56	110,790.33	155,312.64	484,566.43	1,475,030.96
	Total bonds	161	1,369,017.02	118,564.31	349,197.62	1,211,669.56	3,048,448.51

[4] Not including 20,000 shares common stock taken up at $10 per share, and warrants and option to buy 84,592 shares common stock.
[5] Not including 4,921 warrants and 19,750 shares common stock taken up at total of $9,625.
[6] Inclusive.

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Recapitulation of issues offered during period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co. or agencies participated to extent of $250,000 or more but which were managed by others than Dillon, Read & Co.—Continued

[Italic figures indicate losses]

Year	Classification	Gross cash profit of Dillon, Read & Co. and agencies in one or more of the groups specified as shown in column 11 exhibit B of reply to questionnaire					
		Number of issues	Purchase and/or original	Special and/or underwriting	Banking	Distributing and/or selling	Total
	STOCKS						
1927	Domestic corporations	8	$660,699.22		$11,928.00	$98,444.50	$771,071.72
1928		5	109,487.39	$10,000.00	28,548.70	55,078.72	203,114.81
1929		20	*8,773.67*	32,561.70	49,430.92	680,549.65	753,768.60
1930		3	62,500.00	1,489.75	4,485.09	8,533.12	77,007.96
1931							
		36	823,912.94	44,051.45	94,392.71	842,605.99	1,804,963.09
1927	Public utilities	2	14,240.18		12,500.00	57,752.58	84,492.76
1928							
1929							
1930		3	127,762.33	16,575.00	7,475.00	32,863.41	184,675.74
1931							
		5	142,002.51	16,575.00	19,975.00	90,615.99	269,168.50
1927	Railroads	1				3,564.86	3,564.86
1928		2				25,228.78	25,228.78
1929							
1930							
1931							
		3				28,793.64	28,793.64
1927	Canadian stocks						
1928		1			2,500.00	7,187.50	9,687.50
1929							
1930		1				5,337.50	5,337.50
1931							
		2			2,500.00	12,525.00	15,025.00
1927	Foreign						
1928		3	109,578.94		3,225.00	28,553.18	141,357.12
1929		1		13,403.62			13,403.62
1930							
1931							
		4	109,578.94	13,403.62	3,225.00	28,553.18	154,760.74
	Total stock	50	1,075,494.39	74,030.07	120,092.71	1,003,093.80	2,272,710.97

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Federal Reserve Bank of St. Louis

Foreign bond issues, other than Canadian, offered during the period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers

[Italic figures indicate losses]

Number of issues	Date of issue	Name of company	Description of issue	Cost price	Offering price	Amount of issue	Total participation of Dillon, Read & Co. and agencies in one or more of the groups specified			
							Original and/or purchase	Intermediate	Banking	Distributing and/or selling
1	Jan. 20, 1927	Batavian Petroleum Co	4½ percent guaranteed debentures, Jan. 1, 1942.	94.25	96.25	$25,000,000	$9,375,000		$4,307,000	$1,223,500
1	Feb. 2, 1927	Republic of Bolivia	7 percent external bonds, July 1, 1958	90.05	98.50	14,000,000	14,000,000	$6,750,000	1,545,000	2,583,000
1	Oct. 13, 1927	United States of Brazil	6½ percent external bonds, Oct. 15, 1957	88.00	92.50	41,500,000	28,625,000		875,000	1,960,000
1	Sept. 14, 1927	Deutsche Bank (Berlin)	6 percent note, Sept. 1, 1932	96 1/16	99.50	25,000,000	25,000,000		245,000	3,005,000
1	Apr. 12, 1927	City of Milan (Italy)	6½ percent external bonds, Apr. 1, 1952	88.50	92.00	30,000,000	7,666,666		6,600,000	2,045,000
1	Dec. 7, 1927	Shinyetsu Electric Power Co., Ltd.	6½ percent first mortgage bonds, Dec. 1, 1952.	89.00	93.25	7,650,000	7,650,000		1,480,000	1,015,000
1	July 27, 1927	United Steel Works Corporation.	6½ percent debentures, July 1, 1947	94.00	98.50	30,000,000	21,300,000			1,565,000
1	Aug. 11, 1927	do	6½ percent mortgage bonds C, June 1, 1951.	94.00	97.50	4,225,000	3,211,000			553,000
8						177,375,000	116,827,666	6,750,000	15,052,000	13,949,500
1	May 3, 1928	Ruhr Chemical Corporation	6 percent mortgage bonds A, Apr. 1, 1948	87.25	92.25	4,000,000	3,600,000		1,690,000	1,463,000
1	Nov. 8, 1928	Ruhr Gas Corporation	6½ percent bonds A, Oct. 1, 1953	90.00	94.00	12,000,000	4,500,000			3,341,000
1	Dec. 6, 1928	Ruhr Housing Corporation	6½ percent first mortgage bonds, Nov. 1, 1958.	89.00	92.00	4,600,000	920,000		1,585,000	1,279,000
1	Nov. 22, 1928	Rudolph Karstadt, Inc	6 percent first mortgage collateral bonds (with American shares representing capital stock), Nov. 1, 1943.	93.08484	98.00	15,000,000	9,562,500	7,341,850	5,209,000	4,623,000
1	Sept. 20, 1928	Republic of Bolivia	7 percent external bonds, Mar. 1, 1969	93.00	97.50	23,000,000	23,000,000	17,130,000	7,394,000	4,092,500
1	Mar. 7, 1928	Gelsenkirchen Mining Corporation.	6 percent notes, Mar. 1, 1934	93.00	97.00	15,000,000	6,750,000		4,964,250	6,719,000
6						73,600,000	48,332,500	24,471,850	20,842,250	21,517,500
1	Feb. 15, 1929	Berlin City Electric Co	6½ percent debentures, Feb. 1, 1959	90.00	93.50	15,000,000	7,391,250		2,914,901	2,987,000
1	Feb. 21, 1929	Ernesto Breda Co	7 percent first mortgage bonds, W.W., Feb. 1, 1954.	91 3/16	96.25	5,000,000	8,500,000		1,940,000	1,641,000
2						20,000,000	15,891,250		4,854,901	4,628,000

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Foreign bond issues, other than Canadian, offered during the period Jan. 1, 1927 to Dec. 31, 1931, in which Dillon, Read & Co. or agencies participated and of which Dillon, Read & Co. were managers—Continued

[Italic figures indicate losses]

Number of issues	Date of issue	Name of company	Description of issue	Cost price	Offering price	Amount of issue	Total participation of Dillon, Read & Co. and agencies in one or more of the groups specified.			
							Original and/or purchase	Intermediate	Banking	Distributing and/or selling
1	Apr. 15, 1930	Berlin City Electric Co., Inc.	6 percent debentures, Apr. 1, 1955	86.75	90.50	$15,000,000	$22,391,250		$4,288,000	$4,689,000
1	Feb. 4, 1930	Siemens & Halske, A. G.	Participating debentures A, Jan. 15, 2930	[2] $882.50	[2] $933.00	14,000,000	10,900,000	$9,400,000	6,110,000	13,950,000
1	Mar. 21, 1930	Royal Dutch Co.	4 percent debentures A, W.W., Apr. 1, 1945.	86.00	89.50	40,000,000	34,400,000			17,865,000
3						69,000,000	67,691,250	9,400,000	10,398,000	36,504,000
19						339,975,000	248,742,666	40,621,850	51,147,151	76,599,000

Number of issues	Date of issue	Name of company	Description of issue	Gross cash profit of Dillon, Read & Co. and agencies in one or more of the groups specified as shown in column 10 exhibit A in reply to questionnaire				
				Original and/or purchase	Intermediate	Banking	Distributing and/or selling	Total
1	Jan. 20, 1927	Batavian Petroleum Co.	4½ percent guaranteed debentures, Jan. 1, 1942	$52,201.66		$8,075.59	$11,165.00	$71,442.25
1	Feb. 2, 1927	Republic of Bolivia	7 percent external bonds, July 1, 1958	367,065.02	$135,000.00	7,725.00	63,570.31	[1] 573,360.33
1	Oct. 13, 1927	United States of Brazil	6½ percent external bonds, Oct. 15, 1957	538,258.44		3,281.25	57,250.00	[1] 598,789.69
1	Sept. 14, 1927	Deutsche Bank (Berlin)	6 percent note, Sept. 1, 1932	129,816.41		983.93	41,078.75	[1] 171,879.09
1	Apr. 12, 1927	City of Milan (Italy)	6½ percent external bonds, Apr. 1, 1952	51,465.13		26,812.50	45,992.56	124,270.19
1	Dec. 7, 1927	Shinyetsu Electric Power Co., Ltd.	6½ percent first mortgage bonds, Dec. 1, 1952	106,376.13		5,550.00	23,989.08	135,915.21
1	July 27, 1927	United Steel Works Corporation	6½ percent debentures, July 1, 1947	267,121.76			77,997.50	345,119.26
1	Aug. 11, 1927	do	6½ percent mortgage bonds C, June 1, 1951	20,442.09			11,060.00	31,502.09
8				1,532,746.64	135,000.00	52,428.27	332,103.20	2,052,278.11

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1	May 3, 1928	Ruhr Chemical Corporation	6 percent mortgage bonds A, Apr. 1, 1948	48,897.06		6,337.50	33,657.41	88,891.97
1	Nov. 8, 1928	Ruhr Gas Corporation	6½ percent bonds A, Oct. 1, 1953	12,390.71			21,471.80	33,862.51
1	Dec. 6, 1928	Ruhr Housing Corporation	6½ percent first mortgage bonds, Nov. 1, 1958			193.75	14,870.00	15,063.75
1	Nov. 22, 1928	Rudolph Karstadt, Inc	6 percent first mortgage collateral bonds (with American shares representing capital stock) Nov. 1, 1943.	36,226.27	53,366.99	22,789.43	105,502.24	217,884.93
1	Sept. 20, 1928	Republic of Bolivia	7 percent external bonds, Mar. 1, 1969	173,916.01	81,649.99	18,165.00	49,700.00	[1] 323,431.00
1	Mar. 7, 1928	Gelsenkirchen Mining Corporation	6 percent notes, Mar. 1, 1934	36,887.35		31,026.56	31,812.73	99,726.64
6				308,317.40	135,016.98	78,512.24	257,014.18	778,860.80
1	Feb. 15, 1929	Berlin City Electric Co	6½ percent debentures, Feb. 1, 1959	*4,710.63*		10,930.87	32,213.33	38,433.57
1	Feb. 21, 1929	Ernesto Breda Co	7 percent first mortgage bonds, W.W., Feb. 1, 1954.	58,039.27		7,275.00	26,771.26	92,085.53
2				53,328.64		18,205.87	58,984.59	130,519.10
1	Apr. 15, 1930	Berlin City Electric Co., Inc	6 percent debentures, Apr. 1, 1955	84,332.46		15,080.01	14,996.82	114,409.29
1	Feb. 4, 1930	Siemens & Halske, A. G	Participating debentures A, Jan. 15, 1930	130,892.75	219,137.50	78,728.56	17,330.35	446,089.16
1	Mar. 21, 1930	Royal Dutch Co	4 percent debentures A, W.W., Apr. 1, 1945	252,565.11			159,030.63	411,595.74
3				467,790.32	219,137.50	93,808.57	191,357.80	972,094.19
19				2,362,183.00	489,154.48	242,954.95	839,459.77	3,933,752.20

[1] In default.

[2] Per debenture.

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