

MONEY TRUST INVESTIGATION

INVESTIGATION

OF

FINANCIAL AND MONETARY CONDITIONS IN THE UNITED STATES

UNDER

HOUSE RESOLUTIONS NOS. 429 AND 504

BEFORE A

**SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY**

PART 5

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SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY.

HOUSE OF REPRESENTATIVES.

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MONEY TRUST INVESTIGATION.

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY, HOUSE OF REPRESENTATIVES, *New York, N. Y., Wednesday, June 12, 1912.*

The subcommittee met at 11 o'clock a. m. in room 328, Custom-house Building.

Present: Messrs. Pujo (chairman), Brown, Stephens, Daugherty, Byrnes, Neeley, Guernsey, and Heald.

Present also: Samuel Untermeyer, Esq., of New York City, and Edgar H. Farrar, Esq., of New Orleans, La., counsel for the subcommittee.

The CHAIRMAN. The committee will be in order.

TESTIMONY OF JAMES G. CANNON—Recalled.

Mr. UNTERMYER. Mr. Cannon, will you be good enough to resume the stand? As I have advised you, Mr. Cannon, we have asked you to be good enough to return here to complete the record on the subject of these clearing-house loan certificates.

Mr. CANNON. Yes.

Mr. UNTERMYER. Which were issued during the panic of 1907 by the clearing houses throughout the country.

Mr. CANNON. Yes.

Mr. UNTERMYER. You delivered an address, which has not been heretofore referred to, on that subject before the Finance Forum in this city, did you not?

Mr. CANNON. Yes.

Mr. UNTERMYER. On March 30, 1910?

Mr. CANNON. On March 30, 1910.

Mr. UNTERMYER. And that was published throughout the country and circulated?

Mr. CANNON. Yes.

Mr. UNTERMYER. As a part of that address you had photographic facsimiles of various certificates that were issued by certain clearing houses, which passed current in their respective localities as so much money, did you not?

Mr. CANNON. They passed current; not all of them as money.

Mr. UNTERMYER. In some districts they did pass current generally in the community as money, did they not?

Mr. CANNON. They are stated specifically, each one, and some of them were checks and not clearing-house loan certificates.

Mr. UNTERMYER. Some of them were certificates made and engraved in imitation of money, were they not?

Mr. CANNON. I would not say in imitation of money.

Mr. UNTERMYER. These are correct facsimiles, are they not [referring to pamphlet]?

Mr. CANNON. Yes. I have the originals, which I will be glad to show to the committee?

Mr. UNTERMYER. Have you them with you?

Mr. CANNON. No, sir; I have not got them with me, but I will be very glad to file them.

Mr. UNTERMYER. These reproductions in the address are facsimiles?

Mr. CANNON. Yes.

Mr. UNTERMYER. And will answer the same purpose.

Mr. CANNON. All right, sir.

Mr. UNTERMYER. Except that the originals were engraved, were they not?

Mr. CANNON. Some were engraved and some were printed. They were all sorts of type.

Mr. UNTERMYER. So far as you know, there was never any circulation tax paid on these certificates, was there?

Mr. CANNON. Not according to my investigation; no, sir.

Mr. UNTERMYER. They were in denominations of one, two, and five dollars, and in other denominations?

Mr. CANNON. Yes.

Mr. UNTERMYER. The total amount issued was how much?

Mr. CANNON. Approximately, I can give it. I was unable, in my investigation of this question, to find out exactly. I think I stated here approximately how much was issued.

Mr. UNTERMYER. Upward of \$250,000,000 was issued, was there not?

Mr. CANNON. I think so; yes, sir. That is as near as I could find in my investigation and in correspondence with the various clearing houses.

Mr. UNTERMYER. And that was in addition to certificates that were issued by some of the large corporations, such as railroads?

Mr. CANNON. They issued pay checks and not certificates.

Mr. UNTERMYER. Which circulated as money?

Mr. CANNON. Yes; they passed from hand to hand.

Mr. UNTERMYER. They were all payable through the respective clearing houses, were they not?

Mr. CANNON. You mean the pay checks?

Mr. UNTERMYER. Yes.

Mr. CANNON. No, sir; the pay checks were drawn upon individual banks by the corporations.

Mr. UNTERMYER. But the certificates were all issued by and payable through the clearing houses?

Mr. CANNON. Not all the certificates; no. They were different.

Mr. UNTERMYER. Were not these pay checks that were drawn by the corporations on individual banks payable through the clearing houses?

Mr. CANNON. Yes.

Mr. UNTERMYER. And the certificates that were issued in these denominations were also payable through the clearing houses, were they not?

Mr. CANNON. Payable at the clearing houses.

Mr. UNTERMYER. Yes.

Mr. CANNON. Yes.

Mr. UNTERMYER. Of this \$250,000,000 and upward of certificates that were issued during the panic of 1910, and which circulated as you have explained, what amounts were issued in New York, Chicago, and St. Louis?

Mr. CANNON. I think I have it here. Have you there the page that it is on?

Mr. UNTERMYER. Yes; it is near the bottom of page 28.

Mr. CANNON. The three central reserve cities of the United States, namely, New York, Chicago, and St. Louis, issued \$250,000,000 of various instruments designed to temporarily take the place of cash. There were issued during the panic of 1907 in these cities \$157,265,000, or more than 60 per cent of the entire amount.

Mr. UNTERMYER. In the city of New York there were upward of one hundred millions?

Mr. CANNON. \$101,000,000, I think.

Mr. UNTERMYER. And in the nine subtreasury cities—

Mr. CANNON. There were \$206,254,000, or more than 80 per cent of the total of these instruments put out.

Mr. UNTERMYER. You formulated and presented a plan of so-called emergency currency, did you not?

Mr. CANNON. I did in this address; yes, sir.

Mr. UNTERMYER. But has not that all been superseded by the Aldrich-Vreeland bill?

Mr. CANNON. Yes.

Mr. UNTERMYER. So that that question of emergency currency has now been legislated upon?

Mr. CANNON. It has not been legislated on. It is a different proposition.

Mr. UNTERMYER. It is before Congress now?

Mr. CANNON. It is before Congress now, in the Aldrich bill.

Mr. UNTERMYER. But that is a different plan from what you have here?

Mr. CANNON. Yes.

Mr. UNTERMYER. As I understand, your plan was intended only to meet these exigencies?

Mr. CANNON. To meet emergencies that had arisen.

Mr. UNTERMYER. In the particular localities?

Mr. CANNON. In particular localities; so that in time of panic, which is not a time to call loans, instead of being obliged to call loans we could take our fixed assets and by arrangement with the clearing house we could secure these clearing-house loan certificates and then deposit them with the Subtreasury and secure currency against them.

Mr. UNTERMYER. Yours was a local plan, was it not?

Mr. CANNON. Yes.

Mr. UNTERMYER. Intended instead of the central reserve association?

Mr. CANNON. The central reserve association had not come upon the scene of action at that time?

Mr. UNTERMYER. No.

Mr. CANNON. It was simply a temporary plan; an emergency plan, as I call it.

Mr. UNTERMYER. And your emergency plan involved the use of commercial paper?

Mr. CANNON. Yes.

Mr. UNTERMYER. As a basis for certificates?

Mr. CANNON. Yes.

Mr. UNTERMYER. You are familiar, are you not, with the method of loaning on stock-exchange collateral?

Mr. CANNON. Yes.

Mr. UNTERMYER. You have been in touch with that system for many years?

Mr. CANNON. Yes.

Mr. UNTERMYER. In the course of the business of your bank?

Mr. CANNON. Yes.

Mr. UNTERMYER. Will you be good enough to explain just what the system is?

Mr. CANNON. In the method of handling it?

Mr. UNTERMYER. Yes.

Mr. CANNON. I can not explain except from my own bank.

Mr. UNTERMYER. Yes.

Mr. CANNON. Whenever we are creditor at the clearing house for a large sum of money which we desire to put out in the stock exchange and find that we have so much that we desire to loan over and above our reserve, we have a broker on the stock exchange who loans our money on call, and we communicate with him with instructions to make these loans on the stock exchange, and he loans the money to various members of the stock exchange.

Mr. UNTERMYER. Is there a stand in the stock exchange devoted to loans of money?

Mr. CANNON. I can not tell you, Mr. Untermyer.

Mr. UNTERMYER. Are there brokers who make this a special business, or is it done through the regular stock exchange brokers?

Mr. CANNON. It is generally done through a regular stock exchange broker, a customer of ours on the stock exchange.

Mr. UNTERMYER. How is the rate fixed?

Mr. CANNON. I do not know. We never know, except it comes out on the ticker that the renewal rate is such a rate. I suppose it is on account of the supply and demand of money on the board. If there is a large amount of money to loan rates are low.

Mr. UNTERMYER. These are loans from day to day?

Mr. CANNON. From day to day; yes.

Mr. UNTERMYER. They are demand loans on stock exchange collateral?

Mr. CANNON. Yes; demand loans on stock exchange collateral.

Mr. UNTERMYER. Who passes on those loans?

Mr. CANNON. They are first presented to the loan clerk, and afterwards to one of the officers of the bank for initialing.

Mr. UNTERMYER. That is done each day with respect to each loan with respect to which you are advancing money?

Mr. CANNON. Yes.

Mr. UNTERMYER. And are these loans made strictly on what is called stock exchange collateral?

Mr. CANNON. They are made strictly on what is called stock exchange collateral; yes.

Mr. UNTERMYER. What is the customary margin?

Mr. CANNON. Twenty per cent; according to the salability of the collateral.

Mr. UNTERMYER. That is, you require collateral, of the then quoted market value on the exchange, of 20 per cent in excess of the amount you are willing to loan?

Mr. CANNON. Yes.

Mr. UNTERMYER. And do you require that the collateral be mixed, or do you take all one kind?

Mr. CANNON. It is the salability of the collateral that we look to.

Mr. UNTERMYER. But you do not go outside of the stock exchange collateral?

Mr. CANNON. No, sir; not in making those loans.

Mr. UNTERMYER. In making loans on collateral outside the stock exchange, do you observe practically the same rule?

Mr. CANNON. According to the value of the collateral and the class of the collateral; it makes a difference, of course.

Mr. UNTERMYER. But do you take the quoted price of the collateral, if it is an active stock, as the basis of your loan?

Mr. CANNON. Yes, sir.

Mr. UNTERMYER. A security that is not listed on the stock exchange is not regarded, as a rule, as good collateral for this class of loans?

Mr. CANNON. Not for this class of loans made on the stock exchange.

Mr. UNTERMYER. You make your loans generally to stock exchange brokers?

Mr. CANNON. To stock exchange brokers; yes, sir.

Mr. UNTERMYER. In making your loans to stock exchange brokers you sometimes take collateral that is not listed, do you not?

Mr. CANNON. Very seldom.

Mr. UNTERMYER. As a rule you require stock exchange collateral from them, too, do you?

Mr. CANNON. Yes, sir.

Mr. UNTERMYER. Do you make any so-called financial loans, as rule, on anything except stock exchange collateral?

Mr. CANNON. What do you mean by "financial loans"?

Mr. UNTERMYER. I mean loans to financial houses, to bankers, we will say, as distinguished from loans to stock exchange brokers.

Mr. CANNON. Do you mean on unlisted collateral?

Mr. UNTERMYER. Yes.

Mr. CANNON. Yes; you make the loans on unlisted collateral outside of the stock exchange.

Mr. UNTERMYER. As a rule?

Mr. CANNON. Oh, yes. Some of the best loans that banks have are that kind.

Mr. UNTERMYER. They are made to financial houses?

Mr. CANNON. Made to individuals.

Mr. UNTERMYER. But you do make loans to financial houses on what are called syndicate securities, do you not; that is, collateral in the form of securities not yet listed, held by syndicates?

Mr. CANNON. It has not been our custom to do it.

Mr. UNTERMYER. You are not in that line of business?

Mr. CANNON. Not in that line of business; no sir.

Mr. UNTERMYER. You know that is a very large business?

Mr. CANNON. I know that has been done. but it is not in our line of business.

Mr. UNTERMYER. That is a very large business, done by the great institutions here?

Mr. CANNON. I could not testify to that, because we do not do it.

Mr. UNTERMYER. Do you mean to say you do not know anything about it?

Mr. CANNON. I know something of it, but I am not familiar with it.

Mr. UNTERMYER. Have you not been a member of syndicates to which these loans are made?

Mr. CANNON. No, sir.

Mr. UNTERMYER. You are not connected with that branch of the financial business?

Mr. CANNON. We are entirely in a commercial business. I have been all my life.

Mr. UNTERMYER. This is strictly outside the business of Wall Street finance; it is commercial entirely, is it?

Mr. CANNON. I have always been in the commercial business, buying and selling commercial paper and credits.

Mr. UNTERMYER. But, still, in your experience in Wall Street, do you not know that is a very extensive business?

Mr. CANNON. That it has been done; yes, sir.

Mr. UNTERMYER. And not only that it has been done, but it forms a very substantial part of the business of some of the great banks, loaning on first-class collaterals that are held by syndicates?

Mr. CANNON. I know it is done; yes, sir.

Mr. UNTERMYER. Have you any statistics as to the average daily loans made in the stock exchange by the members through stock exchange brokers on stock exchange collateral?

Mr. CANNON. No, sir; I do not know, to any extent at all.

Mr. UNTERMYER. Are there no such records or statistics?

Mr. CANNON. I do not think there are; no, sir; not to my knowledge, at least.

Mr. UNTERMYER. How is the business done on the stock exchange? Does the broker give a receipt or a memorandum?

Mr. CANNON. That I could not tell you. The loans come over to us.

Mr. UNTERMYER. The broker sends the loans to you?

Mr. CANNON. The broker sends the loans in to us.

Mr. UNTERMYER. What does he do, send an envelope containing the securities?

Mr. CANNON. Containing the securities; yes, sir.

Mr. UNTERMYER. And the collateral note?

Mr. CANNON. The collateral note.

Mr. UNTERMYER. Then do you send a check?

Mr. CANNON. We give a check; yes, sir. We give a cashier's check.

Mr. UNTERMYER. Is that given against any account of the clearing house, or just out of the general account?

Mr. CANNON. Oh, no; it is given out of the bank's own credit. It has nothing to do with the clearing house, at all.

Mr. UNTERMYER. Is that the way you dispose of your credit balances at the clearing house, as a rule, lending them out from day to day in that way?

Mr. CANNON. Yes, sir; except when we are purchasing paper in the open market, or loaning to our own customers. Deposits decrease

and you call in your money. It is the leeway, you might say, of the banks.

Mr. UNTERMYER. On the other hand, when you have a surplus outside your credit balance in the clearing house, you lend it in the Street from day to day, do you not?

Mr. CANNON. We lend it in the Street from day to day; yes, sir.

Mr. UNTERMYER. In making those loans you make them through these same brokers?

Mr. CANNON. Yes, sir.

Mr. UNTERMYER. On stock-exchange collateral?

Mr. CANNON. We do; yes, sir.

Mr. UNTERMYER. When the market values, as shown by the quotations of the stock exchange, change on securities that you have in demand loans, what course does your business take?

Mr. CANNON. If they go below 20 per cent we send them notice to make good their margins.

Mr. UNTERMYER. As a rule, do these loans, with those fluctuations and the making good of margins, continue from day to day?

Mr. CANNON. They continue from day to day; yes, sir.

Mr. UNTERMYER. Does the broker who places a loan get any commission?

Mr. CANNON. No, sir.

Mr. UNTERMYER. What is his advantage in doing business?

Mr. CANNON. Simply because he is a customer of the bank, and is glad to do it for us.

Mr. UNTERMYER. At times a broker has a great many accounts, has he not?

Mr. CANNON. I suppose they are divided around amongst the banks. Each bank does not employ the same broker.

Mr. UNTERMYER. But a number employ the same broker, do they not?

Mr. CANNON. I do not think so.

Mr. UNTERMYER. Do you know as to that?

Mr. CANNON. I do not know positively; I could not testify as to that.

Mr. UNTERMYER. So that you have no guide to your operations with respect to these demand loans, as to calling them, or requiring additional margins, other than the quotations on the exchange?

Mr. CANNON. Quotations on the exchange; yes, sir.

Mr. UNTERMYER. It is important to you, and to all bankers, is it not, that those quotations should represent actual transactions?

Mr. CANNON. Yes, sir.

Mr. UNTERMYER. And that they should not represent manipulated values; that is important to you, is it not?

Mr. CANNON. It is important that the values should be correct; yes, sir.

Mr. UNTERMYER. It is important that the quotations should represent genuine transactions, and not manipulation?

Mr. CANNON. Yes, sir.

Mr. UNTERMYER. Do you loan any money on the Consolidated Stock Exchange?

Mr. CANNON. No, sir.

Mr. UNTERMYER. Do any of the banks that you know of?

Mr. CANNON. Yes, sir.

Mr. UNTERMYER. What bank?

Mr. CANNON. I have heard of some banks loaning.

Mr. UNTERMYER. Just name any you have heard of.

Mr. CANNON. I have heard of some of the banks in that neighborhood, but I do not think I could testify as to which.

Mr. UNTERMYER. I do not think that you know of any, do you?

Mr. CANNON. No; I do not think I could testify as to them.

Mr. UNTERMYER. I do not think you do. Do you know what stocks are listed on the Consolidated Exchange?

Mr. CANNON. No, sir.

Mr. UNTERMYER. Do you know anything about its operations?

Mr. CANNON. I do not; no, sir.

Mr. UNTERMYER. It is blacklisted on the New York Stock Exchange, is it not?

Mr. CANNON. I do not know.

Mr. UNTERMYER. Do you not know that?

Mr. CANNON. I do not know it is blacklisted; no, sir.

Mr. UNTERMYER. What would you call it, ignored?

Mr. CANNON. They do not do business with each other.

Mr. UNTERMYER. Boycotted?

Mr. CANNON. I would not want to use those words, because I do not know; I am not familiar with the Consolidated Stock Exchange.

Mr. UNTERMYER. You know, do you not, Mr. Cannon, that only a small proportion of the securities listed on the New York Stock Exchange are listed on the Consolidated Exchange?

Mr. CANNON. I have never looked into the matter, at all.

Mr. UNTERMYER. At any rate, your sole guide is the quotations of the New York Stock Exchange?

Mr. CANNON. The New York Stock Exchange; yes.

Mr. UNTERMYER. And if a security is removed from the list of securities on the New York Stock Exchange, how does that affect its loanable value?

Mr. CANNON. I should think it would affect it very seriously.

Mr. UNTERMYER. It would destroy it, would it not?

Mr. CANNON. I would not say it would destroy it.

Mr. UNTERMYER. Ordinarily it would destroy it, would it not?

Mr. CANNON. I would not say it would destroy it, but I would say it would affect it very seriously. It would depend on what the security was.

Mr. UNTERMYER. The New York Stock Exchange you regard as performing a very important function in the financial system of the country, do you not?

Mr. CANNON. Yes, sir.

Mr. UNTERMYER. Do the banks throughout the country lend their surplus funds on the stock exchange?

Mr. CANNON. Not throughout the entire country; no, sir.

Mr. UNTERMYER. Well, a large part of the country?

Mr. CANNON. No.

Mr. UNTERMYER. In which localities do they not loan their surplus funds in that way, so that they come to New York?

Mr. CANNON. The cities of Chicago, Boston, and Philadelphia, I think, loan a large part of their surplus funds.

Mr. UNTERMYER. You mean in their own cities?

Mr. CANNON. No; on the stock exchange, through their correspondents.

Mr. UNTERMYER. Through their individual correspondents?

Mr. CANNON. Yes.

Mr. UNTERMYER. And they direct the loans?

Mr. CANNON. Yes.

Mr. UNTERMYER. I mean the banks in Boston, Chicago, and Philadelphia direct their correspondents——

Mr. CANNON. They direct their correspondents to make these loans, and rely upon them as to the value of the securities.

Mr. UNTERMYER. Do you know how many banks throughout the country carry balances in New York City?

Mr. CANNON. No, sir.

Mr. UNTERMYER. Practically all of them, do they not?

Mr. CANNON. No, sir; a great many do not.

Mr. UNTERMYER. Where do they carry their balances?

Mr. CANNON. In Chicago and St. Louis.

Mr. UNTERMYER. Do you not know that the Chicago banks that carry the balances of these country banks, themselves in turn carry balances in New York City?

Mr. CANNON. That may be true. The Chicago banks carry balances with us, but I could not testify that those balances are made up of other balances deposited in Chicago.

Mr. UNTERMYER. Presumably that is so.

Mr. CANNON. I would not want to say that.

Mr. UNTERMYER. Take, for instance, the largest bank in Chicago, the Continental & Commercial, Mr. Reynolds's bank?

Mr. CANNON. Yes.

Mr. UNTERMYER. What is the capital of that bank?

Mr. CANNON. I could not tell you.

Mr. UNTERMYER. Its deposits are said to be over \$200,000,000.

Mr. CANNON. I do not know.

Mr. UNTERMYER. What is your information about what its deposits are?

Mr. CANNON. I have not seen the last statement. It is a large bank, but I could not give you those figures.

Mr. UNTERMYER. Is it not reputed to be the largest in the country; the largest of all the banks?

Mr. CANNON. I could not tell you without examining their figures. I have not seen their figures lately.

Mr. UNTERMYER. When you last saw them, what were their reputed deposits?

Mr. CANNON. I am not certain whether they stood second or third, or where.

Mr. UNTERMYER. You mean second or third in the country?

Mr. CANNON. Yes.

Mr. UNTERMYER. They were about \$200,000,000 in deposits, were they not?

Mr. CANNON. I do not remember the last figures, because I have not looked at them lately.

Mr. UNTERMYER. Would not that be an interesting subject to you?

Mr. CANNON. It would be interesting; yes.

Mr. UNTERMYER. And you can not give us any idea as to which is the largest bank in this country in the amount of deposits they carry?

Mr. CANNON. Not on the last figures.

Mr. UNTERMYER. I do not mean yesterday's figures, but, say, a month ago. It is about \$200,000,000, is it not?

Mr. CANNON. I could not testify unless I saw the figures.

Mr. UNTERMYER. Do you not know that that bank keeps balances in New York?

Mr. CANNON. Yes.

Mr. UNTERMYER. With the City Bank and other institutions?

Mr. CANNON. A great many banks; yes.

Mr. UNTERMYER. And those balances are, in turn, loaned out by the New York banks on the stock exchange?

Mr. CANNON. Not entirely on the stock exchange.

Mr. UNTERMYER. I mean partially. When there is a surplus of funds in the hands of a New York bank the New York bank does not discriminate as to where it comes from?

Mr. CANNON. No; it puts it in the pot.

Mr. UNTERMYER. It puts it in the pot and lends it out; yes. So that in that way the surpluses or balances, or part of them, of all the banks in the country that are here in New York, either directly from the country banks or through the intermediary banks, are loaned out on the stock exchange or otherwise on collateral or on loans generally?

Mr. CANNON. The surplus funds are loaned out here; yes.

Mr. UNTERMYER. These funds that go into the pot are loaned out of the pot?

Mr. CANNON. Yes; if they are to be used on the stock exchange. Some of them, of course, do not go on the stock exchange.

Mr. UNTERMYER. Such as are usable on the stock exchange are loaned in that way?

Mr. CANNON. Yes; as I understand it.

Mr. UNTERMYER. And in that way the whole country contributes its part to the operations on the stock exchange?

Mr. CANNON. I would not want to say the whole country.

Mr. UNTERMYER. Which part of the country does not?

Mr. CANNON. I will not say the whole country, because all the banks' money is not loaned out on the stock exchange.

Mr. UNTERMYER. I said they contribute to it; I did not say that all the money of the country went onto the stock exchange. But the question is whether or not through the system you have explained the entire country does not, directly or indirectly, contribute to the operations on the stock exchange.

Mr. CANNON. I should say that a very large portion of it does, in their surplus funds coming here in that way.

Mr. UNTERMYER. That is what makes possible these vast speculative operations, is it not?

Mr. CANNON. Some people think that is true; yes.

Mr. UNTERMYER. Do you not think so?

Mr. CANNON. I should think it helps it; yes.

Mr. UNTERMYER. Do you remember the occasion of the 24th of October, 1907, when call money reached its highest point on the stock exchange?

Mr. CANNON. I do not remember the exact date; no.

Mr. UNTERMYER. You remember that there was an occasion during that time when call money was quoted at 125 per cent, do you not?

Mr. CANNON. I can not remember the exact date. It was along in October of that year. I think there was a very tight money market in October of that year.

Mr. UNTERMYER. Do you remember that money went to 125 per cent?

Mr. CANNON. I do not remember the highest point.

Mr. UNTERMYER. How high do you recall its going?

Mr. CANNON. I do not recall the date.

Mr. UNTERMYER. Not the date, but do you not remember the per cent to which money went?

Mr. CANNON. I do not, no.

Mr. UNTERMYER. Can you give it approximately?

Mr. CANNON. I can not. I can look it up and give it to you.

Mr. UNTERMYER. But you must have some recollection about it?

Mr. CANNON. I have no recollection of the highest rate for money.

Mr. UNTERMYER. No; but how high do you recall its going during that time?

Mr. CANNON. That would be difficult for me to answer. It was a very high rate.

Mr. UNTERMYER. But that does not mean anything.

Mr. CANNON. I could not give it without looking it up.

Mr. UNTERMYER. Some people might think 10 per cent is a high rate; but you know money has gone up to over 100 per cent on the stock exchange, do you not?

Mr. CANNON. It has at times, yes.

Mr. UNTERMYER. And it did during the 1907 panic, did it not?

Mr. CANNON. I think it did, but I could not testify positively.

Mr. UNTERMYER. Do you remember that on the afternoon of that same day it suddenly went back to 6 per cent?

Mr. CANNON. No, sir; I do not.

Mr. UNTERMYER. And down to 3 per cent?

Mr. CANNON. No, sir; I do not.

Mr. UNTERMYER. Do you remember whether you were loaning any money at that time on the stock exchange?

Mr. CANNON. No, sir.

Mr. UNTERMYER. You do not remember whether you were?

Mr. CANNON. No, sir.

Mr. UNTERMYER. Do you remember whether the banks all stopped lending money on the stock exchange on a given date?

Mr. CANNON. No, sir; I do not remember.

Mr. UNTERMYER. Or did they resume that day?

Mr. CANNON. I do not remember, no, sir.

Mr. UNTERMYER. I thank you, Mr. Cannon. I understand you want to get away.

Mr. CANNON. Yes.

Witness excused.

TESTIMONY OF RANSOM H. THOMAS.

The witness was sworn by the chairman.

Mr. UNTERMYER. You live in the city of New York?

Mr. THOMAS. Morristown, N. J.

Mr. UNTERMYER. Are you now engaged in business?

Mr. THOMAS. Yes, sir.

Mr. UNTERMYER. In what business?

Mr. THOMAS. In the stock business.

Mr. UNTERMYER. You are a member of a stock-brokerage firm?

Mr. THOMAS. Yes; R. H. Thomas & Co.

Mr. UNTERMYER. You were the president of the New York Stock Exchange in 1907, were you not?

Mr. THOMAS. Yes, sir.

Mr. UNTERMYER. You were the president during the 1907 panic?

Mr. THOMAS. The year from 1907 to 1908; yes, sir.

Mr. UNTERMYER. The president is elected for one year, is he not?

Mr. THOMAS. For one year.

Mr. UNTERMYER. When does the term of office begin?

Mr. THOMAS. I think it is the second Monday in May that the election is held, and the president takes his office the next day.

Mr. UNTERMYER. You recall very distinctly, do you not, the stirring events of that panic in October, 1907?

Mr. THOMAS. Yes, sir.

Mr. UNTERMYER. It was a time of great distress on the stock exchange and great excitement?

Mr. THOMAS. Great excitement; yes.

Mr. UNTERMYER. Do you recall a day when call money was very high?

Mr. THOMAS. Yes.

Mr. UNTERMYER. It was very high for a number of days, was it not?

Mr. THOMAS. Yes.

Mr. UNTERMYER. It ranged between what figures during those days?

Mr. THOMAS. It would be difficult for me to state exactly the rate—for instance, on this day in October that you refer to—because I was not on the floor when it was lending at the highest point. I could only say that I was told that it loaned at 100 per cent during that day.

Mr. UNTERMYER. That was the 24th of October, 1907, was it not?

Mr. THOMAS. That was the 24th of October.

Mr. UNTERMYER. Was that the culmination of the panic?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. It continued for some time after that, did it?

Mr. THOMAS. Yes, sir.

Mr. UNTERMYER. While you were on the floor in the early part of the day, how high had money gone?

Mr. THOMAS. The only rate that I recall for money made on the morning of October 24 was 6 per cent on loans made by the broker representing the City Bank, and that was recorded on the board where the loans are made.

Mr. UNTERMYER. And money went during that forenoon to 60 per cent, did it not?

Mr. THOMAS. No. Shall I answer it in a little different way?

Mr. UNTERMYER. Certainly.

Mr. THOMAS. My attention was called to the scarcity of money—

Mr. UNTERMYER. Your attention was called to the scarcity of money that morning, was it?

Mr. THOMAS. Yes.

Mr. UNTERMYER. Was not money 60 per cent then?

Mr. THOMAS. Can I explain that as it developed?

The CHAIRMAN. You should answer yes or no, and then make any explanation you desire.

Mr. THOMAS. It is a little story. Mr. Turner, a member of the exchange, came to me. Shall I proceed?

The CHAIRMAN. I will give you the view of the committee. It is this: A witness when asked a question calling for a yes or no answer may answer in one of three ways—yes, or no, or that he does not remember. Then he has a right, after having answered yes, or no, to make an explanation of his answer so far as it is germane to the question, but not to digress into irrelevant matters.

Mr. UNTERMYER. We might be kept years at this investigation if we did not pursue a definite line.

Mr. THOMAS. I stated it to you the other day. Shall I proceed on that line, or would that be irregular?

Mr. UNTERMYER. Let me ask you the questions, if you please.

Mr. THOMAS. Certainly.

Mr. UNTERMYER. On the 24th of October, 1907, you went to the city, did you not, to get relief from the money stringency?

Mr. THOMAS. Yes.

Mr. UNTERMYER. At that time what was the price of call money?

Mr. THOMAS. The registered rate on the post was 6 per cent, and 60 per cent was bid.

Mr. UNTERMYER. And no money was forthcoming at that?

Mr. THOMAS. Sixty was bid, and the last recorded loan on the board was 6 per cent.

Mr. UNTERMYER. That was at the opening of the exchange?

Mr. THOMAS. No; that was in the forenoon.

Mr. UNTERMYER. Sixty per cent was bid for money, and how much was asked for it in response to that bid?

Mr. THOMAS. There was no money there, so far as I saw.

Mr. UNTERMYER. That was what created this consternation among the members of the exchange, was it?

Mr. THOMAS. Sixty per cent was bid for money, and so far as one could judge—I spent but a moment there—there was no money forthcoming.

Mr. UNTERMYER. And that being so, were you appealed to to see what could be done to relieve the stringency?

Mr. THOMAS. A suggestion was made to me by Mr. Turner.

Mr. UNTERMYER. Pursuant to that suggestion, did you go to see Mr. James Stillman, of the City Bank?

Mr. THOMAS. Yes, sir.

Mr. UNTERMYER. And he referred you to whom?

Mr. THOMAS. I think I will have to adopt the chairman's suggestion and waive answering it.

Mr. UNTERMYER. You spoke to Mr. Stillman about the money stringency?

Mr. THOMAS. Yes.

Mr. UNTERMYER. And what did he say to you?

Mr. THOMAS. He recommended to me to go to Mr. Morgan and tell him the exact story that I had told him, Mr. Stillman.

Mr. UNTERMYER. Did Mr. Stillman ask you how much money would be required to relieve the stringency?

Mr. THOMAS. He did.

Mr. UNTERMYER. What did you tell him?

Mr. THOMAS. I answered him that that was a difficult question to answer, and I told him—shall I state what I told him?

Mr. UNTERMYER. If you will, just state how much you told him you thought was needed.

Mr. THOMAS. \$25,000,000.

Mr. UNTERMYER. And when he told you to go to Mr. Morgan, did he tell you that he would telephone Mr. Morgan?

Mr. THOMAS. He said that he would advise Mr. Morgan that I was coming. Yes; I think that is right.

Mr. UNTERMYER. Pursuant to that conversation did you go over to Mr. Morgan's office?

Mr. THOMAS. I went from the City Bank to Mr. Morgan's office, yes, sir.

Mr. UNTERMYER. Did you see Mr. Morgan?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. You did not see him at all?

Mr. THOMAS. I saw Mr. Morgan later, but not at that time.

Mr. UNTERMYER. I mean you saw him on that visit? You waited for him, did you not?

Mr. THOMAS. Before I left the office I saw him.

Mr. UNTERMYER. In the meantime he was in a conference, was he?

Mr. THOMAS. Yes; that is to say, he was in his private office and I could not see him. That is my answer.

Mr. UNTERMYER. How long did you wait before you saw him?

Mr. THOMAS. Well, 20 minutes.

Mr. UNTERMYER. As he came out of his private office did a number of other gentlemen also come out?

Mr. THOMAS. There was great excitement, and the office was filled with people.

Mr. UNTERMYER. But there were a number of gentlemen with him in conference, were there not?

Mr. THOMAS. I was not in the office.

Mr. UNTERMYER. But I understood from you that there were six or eight gentlemen with him in this conference?

Mr. THOMAS. I stated that I was not in the conference—was not in the room—and so I could not tell who were present.

Mr. UNTERMYER. When they came out, did you see who had been in there?

Mr. THOMAS. No; I could not answer that question, as I explained to you the other night. I could not tell you who were there.

Mr. UNTERMYER. You mean you do not remember, or that you did not see them?

Mr. THOMAS. The office, as I have answered, was filled with people, and the excitement was intense, and I could not tell you the names of the gentlemen who were there.

Mr. UNTERMYER. Is it that you do not recall now, or that you did not see who were in the conference?

Mr. THOMAS. I did not see who were in the conference.

Mr. UNTERMYER. You do not know whether they were bank presidents?

Mr. THOMAS. I could not definitely swear as to a man who was there, Mr. Untermyer.

Mr. UNTERMYER. Now, will you be good enough to tell us what you told Mr. Morgan when you saw him?

Mr. THOMAS. Mr. Morgan apparently came out of his private office and came to where I was standing in the lobby and said "We are going to let you have"—I think these are his words—" \$25,000,000. Go over to the exchange and announce it," or, "Will you go over to the exchange and announce it?"

Mr. UNTERMYER. Is that all?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. Proposed, then.

Mr. THOMAS. I said, "One suggestion, Mr. Morgan, I would like to make." He said, "What is it?" I said, "It is this: That you divide this up among several people, as I think it would have a better effect in bringing in money and meeting the emergency." He said, "That is a good suggestion. Perkins, divide that up in lots among several people." And I proceeded to the stock exchange. Is that an answer?

Mr. UNTERMYER. Yes. Is that all?

Mr. THOMAS. That is all the conversation I had with Mr. Morgan.

Mr. UNTERMYER. Was Mr. Perkins there?

Mr. THOMAS. Mr. Perkins was there. I advised you in my conversation with you night before last that Mr. Perkins was there.

Mr. UNTERMYER. I did not remember.

Mr. THOMAS. Yes.

Mr. UNTERMYER. Was there anybody else there?

Mr. THOMAS. The office as filled with people.

Mr. UNTERMYER. Was anybody else a party to this conversation between you and Mr. Morgan in which Mr. Perkins was a participant?

Mr. THOMAS. I think Mr. Turner, a member of the board, was outside when Mr. Morgan made that statement to me.

Mr. UNTERMYER. Have you now stated to me in substance what took place at that time?

Mr. THOMAS. Yes, sir.

Mr. UNTERMYER. Did you ask Mr. Morgan, or did you learn, whether any of the gentlemen who were then in conference with him were lending this money under his direction?

Mr. THOMAS. Mr. Untermyer, not at all.

Mr. UNTERMYER. You did not? Well, I just asked you.

Mr. THOMAS. Certainly.

Mr. UNTERMYER. You did not know from what source the money was coming, did you?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. When you went over to the exchange, what announcement did you make?

Mr. THOMAS. Mr. Turner, as I understand it, said, "Wait a moment and Mr. Thomas will make a statement."

Mr. UNTERMYER. Mr. Turner said that to whom?

Mr. THOMAS. To those who were at the loan crowd, gathered at the loan crowd, waiting for developments to be made.

Mr. UNTERMYER. Waiting for this fiat or determination?

Mr. THOMAS. Not at all; and they did not know anything about it.

Mr. UNTERMYER. Oh.

Mr. THOMAS. Not that I know of.

Mr. UNTERMYER. They did not know it was coming?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. Is there a stand in the stock exchange that is devoted to the lending and borrowing of money?

Mr. THOMAS. Yes.

Mr. UNTERMYER. And you made a statement, did you?

Mr. THOMAS. I made a statement.

Mr. UNTERMYER. Will you be good enough to tell us what you said to them?

Mr. THOMAS. I said to them, "Be perfectly calm. I have not any money, but relief is coming, you can depend upon it."

Mr. UNTERMYER. You did not say how much relief?

Mr. THOMAS. I did not, sir.

Mr. UNTERMYER. And how soon after that did relief come?

Mr. THOMAS. Very promptly.

Mr. UNTERMYER. About how long was it?

Mr. THOMAS. About a minute and a half or two minutes.

Mr. UNTERMYER. Two minutes?

Mr. THOMAS. Perhaps five minutes.

Mr. UNTERMYER. Then the banks began lending money through their brokers, did they?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. Do you know who loaned that money?

Mr. THOMAS. I do not.

Mr. UNTERMYER. But the loan brokers who were ordinarily lending money for the banks began lending money, did they not?

Mr. THOMAS. Money appeared in different parts of the crowd. As I was not a borrower or a lender I left there immediately, and I could not tell you who loaned this money.

Mr. UNTERMYER. Then the rate dropped from about 100 per cent to about 6 per cent, immediately?

Mr. THOMAS. The rate dropped immediately.

Mr. UNTERMYER. To 6 per cent?

Mr. THOMAS. I could not tell you. I did not borrow any that night.

Mr. UNTERMYER. Do you not remember what the rate was?

Mr. THOMAS. I have not a doubt but what it dropped to 6 per cent.

Mr. UNTERMYER. It dropped to 3 per cent after the day was over?

Mr. THOMAS. After all the balances were made.

Mr. UNTERMYER. I mean after everybody's wants were satisfied the rate dropped to 3 per cent?

Mr. THOMAS. I did not see it at 3 per cent. I could not answer that. Very likely it did.

Mr. UNTERMYER. You went to Mr. Stillman, did you not, because he was the head of the largest bank in New York?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. You knew he was the head of the largest bank in New York, did you not?

Mr. THOMAS. I knew he was president of the City Bank.

Mr. UNTERMYER. You knew that that was the largest bank in New York?

Mr. THOMAS. In general, yes; substantially. To answer you, yes.

Mr. UNTERMYER. You knew that he was the head of that bank?

Mr. THOMAS. I assumed that he was the president; yes, sir.

Mr. UNTERMYER. You knew that besides being the president of the bank he was the directing head of it and controlled the bank, did you not?

Mr. THOMAS. No, sir; I do not know whether he controlled it.

Mr. UNTERMYER. You knew that he controlled its managers absolutely?

Mr. THOMAS. I knew that he was the president.

Mr. UNTERMYER. You knew that he was the president and controlled it absolutely?

Mr. THOMAS. Absolutely no more than any other man in this room.

Mr. UNTERMYER. How many years have you been on the stock exchange?

Mr. THOMAS. I have been for thirty-odd years.

Mr. UNTERMYER. And you did not know that James Stillman during his incumbency of the presidency of the City Bank was in absolute control of its policy and management?

Mr. THOMAS. Mr. Untermyer, I can only say about that that I have never known any more than that Mr. Stillman was president of that bank.

Mr. UNTERMYER. Did you ask Mr. Stillman why it was that, being president of this bank, the largest bank in New York, instead of responding to your request for relief he sent you to Mr. Morgan?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. Did you ask him?

Mr. THOMAS. I did not ask him.

Mr. UNTERMYER. Did you understand that Mr. Morgan was president of any bank?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. Or director of any bank?

Mr. THOMAS. I did not think of those things at that time.

Mr. UNTERMYER. No; I understand you to say that you have no idea as to what bank, if any, commenced lending this money after this interview with Mr. Morgan, on the stock exchange?

Mr. THOMAS. That is right, sir. I so stated here. That is absolutely the correct answer.

Mr. UNTERMYER. When a loan is made on the stock exchange, is there any slip or memorandum that passes, to designate the name of the lender?

Mr. THOMAS. No. If I was to borrow \$100,000 of the Fourth National Bank, I would make a memorandum, "Borrowed \$100,000 of the Fourth National Bank," and send it to my office.

Mr. UNTERMYER. So that when you borrow at the loan stand you know from whom you are borrowing, do you not?

Mr. THOMAS. Yes; from an individual or a bank or a trust company I so report.

Mr. UNTERMYER. I say a borrower knows from whom he borrows?

Mr. THOMAS. Yes; he would have to know in order to send his loan.

Mr. UNTERMYER. Is there any record kept by the exchange of these matters?

Mr. THOMAS. None whatever.

Mr. UNTERMYER. Is there any available means that you can suggest to us by which we can ascertain who suddenly came into the loan crowd, through their brokers and loaned this money after this talk of yours with Mr. Morgan?

Mr. THOMAS. I could not answer, as I stated to you the other night, Mr. Untermeyer, who loaned that money.

Mr. UNTERMYER. No; but I say is there any available means you can suggest for our ascertaining who made these loans? I ask you because you know the machinery of the exchange and you know the custom in making these loans.

Mr. THOMAS. The exchange would have nothing to do with it and would know nothing about it. It is all individual, entirely.

Mr. UNTERMYER. Do you know why, up to that time, there was no lending of money around?

Mr. THOMAS. We were in the midst of a panic, and any man's answer is as good as another's.

Mr. UNTERMYER. You do not know and you do not think anybody would know?

Mr. THOMAS. I do not know.

Mr. UNTERMYER. When Mr. Morgan gave the word, did that change the panic conditions?

Mr. THOMAS. Do I understand the question? How am I to understand the question? Have it read.

The question was read by the stenographer, as follows:

Mr. UNTERMYER. When Mr. Morgan gave the word, did that change the panic conditions?

Mr. THOMAS. It certainly had a very decided effect upon relieving the situation, which, as I said before, was panicky.

Mr. UNTERMYER. Then, it rested with one man to say whether the panic should go on or should end, did it?

Mr. THOMAS. I could not answer that question. I could not assent to that, that it rested with one man.

Mr. UNTERMYER. You do not dissent from it, do you?

Mr. THOMAS. I had had no conversation before and was not present at the conference, and consequently I am unable to answer that question.

Mr. UNTERMYER. Had the banks been lending money on the preceding day?

Mr. THOMAS. I could not answer that question. It is presumed that banks loan their money; but as to whether they did or not, I could not answer it.

Mr. UNTERMYER. Your house was in the brokerage business at that time, was it not?

Mr. THOMAS. Yes, sir.

Mr. UNTERMYER. And all brokers have to borrow money to carry their customers, do they not?

Mr. THOMAS. More or less.

Mr. UNTERMYER. Do you remember whether your house was in the market at that time, the day preceding the 24th of October? I merely ask it for the purpose of possibly refreshing your memory as to whether money was being loaned the day before the 24th.

Mr. THOMAS. I would have to answer that question by telling you I was on a very conservative basis, and as president of the stock exchange I was giving my entire time to the affairs of the exchange.

Mr. UNTERMYER. So that you have no means of telling us now, from your present recollection, whether money was being loaned on the 23d of October, and on what terms?

Mr. THOMAS. That I could not answer.

Mr. UNTERMYER. Is there no record in the exchange of the money rate from day to day?

Mr. THOMAS. No.

Mr. UNTERMYER. What do you say?

Mr. THOMAS. As a matter of record from month to month, do you mean?

Mr. UNTERMYER. Yes.

Mr. THOMAS. No, sir.

Mr. UNTERMYER. That is, as a matter of record?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. There are daily quotations for money, but they are not preserved, are they?

Mr. THOMAS. No, sir.

Mr. UNTERMYER. The quotations for money are written on the blackboard every day and are quoted in the newspapers, are they not?

Mr. THOMAS. In a general way, they are.

Mr. UNTERMYER. The accounts of brokers that are thus carried from day to day on collateral demand loans are generally carried upon what margin?

Mr. THOMAS. Twenty per cent is the general understood rule.

Mr. UNTERMYER. Twenty per cent margin over and above the quoted price of the securities upon the exchange?

Mr. THOMAS. No; that is not it.

Mr. UNTERMYER. That is not correct?

Mr. THOMAS. That is not correct.

Mr. UNTERMYER. Will you not state it in your own words?

Mr. THOMAS. When a loan is made the understanding is that you put in a margin of 20 per cent over and above the face of the loan.

Mr. UNTERMYER. How is the margin fixed; upon the quoted price of the securities?

Mr. THOMAS. Yes.

Mr. UNTERMYER. Of the day?

Mr. THOMAS. Yes, sir.

Witness excused.

TESTIMONY OF MR. JAMES B. MABON.

The witness was sworn by the chairman.

Mr. UNTERMYER. Are you the president of the New York Stock Exchange?

Mr. MABON. I am.

Mr. UNTERMYER. Just recently elected?

Mr. MABON. Yes.

Mr. UNTERMYER. What is your firm?

Mr. MABON. Mabon & Co.

Mr. UNTERMYER. How long have you been a member of the stock exchange?

Mr. MABON. Twenty-one years.

Mr. UNTERMYER. During that time have you been a member of the governing committee?

Mr. MABON. I have been a member of the governing committee from 1900.

Mr. UNTERMYER. For the last 12 years?

Mr. MABON. For the last 12 years, yes.

Mr. UNTERMYER. Have you also been a member of the various other committees of the exchange?

Mr. MABON. I have been a member of the stock-listing committee and also of the committee on unlisted securities while it was in existence.

Mr. UNTERMYER. For how many years were you a member of the committee on stock list?

Mr. MABON. About eight years.

Mr. UNTERMYER. Is the president of the exchange ex officio a member of the various committees?

Mr. MABON. No; he is of the finance committee.

Mr. UNTERMYER. He is the chairman of the governing committee, is he not?

Mr. MABON. He is the president of the stock exchange and presides at governing committee meetings.

Mr. UNTERMYER. What was this unlisted department to which you refer?

Mr. MABON. The unlisted department was a committee appointed under the constitution to give quotations to certain securities which did not comply with the requirements of the stock-listing committee.

Mr. UNTERMYER. Were those securities of companies that would not, or did not, make an exposure of their affairs?

Mr. MABON. In some cases.

Mr. UNTERMYER. You had upon that unlisted department, had you not, stocks such as those of the Amalgamated Copper Co. and of the American Sugar Refining Co. that would not make any sort of a statement?

Mr. MABON. I found them there when I became a member of the unlisted committee.

Mr. UNTERMYER. They had been there for many years?

Mr. MABON. For some years; yes.

Mr. UNTERMYER. Did they appear in the regular list with simply a star in front of them to designate that they were unlisted securities on the list?

Mr. MABON. I believe so.

Mr. UNTERMYER. Dealings in them were permitted?

Mr. MABON. Yes.

Mr. UNTERMYER. Until what year?

Mr. MABON. I think, 1910.

Mr. UNTERMYER. That was after the report of the Hughes committee, so called?

Mr. MABON. Yes.

Mr. UNTERMYER. And then pursuant to the recommendations of that report that department was abolished?

Mr. MABON. That was pursuant to a resolution of the governing committee of the stock exchange.

Mr. UNTERMYER. Acting upon the recommendations of that report?

Mr. MABON. I can not answer that question in that way, Mr. Untermeyer, because during the five years when I was chairman of that committee the committee on unlisted securities did not list any securities that did not furnish as complete a report of its affairs as to the stock list committee.

Mr. UNTERMYER. Then, during your incumbency the unlisted department did not list any securities in the unlisted department?

Mr. MABON. They did list.

Mr. UNTERMYER. But you required the same return during that time as was required in the listed department?

Mr. MABON. Yes.

Mr. UNTERMYER. What was the advantage of their going upon the unlisted department?

Mr. MABON. I do not know what the advantage was; but I wish to correct that, to say that there were probably one or two exceptions to that rule. I could go into those exceptions if you wanted me to.

Mr. UNTERMYER. What do you mean by exceptions to the rule; companies that did not make any report?

Mr. MABON. Yes; did not make a complete report.

Mr. UNTERMYER. Whose securities were still listed? I am not interested in this subject to any extent, except to find out if you know whether or not it was really upon the recommendations contained in the report of the so-called Hughes committee that this unlisted department, which allowed to remain upon the list with a star before them stocks of companies that made no report, and no disclosure of their condition, was abolished.

Mr. MABON. I can not say it was only because of the Hughes committee, because the members of the governing committee might have had it in mind to do it of their own volition.

Mr. UNTERMYER. Do you not remember that the Hughes committee reported that unless the stock exchange would make certain reforms they would recommend requiring that it be incorporated?

Mr. MABON. I do not remember that recommendation in the Hughes committee's report; no, sir.

Mr. UNTERMYER. Do you not remember there was some question about its being incorporated or not incorporated, and that certain reforms were suggested?

Mr. MABON. I know the Hughes committee report dealt with certain reforms that were suggested, but whether this reform was as you state it, I do not know.

Mr. UNTERMYER. Is this a print of the so-called Hughes report; that is, the report of the investigating committee appointed by Gov. Hughes [handing witness pamphlet]?

Mr. MABON. Of course, I have not read it, but I will assume it is.

Mr. UNTERMYER. Subject to correction if the printed copy is not correct, we would like to have it marked in evidence.

The pamphlet referred to was marked "Exhibit No. 27, June 12, 1912."

Mr. UNTERMYER. That investigation was not held pursuant to any legislative authority, was it? It was a mere voluntary committee, appointed by Gov. Hughes, without the consent of either house of the legislature, was it not?

Mr. MABON. I do not know of my own knowledge. I know what the general impression was, but I do not know of my own knowledge.

Mr. UNTERMYER. Do you not recall the circumstances of the appointment of that committee?

Mr. MABON. I do recall that there was a committee appointed by the governor.

Mr. UNTERMYER. And that there was no legislative action upon it?

Mr. MABON. That I do not remember.

Mr. UNTERMYER. You recall also that there was no appropriation for the committee, and that the facts it gathered were voluntarily given?

Mr. MABON. I can not answer that question. I assume it is true, but I do not know of my own knowledge.

Mr. UNTERMYER. Do you know whether there was any evidence taken?

Mr. MABON. I do not.

Mr. UNTERMYER. Do you know whether any witnesses were sworn?

Mr. MABON. No.

Mr. UNTERMYER. Or whether the committee had power to call anybody who did not care to volunteer information?

Mr. MABON. I do not know.

Mr. UNTERMYER. Do you know whether the sessions of this committee were secret or open?

Mr. MABON. To my knowledge I do not know.

Mr. UNTERMYER. Do you know anything about it?

Mr. MABON. I remember conversations only.

Mr. UNTERMYER. Did you meet the committee?

Mr. MABON. I did not.

Mr. UNTERMYER. We are anxious, Mr. Mabon, not to go over any matters that have been discussed in this report, so far as we find they are based on any investigation or evidence, and to that end I would like to inquire from you whether you were a member of the committee in this unlisted department of the stock exchange when this report was made?

Mr. MABON. I am sure I was.

Mr. UNTERMYER. Do you recall any evidence being asked or any facts being requested to be produced before that committee concerning that department?

Mr. MABON. Yes. As chairman of the unlisted committee I made a report to the governing committee with reference to the unlisted committee and what its functions were.

Mr. UNTERMYER. You made a report to that governing committee?

Mr. MABON. To the governing committee, before there was any thought of any investigating committee, because I wanted to define what I assumed to be the functions of the unlisted committee; and that report was incorporated in the minutes, and was a part of the evidence that was produced before the Hughes committee.

Mr. UNTERMYER. That you know, do you?

Mr. MABON. I know it from the report that was made.

Mr. UNTERMYER. From what report?

Mr. MABON. From the answers that were made to the Hughes committee.

Mr. UNTERMYER. Who made any answers to the Hughes committee?

Mr. MABON. I do not know who made any answers to the Hughes committee.

Mr. UNTERMYER. Were questions put by the Hughes committee in writing to the exchange?

Mr. MABON. There were some; yes.

Mr. UNTERMYER. That is the way the investigation was conducted, was it? A form of questions was sent to the exchange, which were answered in writing, not under oath?

Mr. MABON. I could not say, Mr. Untermeyer, of my own knowledge, what method was adopted. I do know what I am telling you. I can only testify to what I know of the facts of the case.

Mr. UNTERMYER. All you know then is that certain questions in writing were put?

Mr. MABON. I know that questions in writing were put, pertaining to the unlisted department.

Mr. UNTERMYER. To whom were they put?

Mr. MABON. I do not remember how the questions came to me or who gave me the questions.

Mr. UNTERMYER. They came to you, did they?

Mr. MABON. They came to me.

Mr. UNTERMYER. And you made written answers?

Mr. MABON. I think not.

Mr. UNTERMYER. Did anybody make answer?

Mr. MABON. That I do not know; but I presume so; yes.

Mr. UNTERMYER. You do not know as to that?

Mr. MABON. I do not know personally; I am quite sure that they did.

Mr. UNTERMYER. Who?

Mr. MABON. I do not know.

Mr. UNTERMYER. You do not know who made the answers?

Mr. MABON. I know that certain men made the answers. I do not know who the men were who made the answers.

Mr. UNTERMYER. As chairman of the committee you did not make them, did you?

Mr. MABON. No.

Mr. UNTERMYER. You do not know whether these answers that were made were made under oath or not?

Mr. MABON. I do not know.

Mr. UNTERMYER. So far as you know, this committee never swore any witnesses, did it?

Mr. MABON. I do not know, one way or the other.

Mr. UNTERMYER. Then you have not any idea on what they predicated their report or conclusion, have you?

Mr. MABON. I do not understand the question. Who predicated it; the Hughes committee?

Mr. UNTERMYER. The Hughes committee; yes. You do not know what they had before them—what material and how gathered?

Mr. MABON. I do not know.

Mr. UNTERMYER. At any rate, this unlisted department was abolished in 1910?

Mr. MABON. I think that was the date.

Mr. UNTERMYER. Thereupon did these great corporations, like the Amalgamated Copper Co. and the American Sugar Refining Co., whose stocks had been dealt in on the exchange, file applications and make disclosures so as to procure admission to the regular list?

Mr. MABON. I think that a great many of the corporations made these applications before the date of the termination of the unlisted committee.

Mr. UNTERMYER. Why; since they had been allowed all those years to deal freely in the securities on the exchange, although they made no disclosures?

Mr. MABON. I can not answer what actuated them.

Mr. UNTERMYER. Why did you permit during all these years active dealing in securities of that kind by companies that made no report of their condition and gave no information to the public as to what their assets or their liabilities were?

Mr. MABON. For the time that I was chairman of that committee we made a great many efforts, and succeeded in a great many cases, in having them transferred from the unlisted to the regular list.

Mr. UNTERMYER. During those years when the Amalgamated Copper stocks were upon this unlisted list dealt in on the stock exchange they were very active, were they not?

Mr. MABON. Yes.

Mr. UNTERMYER. They were the most active of all the stocks on the list, were they not?

Mr. MABON. I would not say that.

Mr. UNTERMYER. Were there not times when the Amalgamated stock was the most active of the list?

Mr. MABON. I could not answer that question. I know it was very active. I will assume it was, but I can not say it was the most active.

Mr. UNTERMYER. And the sugar stock was also very active?

Mr. MABON. Also very active; yes.

Mr. UNTERMYER. For how many years did the stock exchange allow those securities to be thus dealt in without any disclosure of the assets or liabilities or anything concerning these corporations?

Mr. MABON. It must have been a varying time, but I do not know.

Mr. UNTERMYER. The Amalgamated stock was on the list from the time of its organization in 1898 was it not?

Mr. MABON. I assume so.

Mr. UNTERMYER. The sugar stock was on the list many years more?

Mr. MABON. Prior to that; yes.

Mr. UNTERMYER. Would you say that one had been on that unlisted list for 20 years and the other for about 10 or 12 years?

Mr. MABON. I should assume so.

Mr. UNTERMYER. During that time, Mr. Mabon, was there any way by which any intending buyer could ascertain what these companies owned what their properties were or what their assets were or what their earnings were, or what their obligations were, or what their business was?

Mr. MABON. Certainly some of the information could be obtained.

Mr. UNTERMYER. Where?

Mr. MABON. The unlisted department—this is my understanding; I am quite sure I am right—did require certain information from these people but whether they could give the detailed information that the stock list required or not was another question.

Mr. UNTERMYER. Let us take the Amalgamated, for instance. Do you not know that there was not a bit of information on the files of the exchange?

Mr. MABON. I do not know that.

Mr. UNTERMYER. Do you know whether there was any?

Mr. MABON. I think there was; yes.

Mr. UNTERMYER. What information was there there up to the time when the stock was required to be listed?

Mr. MABON. Certainly information as to the amount of the capital stock.

Mr. UNTERMYER. As to the amount of stock outstanding?

Mr. MABON. Yes.

Mr. UNTERMYER. Anybody could get that from the files of the Secretary of State, could he not?

Mr. MABON. I presume so. You asked me the question whether we had any information.

Mr. UNTERMYER. Of course you had to know the amount of stock outstanding, on account of the issue of certificates, did you not?

Mr. MABON. Yes.

Mr. UNTERMYER. So as to list a given amount of certificates?

Mr. MABON. Yes.

Mr. UNTERMYER. That you had to know as to every security that was dealt in?

Mr. MABON. Yes.

Mr. UNTERMYER. But apart from that, was there any information on file?

Mr. MABON. I could not answer. I presume there was.

Mr. UNTERMYER. Do you not know that the Amalgamated was operated all these years as a blind pool?

Mr. MABON. I do not know it; no.

Mr. UNTERMYER. You dealt in it, did you not? Your firm dealt in the stock?

Mr. MABON. I presume it did.

Mr. UNTERMYER. For customers?

Mr. MABON. I presume we did, although we do very little stock business.

Mr. UNTERMYER. And you knew, did you not, that during all those years you could not find out what they had been earning?

Mr. MABON. I do not know that.

Mr. UNTERMYER. Do you know whether you could or not?

Mr. MABON. I do not know. I am stating personally that of my own knowledge I do not know.

Mr. UNTERMYER. As a broker, and this being an active stock, is it possible you did not know the general conditions surrounding that unlisted stock that was being dealt in on the exchange?

Mr. MABON. Yes; I did know the conditions.

Mr. UNTERMYER. You knew the conditions surrounding it for years, did you not?

Mr. MABON. Yes.

Mr. UNTERMYER. And you knew, did you not, that for years you could not find out what its assets or its obligations or its earnings were?

Mr. MABON. No; I do not know that you could not find out.

Mr. UNTERMYER. Did you ever find out?

Mr. MABON. I do not remember whether I ever found out or not.

Mr. UNTERMYER. Do you know of anybody who did?

Mr. MABON. I do not.

Mr. UNTERMYER. Do you know whether you could find out?

Mr. MABON. I presume the unlisted committee did have certain information.

Mr. UNTERMYER. Will you not look and see what information they had and let us have it?

Mr. MABON. I will, yes; with great pleasure.

Mr. UNTERMYER. And as to the sugar company also?

Mr. MABON. Yes.

Mr. UNTERMYER. You know, do you not, it was a matter of public knowledge that these companies made no disclosure of their affairs, as to earnings, assets, or anything else for years while they were being dealt in on the exchange?

Mr. MABON. Mr. Untermyer, the question as to whether they made no report or whether they made a meager report presents two questions. I do not know whether they made a meager report. I have never been interested in Amalgamated Copper and can not answer the question.

Mr. UNTERMYER. How about the sugar company?

Mr. MABON. I think the sugar company made reports.

Mr. UNTERMYER. Of what?

Mr. MABON. Of their affairs.

Mr. UNTERMYER. Do you mean to say that down to 1908 the American Sugar Refining Co. made any reports of its assets or earnings or property?

Mr. MABON. I have seen reports made to the State of Massachusetts by the sugar company.

Mr. UNTERMYER. You have seen the report made to the State of Massachusetts?

Mr. MABON. I have seen it in the paper.

Mr. UNTERMYER. When was that?

Mr. MABON. Some years ago.

Mr. UNTERMYER. Was that during the Havemeyer régime?

Mr. MABON. I do not remember.

Mr. UNTERMYER. But you have seen no reports to anyone except the State of Massachusetts?

Mr. MABON. I do not remember having seen others.

Mr. UNTERMYER. At any rate, in 1910 the committee came to the conclusion, did it not, that this was an improper and a dangerous situation for such securities to be dealt in on the exchange?

Mr. MABON. I could not express it that way, Mr. Untermyer.

Mr. UNTERMYER. Express it your own way then.

Mr. MABON. They concluded it was a wiser thing to have all the securities on the exchange under one stock-list committee.

Mr. UNTERMYER. They concluded, did they not, that it was wiser to require companies that wanted their securities listed on the exchange to make full disclosure?

Mr. MABON. Yes.

Mr. UNTERMYER. What were the evils that had arisen out of the dealing on the exchange in stocks that did not make these disclosures? They were subject to manipulation, were they not?

Mr. MABON. I do not think so; no.

Mr. UNTERMYER. And false rumors?

Mr. MABON. I do not know about it.

Mr. UNTERMYER. If a company made no statement of its earnings, were not its securities more liable to be affected by rumors and false information as to what these earnings were than if it made a statement of them?

Mr. MABON. I can not answer that question; that is a question of opinion.

Mr. UNTERMYER. If the company made no disclosure of its assets or obligations, were the securities of the company more liable to fluctuation based on rumor?

Mr. MABON. I could not say.

Mr. UNTERMYER. You do not think so?

Mr. MABON. I could not say.

Mr. UNTERMYER. But what is your opinion about it?

Mr. MABON. Will you ask the question again?

Mr. UNTERMYER. What is your own opinion about it, frankly, Mr. Mabon?

Mr. MABON. My only effort is to be as frank as possible with you and the committee.

Mr. UNTERMYER. I am sure it is.

Mr. MABON. I received my subpoena notice a very little while ago and I have not formed an opinion. The matter has not come to my attention.

Mr. UNTERMYER. But can you not form an instant opinion on that proposition?

Mr. MABON. No. I will say it did not necessarily mean that there could be greater fluctuations in a stock that furnished meager information than in a stock about which full information was furnished.

Mr. UNTERMYER. You do not think a stock that furnished no information would be more liable to manipulation than a stock with respect to the merits of which everybody had full access and knowledge?

Mr. MABON. We did have some information. You spoke of it as furnishing no information. I am inferring that we had certain information.

Mr. UNTERMYER. You mean you knew how much stock was out?

Mr. MABON. And probably we had other information.

Mr. UNTERMYER. But you do not know that you had any, do you?

Mr. MABON. I think so. We can have the information for you this afternoon.

Mr. UNTERMYER. You were a member of the stock exchange at the time the listed stocks were removed from the list?

Mr. MABON. Yes.

Mr. UNTERMYER. I am referring to the listed securities.

Mr. MABON. Yes. I understood the question.

Mr. UNTERMYER. As a broker and a man familiar with Wall Street methods, you understand thoroughly, do you not, the advantages of securing a listing of a stock on the New York Stock Exchange?

Mr. MABON. There are advantages, undoubtedly.

Mr. UNTERMYER. Among them are what?

Mr. MABON. A ready market.

Mr. UNTERMYER. Is that all you care to say?

Mr. MABON. That is all I care to say.

Mr. UNTERMYER. What about the availability of stocks that are listed as collateral for loans?

Mr. MABON. In loans we make we have both listed and unlisted securities as collateral, and it makes no difference.

Mr. UNTERMYER. I will repeat the question. What about the availability of stocks that are listed as collateral for loans; does it make them more available?

Mr. MABON. Yes; in a broad way, it does.

Mr. UNTERMYER. Do you not know in a broad way or a narrow way, or any other way, that the listing of a stock makes it more available as collateral for a loan all over this country?

Mr. MABON. There are stocks that are quite as available as stocks that are listed.

Mr. UNTERMYER. Is there any stock that you know of, except Standard Oil stock, that is as available?

Mr. MABON. I should say that of the Singer Manufacturing Co., and there are others.

Mr. UNTERMYER. What others?

Mr. MABON. I have no others in mind, but I am sure there are others.

Mr. UNTERMYER. I wish you would name some.

Mr. MABON. I can not recall any at the moment.

Mr. UNTERMYER. Do you not know that the banks do not lend, as a rule, on collateral of stocks that are not listed?

Mr. MABON. I do not know what the rules of the banks are.

Mr. UNTERMYER. Do you not borrow from banks?

Mr. MABON. Yes.

Mr. UNTERMYER. And do you not know that stock-exchange loans are not made by the banks except on stock-exchange listed collateral?

Mr. MABON. I do not know that, because I have borrowed money on stocks that were not listed.

Mr. UNTERMYER. You might have put in a few that were not listed, but mainly you have made loans on stocks that were listed?

Mr. MABON. Not necessarily.

Mr. UNTERMYER. We are talking about loans made on the stock exchange, through stock-exchange brokers.

Mr. MABON. Yes.

Mr. UNTERMYER. Where you loan primarily on stock-exchange collateral, do you not?

Mr. MABON. Primarily, yes.

Mr. UNTERMYER. On stocks that are listed on the regular list?

Mr. MABON. Certainly.

Mr. UNTERMYER. Do you not know that in reckoning the margin for a loan the quotation on the list of the stock exchange as to the large sales is taken as a basis?

Mr. MABON. I assume so, yes.

Mr. UNTERMYER. What is the customary margin required on demand loans from day to day on stock-exchange security?

Mr. MABON. The customary margin required is 20 per cent on the face value of the loan.

Mr. UNTERMYER. That is to say, the stock-exchange value or quotation of the security at the time of the loan should be 20 per cent in excess of the amount loaned?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. If there is no market for the security, no stock-exchange quotation, how is the margin fixed?

Mr. MABON. I do not know.

Mr. UNTERMYER. You do not know?

Mr. MABON. No.

Mr. UNTERMYER. There is no way of fixing it, so far as you do know?

Mr. MABON. I do not know. That is a matter for the banks.

Mr. UNTERMYER. So that you realize, do you not, the importance to the security of a company and to its value of having its stock listed on the regular list of the stock exchange?

Mr. MABON. In the main, I do; yes.

Mr. UNTERMYER. Is there any place in which a stock can be listed in New York, other than the New York Stock Exchange, to give it that current value for lending purposes?

Mr. MABON. I do not know.

Mr. UNTERMYER. Do you know of any?

Mr. MABON. I do not know of any.

Mr. UNTERMYER. Do you know of any other place in the country where a stock can be listed so as to give it that current value for loaning purposes?

Mr. MABON. I am not qualified to answer, because I do not know.

Mr. UNTERMYER. If you are not qualified after 23 years of experience as a broker, will you tell me anybody who is qualified?

Mr. MABON. You asked about the country. I do not know what the rules of the Philadelphia, Chicago, Baltimore, and other exchanges are. Perhaps I have misinterpreted your question.

Mr. UNTERMYER. I am not speaking about the rules of those exchanges. I am speaking about the listing on the New York Stock Exchange, making a security available for borrowing purposes on call loans all over the country.

Mr. MABON. What is your question?

Mr. UNTERMYER. Does it not make it available all over the country?

Mr. MABON. I do not know of my personal knowledge whether it makes it available all over the country. I know loans are made in New York City. I do not know about the whole country. I presume it does, but I do not know.

Mr. UNTERMYER. You know that there are included in your regular list corporations that operate all over the country, and do not operate in New York City?

Mr. MABON. Yes.

Mr. UNTERMYER. And that is so as to a vast number of industries, is it not?

Mr. MABON. Yes.

Mr. UNTERMYER. Can you conceive of any reason why they should conform to the regulations of your exchange and have their stocks listed here, except to give their stock a world's market and make them available for loans, and give them a value in that way?

Mr. MABON. I can not answer that question, as to what animates corporations in trying to list their securities on the New York exchange.

Mr. UNTERMYER. Do you not think you know why they list them?

Mr. MABON. I know some of the advantages.

Mr. UNTERMYER. What are the advantages?

Mr. MABON. I know some of the advantages, but not all the things that come into their minds. I can not tell what animates them to try to have their securities listed.

Mr. UNTERMYER. You know one of the things that animates them is to give them a market?

Mr. MABON. Yes.

Mr. UNTERMYER. And that is the way they get their market?

Mr. MABON. Yes.

Mr. UNTERMYER. And you know another thing that animates them is that they get a loanable value as collateral?

Mr. MABON. I do not know about that. I do not think that is—for instance, the Pennsylvania Railroad in listing its securities I do not think is desirous of getting a loanable value.

Mr. UNTERMYER. Do you not think that the railroad in listing its securities does so partly in order that its stocks may get a value and be available in the hands of their stockholders for loans?

Mr. MABON. I can not answer what the railroads have in their minds, Mr. Untermyer.

Mr. UNTERMYER. You know certain things that are matters of general knowledge, do you not?

Mr. MABON. I have my opinion about it; yes.

Mr. UNTERMYER. Suppose the Pennsylvania Railroad Co. should remove its stock from the list, or have it removed, to-morrow; what effect do you suppose that would have upon the market value of that stock?

Mr. MABON. It depends upon the cause for its removal. If they should voluntarily ask to have it removed, you mean?

Mr. UNTERMYER. Yes.

Mr. MABON. I should say it would not have very much effect.

Mr. UNTERMYER. So you do not think your exchange is a very useful adjunct to the financial system, after all?

Mr. MABON. I do.

Mr. UNTERMYER. If the removal of a stock from the list, a stock such as the Pennsylvania Railroad Co.'s stock, would not make much difference in the value, what is the use of the exchange?

Mr. MABON. I decline to answer that question. I do not know.

Mr. UNTERMYER. Why should you decline to answer it?

Mr. MABON. Because the Pennsylvania Railroad is a railroad that is very well known—

Mr. UNTERMYER. We are talking about any railroad or any stock.

Mr. MABON. But you asked me about the Pennsylvania Railroad. If you ask about any stock, I will say it might make a difference, and it might not. That is a hypothetical question.

Mr. UNTERMYER. Well, let us stick to the Pennsylvania Railroad, then. You say it would not make much difference.

Mr. MABON. I say it would not make a great deal of difference.

Mr. UNTERMYER. Then banks that loan only on collateral of stocks that are listed on the stock exchange would not loan on that stock?

Mr. MABON. I can not answer that.

Mr. UNTERMYER. You know there are certain banks that make these loans only on stock which is listed on the stock exchange?

Mr. MABON. I do not know.

Mr. UNTERMYER. Do you know anything about it?

Mr. MABON. I do not know about that particular thing, whether there are banks that only do that—that only loan on that kind of collateral.

Mr. UNTERMYER. And you have been a member of the governing committee for how many years?

Mr. MABON. Twelve years.

Mr. UNTERMYER. And a broker for how many years?

Mr. MABON. For 25 years.

Mr. UNTERMYER. What useful purpose, then, does the stock exchange serve to the financial system of the country?

Mr. MABON. It furnishes a place where transactions in securities, between its members, can be made.

Mr. UNTERMYER. It furnishes a market, you mean?

Mr. MABON. Yes.

Mr. UNTERMYER. It furnishes the only market, does it not?

Mr. MABON. I should say not.

Mr. UNTERMYER. Where are there any other markets for securities?

Mr. MABON. In the United States——

Mr. UNTERMYER. In New York, we will say?

Mr. MABON. There are markets on the curb.

Mr. UNTERMYER. You mean outside, in the open?

Mr. MABON. Yes.

Mr. UNTERMYER. You mean on the street corners? You mean you can sell stock on the street corners to anybody who would buy?

Mr. MABON. There is also a market in the offices.

Mr. UNTERMYER. Would anybody go to buy securities out on the curb or in a broker's office, a stock that is listed on the exchange?

Mr. MABON. I should say, yes.

Mr. UNTERMYER. You think so?

Mr. MABON. Yes.

Mr. UNTERMYER. So your idea is that the business is just as well done in brokers' offices as on the exchange?

Mr. MABON. I did not answer it that way; no.

Mr. UNTERMYER. I asked you what other places furnished a market. Do you not know that those places you have named do not furnish a market for a stock-exchange security?

Mr. MABON. I did not understand you question to refer only to stock-exchange securities.

Mr. UNTERMYER. I am speaking of stock-exchange securities.

Mr. MABON. May I have the original question repeated?

Mr. UNTERMYER. I asked you what other market there is for those securities than the market afforded by the New York Stock Exchange.

Mr. MABON. That is the primary market.

Mr. UNTERMYER. Is there any other?

Mr. MABON. Certain banking houses, I understand, do trade over the counter, in bonds.

Mr. UNTERMYER. Is there any other market for stocks?

Mr. MABON. I do not know.

Mr. UNTERMYER. Do you know of any?

Mr. MABON. I do not.

Whereupon, at 1 o'clock p. m., the committee took a recess until 2 o'clock p. m.

AFTER RECESS.

The subcommittee reconvened, pursuant to the taking of recess, at 2 o'clock p. m., Hon. A. P. Pujo (chairman) presiding.

TESTIMONY OF JAMES G. CANNON—Recalled.

Mr. UNTERMYER. Mr. Cannon, I find that there is a feature of this out-of-town check business in which we are interested that has not been discussed. I did ask you and Mr. Hepburn concerning the question of out-of-town checks, but I did not ask you whether there had not been some official action of the clearing-house committee on the subject during the present year.

Mr. CANNON. There was a special committee appointed to make an investigation.

Mr. UNTERMYER. Did you forget to tell us about that?

Mr. CANNON. Yes; I did not think it was necessary.

Mr. UNTERMYER. You did not? You were the chairman of that committee?

Mr. CANNON. Yes.

Mr. UNTERMYER. Is this the resolution that was passed in April of the present year on motion of A. Barton Hepburn [exhibiting newspaper clipping]?

Mr. CANNON. Read it, and I can tell you better.

Mr. UNTERMYER. I am going to read it. It is as follows:

Whereas there were adopted on April 3, 1899, rules and regulations of this association regarding collections outside the city of New York which, with the exception of special interpretations put upon certain clauses of the same by the clearing-house committee, have never been altered or amended. In view of the fact that the volume of collections during the last 13 years has increased very largely and also the fact that since these rules and regulations were established there have been various methods pursued in the handling of collections by the various clearing-house associations throughout the country, it would seem as if the time has arrived when a careful investigation should again be made of this matter: Therefore be it

Resolved, That a special committee of five be appointed by Frank A. Vanderlip, chairman of this committee, for the purpose of making a thorough investigation of the subject of inland exchange and collections and the methods pursued by other clearing-house associations and to report to this committee such changes in the rules or regulations of the New York Clearing House Association as in their judgment may be deemed best; and be it further

Resolved, That this committee be authorized to invite to appear before them managers of other associations and members of this association for the purpose of procuring any necessary information.

That is the resolution, is it not?

Mr. CANNON. Yes.

Mr. UNTERMYER. Why is it that neither Mr. Vanderlip nor Mr. Hepburn nor yourself gave the committee any information on the subject when you have been upon the stand?

Mr. CANNON. I can only speak for myself. I tried to confine myself particularly to the questions which you asked me.

Mr. UNTERMYER. That committee is still in existence?

Mr. CANNON. Yes.

Mr. UNTERMYER. You are the chairman of it, are you?

Mr. CANNON. Yes.

Mr. UNTERMYER. The other members are Walter E. Frew, president of the Corn Exchange Bank; Joseph T. Talbert, vice president of the National City Bank; Edward Townsend, president of the Importers

& Traders National Bank; and J. W. Platten, president of the United States Mortgage & Trust Co.?

Mr. CANNON. Yes, sir.

Mr. UNTERMYER. Has that committee had a number of sessions?

Mr. CANNON. Yes; it has.

Mr. UNTERMYER. When was the last session of that committee?

Mr. CANNON. I think it was on Friday or Saturday.

Mr. UNTERMYER. Of last week?

Mr. CANNON. Last week; yes.

Mr. UNTERMYER. That was before this subject was presented to the committee?

Mr. CANNON. Before this subject was presented to this committee?

Mr. UNTERMYER. Yes; to this committee here.

Mr. CANNON. Entirely so.

Mr. UNTERMYER. Friday or Saturday of last week?

Mr. CANNON. But they had had nothing to do with this subject before this committee.

Mr. UNTERMYER. This particular question of out-of-town checks had been discussed before Saturday of last week, had it not, in this hearing?

Mr. CANNON. In this hearing; yes, sir. But the meeting of the committee had nothing to do with that, sir.

Mr. UNTERMYER. At these different meetings that have been held of that committee has the subject been discussed of doing away with the discretionary points?

Mr. CANNON. That subject has been discussed as to the general rules and regulations of clearing houses all the way through.

Mr. UNTERMYER. Has the subject been mooted of doing away with discretionary points?

Mr. CANNON. We have been asked various questions with reference to those things?

Mr. UNTERMYER. Has the committee discussed among itself the question of abrogating the discretionary points at which there are no charges made for collection?

Mr. CANNON. We discussed doing away with them—and doing away with them in various ways. The committee have no plan whatever of their own. The committee has taken up a general discussion of the whole subject.

Mr. UNTERMYER. I see that among the few discretionary points is Bayonne, N. J. Do you notice that?

Mr. CANNON. Yes; the old discretionary points.

Mr. UNTERMYER. The present discretionary points?

Mr. CANNON. Yes; the present discretionary points.

Mr. UNTERMYER. They have not been changed, have they?

Mr. CANNON. No.

Mr. UNTERMYER. Why is a little place like Bayonne, N. J., put into these discretionary points?

Mr. CANNON. The discretionary points which were put in 13 years ago were put in on all those points which always remitted at par to New York. Here it is, on pages 20 and 21, I think, discretionary points. It is in section 2, on page 20, "Boston, Providence"—

Mr. UNTERMYER. The discretionary points are—

Mr. CANNON. Boston, Providence, Albany, Troy, Jersey City, Bayonne, Hoboken, Newark. Philadelphia, and Baltimore.

Mr. UNTERMYER. Bayonne was the home of the Standard Oil Co., was it not?

Mr. CANNON. That has nothing to do with the discretionary points.

Mr. UNTERMYER. Oh, answer my question?

Mr. CANNON. Not that I am aware of.

Mr. UNTERMYER. Did you not know that the Standard Oil Co. had its home office at Bayonne, N. J.?

Mr. CANNON. I did not know that it was their home.

Mr. UNTERMYER. You knew that they had a business there?

Mr. CANNON. Yes.

Mr. UNTERMYER. You knew that they had their great refining plant there?

Mr. CANNON. Yes; I knew that.

Mr. UNTERMYER. You knew that?

Mr. CANNON. But I was not aware of it 13 years ago.

Mr. UNTERMYER. Do you not know that that was so 13 years ago?

Mr. CANNON. I do not know.

Mr. UNTERMYER. You do not know?

Mr. CANNON. No, sir.

Mr. UNTERMYER. Then you do not know the reason why Bayonne was put in among the discretionary points?

Mr. CANNON. The reason was——

Mr. UNTERMYER. Do you know?

Mr. CANNON. No, sir; I do not know; except that they remitted at par.

Mr. UNTERMYER. It has been found, has it not, by your committee that bankers in Newark, for instance, and banks in Newark, solicit business from New York merchants who have out of town checks to pass through the New York banks, because it is a discretionary point, and they in turn can have those checks collected through the New York banks without charge?

Mr. CANNON. Yes, sir. It is so with all discretionary points.

Mr. UNTERMYER. And you will find that they are using the discretionary points to have the checks collected without charge?

Mr. CANNON. A large number are used that way. We use them ourselves to collect our checks without charge.

Mr. UNTERMYER. You use those points for that purpose?

Mr. CANNON. Yes.

Mr. UNTERMYER. Is that one of the reasons why it is proposed to do away with those discretionary points?

Mr. CANNON. It is not proposed to do away with them at all.

Mr. UNTERMYER. It is not proposed to?

Mr. CANNON. Oh, no, sir.

Mr. UNTERMYER. It is proposed to remit the checks on the other points that are not discretionary?

Mr. CANNON. No, sir; there is no plan whatever before us.

Mr. UNTERMYER. What is the purpose of your special committee?

Mr. CANNON. May I say a word?

Mr. UNTERMYER. Yes.

Mr. CANNON. This whole question of inland exchange and country checks is one of the most difficult problems that the bankers of this country have to meet, as is evidenced by the fact that 91 clearing houses have established those rules and regulations concerning them.

Mr. UNTERMYER. Out of how many?

Mr. CANNON. Out of 242.

Mr. UNTERMYER. And the others do not make any charge, do they?

Mr. CANNON. The others do not make any charge. There are two things involved in the collection of a country check. First, is the cost of collection to us, and, second, is the amount of time consumed in making that collection. Those are two very important things in connection with handling this whole matter. Thirteen years ago—may I make this statement, Mr. Untermeyer?

Mr. UNTERMYER. Yes.

Mr. CANNON. Thirteen years ago, when this question came up, investigation was made throughout the banks as to the cost of collecting at that time these country checks.

Mr. UNTERMYER. Do you not think that is entirely too much hearsay?

Mr. CANNON. No, sir; I have it here before me.

Mr. UNTERMYER. Were you a party to any investigation of this subject at that time?

Mr. CANNON. I was, at the time.

Mr. UNTERMYER. Was there a committee appointed?

Mr. CANNON. No; there was a conference of the clearing house, by the clearing house committee.

Mr. UNTERMYER. But there was no special committee appointed?

Mr. CANNON. No special committee appointed, except the clearing house committee. At that time they called in some of the junior officers of the banks in reference to this matter.

Mr. UNTERMYER. There has been no change in the regulations for 13 years?

Mr. CANNON. No, sir; there has not.

Mr. UNTERMYER. Have you any data other than what you produced yesterday as to the total amount of this business that passes through all the banks?

Mr. CANNON. I have not; no, sir.

Mr. UNTERMYER. Did you look to see whether you could get the rest of the data? You produced some data here relating to 35 or 40 national banks.

Mr. CANNON. No; Mr. Hepburn did that. I did not say it.

Mr. UNTERMYER. You found no additional data?

Mr. CANNON. No; no additional data. When this committee is through, we shall be very glad to produce any data on behalf of our committee.

Mr. UNTERMYER. We would like, Mr. Cannon, any reliable data that can be gathered on the subject, for the guidance of this committee.

Mr. CANNON. Can I give you these data that were gathered 13 years ago?

Mr. UNTERMYER. Not unless you personally know something about them. Have you them here in any form?

Mr. CANNON. I have them here in this form [exhibiting book].

Mr. UNTERMYER. Let me see what that is. We do not care to encumber the record with hearsay.

Mr. CANNON. I think that is a fair statement of the case.

Mr. UNTERMYER. No; I do not think so. I think it is rather the contrary, if I may say so.

Mr. CANNON. Would you like to have me explain that to you? I will do so.

Mr. UNTERMYER. I understand it perfectly. Where did you get this paper?

Mr. CANNON. From the Fourth National Bank.

Mr. UNTERMYER. From your files?

Mr. CANNON. I had that on my own files; yes, sir. I might also state that it is from an address I delivered on the subject some twelve years ago; a public address.

Mr. UNTERMYER. Have you the address here?

Mr. CANNON. I have not got it here; no, sir.

Mr. UNTERMYER. Those are data you prepared the other day for us, are they not?

Mr. CANNON. No, sir.

Mr. UNTERMYER. Of the number of clearing houses in the country?

Mr. CANNON. The number of clearing houses; yes. I got that.

Mr. UNTERMYER. Two hundred and forty-two?

Mr. CANNON. That is a separate memorandum; that has nothing to do with the data at all.

Mr. UNTERMYER. They were all typewritten at the same time, were they not?

Mr. CANNON. Yes; I had them put on there.

Mr. UNTERMYER. That was done a few days ago?

Mr. CANNON. It was done when I was down here before.

Mr. UNTERMYER. I do not see how that is going to aid us, Mr. Cannon; something you did a few days ago

Mr. CANNON. Making a copy from an address I delivered some 12 years ago.

Mr. UNTERMYER. I do not see how that is going to help us. We want any compilation of the figures showing the cost of this business; but we want the figures, we do not want deductions or conclusions or results. We want the figures as to each bank in the clearing house, and the items of cost, if you can get them for us, so that the committee will have the data on which to form its own conclusions. Can you get us those data?

Mr. CANNON. I will get them later on. I will be very glad to furnish the committee with those data. These data are old data.

Mr. UNTERMYER. These are not data; these are conclusions. What we want are the figures on which this is based.

Mr. CANNON. That is 13 years ago.

Mr. UNTERMYER. Then it is not very useful to us. We want figures as of to-day.

Mr. CANNON. I will get you the figures from our committee. That is what we based it on 13 years ago. The figures were gotten together on that basis 13 years ago.

Mr. UNTERMYER. Where are the figures from which these conclusions were drawn? For instance, you have here the average cash cost.

Mr. CANNON. They were made from a large mass of figures. I do not know what has become of them.

Mr. UNTERMYER. You see, the committee wants figures; it can not take conclusions. I think that is all.

Witness excused.

TESTIMONY OF MR. JAMES B. MABON—Resumed.

Mr. UNTERMYER. Have you, during the recess, gathered information on any of the points concerning which I asked you, and as to which you had not the data?

Mr. MABON. The only thing I remember is that you were asking about the unlisted statements, and that is all I had time to gather.

Mr. UNTERMYER. Did you get them for us?

Mr. MABON. Yes, samples; the rest of them are in evidence here.

Mr. UNTERMYER. Take, for instance, the statement of the Amalgamated Copper Co.

Mr. MABON. I have that here.

Mr. UNTERMYER. When was it filed?

Mr. MABON. That was filed June 22, 1901.

The papers produced by Mr. Mabon were handed to Mr. Untermyer.

Mr. UNTERMYER. Are these copies of the same thing?

Mr. MABON. No, they are all different. I simply got them as samples.

Mr. UNTERMYER. Did you find any application for the listing of the stock of the American Sugar Refining Co.?

Mr. MABON. I found that there had been no application.

Mr. UNTERMYER. You mean it was listed in the unlisted department without any application whatever?

Mr. MABON. Yes, sir. I found that information.

Mr. UNTERMYER. And it remained on the list all those years without any application or any data whatever?

Mr. MABON. That is the information; yes, sir.

Mr. UNTERMYER. Did you find when it was put in the unlisted department?

Mr. MABON. I think the record is here. I can give it to you in a minute.

Mr. UNTERMYER. If you will.

Mr. MABON. Mr. Martin, will you find it?

Mr. MARTIN. We have sent for the original box.

Mr. UNTERMYER. Do you remember the date?

Mr. MABON. The box is here.

Mr. UNTERMYER. How do you account for the fact that the stock was put upon the list of the unlisted department, and dealt in down to 1910, without any application, without any data as to its debts, or its assets, or its earnings, or anything concerning it?

Mr. MABON. I could not tell you.

Mr. UNTERMYER. You produce here these two statements or applications with respect to the Amalgamated Copper Co.?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. Are those the applications on which those securities were listed in the unlisted department?

Mr. MABON (examining papers). Yes, those are the data on which they were admitted to quotation.

Mr. UNTERMYER. I ask that they be marked.

The papers referred to were marked respectively "Exhibit No. 28, June 12, 1912;" and "Exhibit No. 29, June 12, 1912," and are here printed in the record as follows:

EXHIBIT No. 28, JUNE 12, 1912.

DEPARTMENT OF UNLISTED SECURITIES.

COMMITTEE ON UNLISTED SECURITIES, AMALGAMATED COPPER CO.

Incorporated April 27, 1899, under the laws of the State of New Jersey.

Authorized capital stock, all outstanding, \$75,000,000.

No personal liability. Par value of shares, \$100 each.

Registrar, Central Trust Co., New York. Transfer agent, National City Bank, New York, and company's office, Jersey City.

The company has no bonded debt. Five consecutive quarterly dividends of 2 per cent, each beginning in October, 1899, have been paid.

The stocks of the following companies are owned wholly (excepting organizers' shares) by this company:

	Capital stock.
Washoe Copper Co., Butte, Mont.....	\$5,000,000
Colorado Smelting & Mining Co., Butte, Mont.....	2,500,000
Diamond Coal & Coke Co., Diamondville, Wyo.....	1,500,000
Big Black Foot Milling Co., Bonner, Mont.....	700,000

A majority of the stock of the following companies is owned by this company:

	Capital stock.
Anaconda Copper Mining Co., Butte, Mont.....	\$30,000,000
Parrot Silver & Copper Co., Butte, Mont.....	2,298,500
Hennessey Mercantile Co., Butte and Anaconda, Mont.....	1,500,000

This company is a large owner of the stock of the Boston & Montana Consolidated Copper & Silver Mining Co., located at Butte, Mont.

There is no bonded debt on any of the above-named companies.

EXTRACTS FROM CERTIFICATE OF INCORPORATION.

Third. The objects for which and for any of which the corporation is formed are to do any or all of the things herein set forth, to the same extent as natural persons might or could do, and in any part of the world, viz:

(1) To carry on the business of mining, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging, and otherwise producing and dealing in gold, silver, copper, lead, zinc, brass, iron, steel, and in all kinds of ores, metals, and minerals, and in the products and by-products thereof of every kind and description, and by whatsoever process the same can be or may hereafter be produced; and generally and without limit as to amount to buy, sell, exchange, lease, acquire, and deal in lands, mines, and minerals, rights and claims, and in the above-specified products, and to conduct all business appurtenant thereto.

(2) To carry on as principals, agents, commission merchants, or consignees the business of mining, milling, concentrating, converting, smelting, treating, buying, selling, exchanging, manufacturing, and dealing in the above-specified lands, properties, rights, products, and all materials used in the manufacture of each, any, and all of such articles, and to carry on as such principals, agents, commission merchants, or consignees any other business which in the judgment of the company may be conveniently conducted in conjunction with any of the matters aforesaid. * * *

(6) To cause or allow the legal title, estate, and interest in any property acquired, established, or carried on by the company to remain or be vested or registered in the name of or carried on by any other company or companies, foreign or domestic, formed or to be formed, and either upon trust for or as agents or nominees of this company, or upon any other terms or conditions which the board of directors may consider for the benefit of this company, and to manage the affairs or take over and carry on the business of such company or companies so formed or to be formed. * * *

(7) To acquire and carry on all or any part of the business or property of any company engaged in a business similar to that authorized to be conducted by the company, and to undertake in conjunction therewith any liabilities of any persons, firms,

association, or company possessed of property suitable for any of the purposes of this company. * * *

(8) To purchase, subscribe for, or otherwise acquire and to hold the shares, stocks, or obligations of any company organized under the laws of this State, or of any other State, or of any Territory or colony of the United States, or of any foreign country. * * *

(12) To carry out all or any part of the foregoing objects as principals or agents or in conjunction with any other person, firm, association, or company, and in any part of the world.

EXTRACTS FROM THE BY-LAWS.

Directors.

3. The property and business of the corporation shall be managed by a board of directors, eight in number; they shall be chosen from the stockholders and shall hold office for one year, and until others are elected and qualified in their stead. * * *

8. The annual meeting of the stockholders, after the year 1899, shall be held on the first Monday of June in each year, at Jersey City, N. J., at 10 o'clock a. m., when they shall elect, by a plurality vote, the aforesaid directors to serve for one year and until their successors are elected or chosen and qualified, each stockholder being entitled to one vote, in person or by proxy, for each share of stock standing registered in his or her name on the twentieth day preceding the election, exclusive of the day of such election. * * *

Officers.

10. At the first meeting after the election of directors, when there shall be a quorum, the board of directors shall elect, by ballot, a president and vice president from their own number who shall hold office for one year and until their successors are elected and qualify. * * *

Standing committee.

16. There may be an executive committee of three directors appointed by the board, who shall meet when they see fit. They shall have authority to exercise all the powers of the board at any time when the board is not in session. The president shall also ex officio be a member of the executive committee. * * *

Dividends.

23. Before payment of any dividends or making of distribution of profits there shall be set aside out of the net profits of the company such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the company, or for any such other purpose as the directors shall think conducive to the interests of the company.

Dividends shall be declared on the third Thursday, or the next business day thereafter, of September, December, March, and June, and paid on the last Monday, or the next business day thereafter, of October, January, April, and July.

Alterations of by-laws.

26. The directors may at any regular or at any special meeting alter or amend these by-laws.

Officers.—Henry H. Rogers, vice president; William G. Rockefeller, secretary and treasurer; Percival J. McIntosh, assistant treasurer.

Directors.—Henry H. Rogers. William G. Rockefeller, James Stillman, Albert C. Burrage, F. P. Olcott, Robert Bacon, A. R. Flower.

Seventy-five million dollars capital stock admitted to quotation in the unlisted department this day, November 23, 1900.

H. K. POMROY, *Chairman.*
WM. MCCLURE, *Secretary.*

EXHIBIT No. 29, JUNE 12, 1912.

DEPARTMENT OF UNLISTED SECURITIES.

COMMITTEE ON UNLISTED SECURITIES, AMALGAMATED COPPER CO.

Incorporated April 27, 1899, under the laws of the State of New Jersey.

Authorized capital stock, increased June 6, 1901, to.....	\$155,000,000
Outstanding capital stock.....	75,000,000
Temporary certificates for capital stock outstanding.....	\$73,540,200
Temporary certificates unissued.....	6,459,800
	<u>80,000,000</u>
	155,000,000

No personal liability. Par value of shares, \$100 each.

Registrar in New York, Central Trust Co. Registrar in Boston, National Shawmut Bank.

Transfer agent in New York, National City Bank. Transfer agent in Boston, Kidder, Peabody & Co.

The company has no bonded debt.

The stocks of the following companies are owned wholly (excepting organizers' shares) by this company:

	Capital stock.
Washoe Copper Co., Butte, Mont.....	\$5,000,000
Colorado Smelting & Mining Co., Butte, Mont.....	2,500,000
Diamond Coal & Coke Co., Diamondville, Wyo.....	1,500,000
Big Black Foot Milling Co., Bonner, Mont.....	700,000

A majority of the stocks of the following companies are owned by this company:

	Capital stock.
Anaconda Copper Mining Co., Butte, Mont.....	\$30,000,000
Parrot Silver & Copper Co., Butte, Mont.....	2,298,500
Hennessy Mercantile Co., Butte and Anaconda, Mont.....	1,500,000

There is no bonded debt on any of the above-named companies.

Boston & Montana Consolidated Copper & Silver Mining Co., Butte, Mont. (total authorized capital, \$3,750,000; par value, \$25).....	\$3,447,200
Butte & Boston Consolidated Mining Co., Butte, Mont. (total authorized capital, \$2,000,000; par value, \$10).....	1,838,500

BONDED DEBT, CONSTITUENT COMPANIES.

Boston & Montana Consolidated Copper & Silver Mining Co. 7 per cent bonds, \$100,000 due each year from 1902 to 1907; can not be redeemed until due.....	\$800,000
Butte & Boston Consolidated Mining Co. 6 per cent bonds, due Apr. 1, 1917.	1,500,000

The Amalgamated Copper Co. hereby makes application to your committee for admission to quotation in the unlisted department of additional shares of its capital stock to the amount of 800,000 shares (\$80,000,000). There have heretofore been admitted to quotation 750,000 shares (\$75,000,000). The additional amount for the quotation of which application is now made will bring the total up to 1,550,000 shares (\$155,000,000).

The increase of the capital stock of this company to 1,550,000 shares was duly authorized by the stockholders at a special meeting, duly called for the purpose, held at the company's office in the city of Jersey City, N. J., on June 6, 1901.

On June 19, 1901, the board of directors, pursuant to the authority conferred by the stockholders, filed in the office of the secretary of state of New Jersey a certificate of the increase of the capital stock of this company from 750,000 shares (\$75,000,000) to 1,550,000 shares (\$155,000,000), and paid the organization tax thereon. They also on the same date, in pursuance of the same authority, acquired 137,888 shares of the capital stock of the Boston & Montana Consolidated Copper & Silver Mining Co., out of a total issue of 150,000 shares, and 183,850 shares of the capital stock of the Butte & Boston Consolidated Mining Co., out of a total issue of 200,000 shares, issuing therefor 735,402 shares of the authorized increased capital stock of this company, being at the rate of five and one-third shares of its stock for one share of the stock of the Boston & Montana Co., and one and one-third shares of the stock of the Butte & Boston Co.,

taken together. The remaining 64,598 shares of the authorized increased stock of this company will be issued in the same proportion for the balance of the shares of stock of those companies outstanding, provided they shall be presented for sale or exchange within the period prescribed in the offer made to the stockholders of the respective companies.

It appeared by the report of the special committee appointed by the board of directors of this company (which was submitted to the stockholders) that the market value of the properties of the Boston & Montana and Butte & Boston companies, taken together, was estimated by experts at \$85,000,000, and that at the market price at which the shares of the two companies were selling the entire stock of both companies, for which it was proposed to issue the \$80,000,000 increased stock of this company, was in excess of \$90,000,000.

The officers and directors of the company are as follows:

Officers.—Anson R. Flower, president; H. H. Rogers, first vice president; A. H. Melin, second vice president; William G. Rockefeller, secretary and treasurer; P. J. McIntosh, assistant treasurer.

Directors.—Robert Bacon, George F. Baker, Frederic Cromwell, Anson R. Flower, Frederic P. Olcott, Walter G. Oakman, William G. Rockefeller, James Stillman.

WILLIAM G. ROCKEFELLER, *Secretary.*

JUNE 22, 1901.

The committee on unlisted securities directs that additional amounts of Amalgamated Copper Co.'s capital stock, aggregating \$80,000,000, be admitted to quotation in the unlisted department from time to time, upon the receipt of notice from said company of the issuance of its capital stock in exchange for "temporary certificates."

H. K. POMROY, *Chairman.*

WM. MCCLURE, *Secretary.*

Mr. UNTERMYER. Do you find in Exhibits 28 and 29, or anywhere on the files of the stock exchange, any statement of the assets, or liabilities, or earnings of the Amalgamated Copper Co., or anything other than its capital stock and the amount outstanding, and the fact that there are no bonds on the property?

Mr. MAHON. That seems to be all the information here. There is some additional information, I see, below.

Mr. UNTERMYER. What?

Mr. MAHON (reading):

The stocks of the following companies are owned wholly by this company.

And then follows the list. The information is very meager.

Mr. UNTERMYER. There is not anything like the information that is required as to a stock that you list, is there?

Mr. MAHON. No. We have the application of the Amalgamated Copper Co. when coming on the regular list, and it would be interesting to follow the differences in the two applications.

Mr. UNTERMYER. The difference is, is it not, that one tells you something about the company and the other tells you nothing?

Mr. MAHON. That is right; little or nothing.

Mr. UNTERMYER. The other tells you nothing you can not get by looking at the public records?

Mr. MAHON. Very true.

Mr. UNTERMYER. It is a fact, then, is it not, that down to 1910 the stock exchange was having large dealings in securities of the Amalgamated Copper Co. without any information to the public or the stockholders or anybody else as to its assets or its liabilities or its earnings?

Mr. MAHON. It is a fact; yes.

Mr. UNTERMYER. That led to abuses in dealings in the securities, did it not?

Mr. MAHON. I do not know of any.

Mr. UNTERMYER. Do you not know that the stock was rigged up and down the market?

Mr. MABON. I do not know it.

Mr. UNTERMYER. And manipulated notoriously; do you not know that?

Mr. MABON. No, sir.

Mr. UNTERMYER. So far as any information could be obtained by any stockholder or by any intending purchaser of the stock as to the merits of the security it was in effect a blind pool, was it not?

Mr. MABON. I do not quite understand what you mean by a "blind pool."

Mr. UNTERMYER. You never heard the phrase before, did you?

Mr. MABON. Yes; I have heard the phrase before.

Mr. UNTERMYER. You never understood what it meant?

Mr. MABON. I have not—

Mr. UNTERMYER. Of course you understand it. Was it not so operated?

Mr. MABON. I do not know. I can not answer that it was.

Mr. UNTERMYER. If you, for instance, were contemplating buying Amalgamated Copper stock, you knew that you would have to take it on credit, did you not; that you could not find out anything about it?

Mr. MABON. Very true.

Mr. UNTERMYER. That made it a ball for speculative play, did it not?

Mr. MABON. I do not see necessarily that it made it a ball for speculative play.

Mr. UNTERMYER. You thought that made it an investment stock, when you could not find out anything about it?

Mr. MABON. The stock was paying dividends, and I might have bought it on the fact that it was paying dividends.

Mr. UNTERMYER. But there was not anything to show that it was earning them, was there?

Mr. MABON. As far as I know, there was not.

Mr. UNTERMYER. Or how much more it was earning?

Mr. MABON. I do not know what information was given subsequent to this.

Mr. UNTERMYER. Have you not produced here the only information that was given until 1910, when it was put upon the regular list?

Mr. MABON. The only information that was given to the stock exchange; yes.

Mr. UNTERMYER. That is?

Mr. MABON. Yes.

Mr. UNTERMYER. Is it not a fact, now, Mr. Mabon, that it was because of the abuses that arose from that method of doing business on the exchange that the unlisted department was abolished?

Mr. MABON. It is a fact that the information was so meager that it was very desirable that all of the securities should come in the regular list. I disapproved of placing any securities on the unlisted department that did not give full information.

Mr. UNTERMYER. Mr. Taylor reminds me, and I would like to put upon the record the fact, that the American Sugar Refining Co.'s stock was transferred to the regular list January 28, 1909.

Mr. MABON. Yes.

Mr. UNTERMYER. Not in 1910.

Mr. MABON. I said about 1910.

Mr. UNTERMYER. Amalgamated was transferred, was it not, March 10, 1910?

Mr. MABON. I believe so. It was 1910, to the best of my knowledge.

Mr. UNTERMYER. Were there any other stocks largely dealt in that had been allowed to be dealt in and quoted on this unlisted list up to the time you abolished it in 1910—any prominent stocks?

Mr. MABON. I think there were quite a number. I do not know how prominent. Great Northern Ore was one.

Mr. UNTERMYER. The Great Northern Ore Co.?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. Those were participation receipts, were they not?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. And there was no statement?

Mr. MABON. There was no statement. The Federal Sugar Refining Co. was another. That was a partial statement, not a complete statement.

Mr. UNTERMYER. Can you give us any information as to what was the purpose of these companies in seeking to have their stock dealt in on the exchange and withholding information from their stockholders and the public as to the evidence concerning their properties?

Mr. MABON. No, sir; I can not.

Mr. UNTERMYER. It is a fact, is it not, that the United States Steel Co. was really the leader in the industrial world in making full and complete statements of its affairs to its stockholders and the public? It blazed the way for a reform in financial matters in that respect, did it not?

Mr. MABON. I do not know that other companies did not make the same full statement that the United States Steel Co. did, but I do know that the United States Steel Co. does make full reports.

Mr. UNTERMYER. Do you not remember that it was the first company that adopted that policy and departed from the policy existing theretofore of secrecy and refusal to give information of its affairs?

Mr. MABON. I know it was very prominent—

Mr. UNTERMYER. It is entitled to the credit of having taken the lead in that reform, is it not?

Mr. MABON. I think so; yes.

Mr. UNTERMYER. Were you here yesterday when there was read to Mr. Ely and put into the record the regulation of the New York Stock Exchange prohibiting it or any of its members from dealing with any member of the Consolidated Exchange, or telephoning to any member of the Consolidated Exchange, or sending a messenger or a clerk to his office, or having any sort of communication between officers or members of the stock exchange and the Consolidated Exchange?

Mr. MABON. I was not.

Mr. UNTERMYER. You are familiar with the rules, are you not?

Mr. MABON. Yes.

Mr. UNTERMYER. You have been a member of the governing committee that has tried members of the New York Stock Exchange for infraction of that rule, have you not?

Mr. MABON. I am not sure.

Mr. UNTERMYER. You know they have been tried?

Mr. MABON. I know there have been such cases.

Mr. UNTERMYER. And they have been suspended for doing that?

Mr. MABON. Yes. Whether they have been tried during my incumbency I am not sure. The records will show. I can tell you in a few moments.

Mr. UNTERMYER. What is the reason for the rule?

Mr. MABON. The reason for the rule is so that the stock exchange shall have control of its own business.

Mr. UNTERMYER. Is that the only explanation you care to make?

Mr. MABON. Yes; I think so.

Mr. UNTERMYER. In what way is the control by the stock exchange of its own business interfered with if a man who is a member of the Consolidated Exchange wants to sell stock that is not listed on the Consolidated Exchange through a member of the New York Stock Exchange, if that security is listed on the New York Stock Exchange?

Mr. MABON. They have their own exchange wherein to sell their stock.

Mr. UNTERMYER. Suppose it is not listed on that exchange?

Mr. MABON. They can sell it at auction.

Mr. UNTERMEYER. Where can they sell it at auction?

Mr. MABON. At public auction.

Mr. UNTERMYER. You mean they can go to an auctioneer; that they can sell it at public auction?

Mr. MABON. Yes.

Mr. UNTERMYER. At what public auction?

Mr. MABON. Wellers.

Mr. UNTERMYER. They can go to him and ask him to put it up on the auction block in his auction room; is that it?

Mr. MABON. Yes.

Mr. UNTERMYER. That is the alternative, is it, of a man who happens to be a member of the Consolidated Exchange who owns securities that are listed on the New York Stock Exchange and wants to sell them through a member of the New York Stock Exchange?

Mr. MABON. He could sell them through his bank.

Mr. UNTERMYER. How through his bank? Do you mean his bank can sell them to the New York Stock Exchange?

Mr. MABON. Yes.

Mr. UNTERMYER. His bank can not do it if it is known it is selling them for a Consolidated Exchange member?

Mr. MABON. No. The bank could do it; yes.

Mr. UNTERMYER. You mean he can sell them surreptitiously through his bank?

Mr. MABON. I do not like the word surreptitiously.

Mr. UNTERMYER. He can not sell them openly, can he?

Mr. MABON. The bank can give an order to a broker.

Mr. UNTERMYER. If the bank which gives the order to the broker tells him that they are for a Consolidated Exchange member the broker can not sell them, can he?

Mr. MABON. No. That rule does prohibit it.

Mr. UNTERMYER. Then, do you not think that that is a fair question, that he can only sell them surreptitiously through a bank?

Mr. MABON. Yes.

Mr. UNTERMYER. Do you not regard that as a most oppressive and unjust rule?

Mr. MABON. I do not.

Mr. UNTERMYER. How do you justify it? You are the president of the stock exchange. We would like to know how you justify it.

Mr. MABON. I justify it by the fact that the Consolidated Exchange is an organization that is a rival organization of our own, and this is a business that we have and is a business that we should be able to keep. I do not see any reason why we should not strengthen our institution as much as we can.

Mr. UNTERMYER. But do you not keep all that business when your own listed stocks are sold on your own exchange through your own brokers?

Mr. MABON. What business?

Mr. UNTERMYER. The business to which you refer. It does not take any business away from you, does it, for a member of the Consolidated Exchange to sell through your exchange stocks that are not listed on his exchange, but it gives you business, does it not?

Mr. MABON. Yes.

Mr. UNTERMYER. And your refusal to take it really takes away business, does it not?

Mr. MABON. Yes.

Mr. UNTERMYER. But you are willing to take away business, you are willing to drive away business, are you not, in order to prevent a man who is a member of another exchange from doing any business at all, and to drive him out of business?

Mr. MABON. Yes.

Mr. UNTERMYER. Then your purpose with this rule is to drive every man out of the business of dealing in stocks who can not be a member of the New York Stock Exchange?

Mr. MABON. No; I should think not.

Mr. UNTERMYER. If a member of the Consolidated Exchange wants to become a member of your exchange he can not do so unless you have a vacancy, can he?

Mr. MABON. And he must buy a seat.

Mr. UNTERMYER. That is, he must buy one of the existing seats if he can get it?

Mr. MABON. Yes.

Mr. UNTERMYER. And if there is no one to buy out then he can not get one?

Mr. MABON. He could buy one. He could purchase from any member of the stock exchange who is willing to sell.

Mr. UNTERMYER. But if there is nobody willing to sell a seat, then he can not get into the business, can he?

Mr. MABON. He can not get on the stock exchange.

Mr. UNTERMYER. Your rules forbid any man who is a member of the Consolidated Exchange buying a seat on the New York Stock Exchange, do they not?

Mr. MABON. While a man is a member of the Consolidated Exchange, yes.

Mr. UNTERMYER. As long as a man is a member of the Consolidated Exchange you will not have anything to do with him, will you?

Mr. MABON. No.

Mr. UNTERMYER. You will not even let one of your members send him a telephone message, will you?

Mr. MABON. I would not say that that is a fact.

Mr. UNTERMYER. Do you not know that the rule forbids it?

Mr. MABON. That is applicable to transactions in securities.

Mr. UNTERMYER. Do you not know that the rule forbids it, without reference to what it is about?

Mr. MABON. I have not read the rule for some time.

Mr. UNTERMYER. Suppose you read it again now, and see whether the rule does not absolutely forbid any kind of communication on any subject, by messenger, clerk, telephone, or otherwise, with any man who happens to be a member of the Consolidated Exchange.

Mr. MABON (after examination of the rules). That is the phraseology; yes.

Mr. UNTERMYER. And that is the construction that is put upon it?

Mr. MABON. Yes.

Mr. UNTERMYER. What is the purpose of preventing a stock exchange member from writing a letter or sending a telephone message from his office to the office of a Consolidated Exchange member, under penalty of suspension?

Mr. MABON. I should say that there would be no penalty if it was an ordinary message.

Mr. UNTERMYER. That is not the construction you put upon it?

Mr. MABON. The language is as you have stated it, but I do not think it would be so construed.

Mr. UNTERMYER. Have you ever had a case in which you have found a member not guilty who had written or telephoned to a member of the Consolidated Exchange?

Mr. MABON. I do not remember any case against a Consolidated Exchange member.

Mr. UNTERMYER. Do you not know that there have been cases where you have suspended members who communicated with members of the Consolidated Exchange?

Mr. MABON. There have been such cases, but I do not remember the cases.

Mr. UNTERMYER. Perhaps I can refresh your memory. Do you remember the Blood case?

Mr. MABON. Yes; I do remember it.

Mr. UNTERMYER. Do you remember the Alley case?

Mr. MABON. Yes.

Mr. UNTERMYER. Were those cases of infraction of this rule?

Mr. MABON. Yes, I think so.

Mr. UNTERMYER. They were each suspended for one year, were they not?

Mr. MABON. I believe so; yes, sir.

Mr. UNTERMYER. What is the effect of suspending a member from the exchange; what is the effect on his business?

Mr. MABON. I should say very detrimental.

Mr. UNTERMYER. It puts an end to it, does it not?

Mr. MABON. I should say not.

Mr. UNTERMYER. It does not put an end to it?

Mr. MABON. I should not think so.

Mr. UNTERMYER. Can he or his firm do any business on the exchange during the term of his suspension?

Mr. MABON. He can through other members; yes. He can give his orders to other members of the exchange.

Mr. UNTERMYER. Yes, but he can not get any commissions, can he?

Mr. MABON. During that interval, no.

Mr. UNTERMYER. The other member is not allowed to divide with him, is he?

Mr. MABON. No.

Mr. UNTERMYER. Or give him any part of the commissions?

Mr. MABON. No.

Mr. UNTERMYER. He has no way of recouping his expenses or maintaining his office on those orders, has he?

Mr. MABON. On those particular orders, I should say not.

Mr. UNTERMYER. So that really puts him out of business unless he wants to do business for nothing and pay his expenses besides?

Mr. MABON. It does what I said. He can do business, but he can not get any profit on it.

Mr. UNTERMYER. He can do business and not get any compensation?

Mr. MABON. Yes.

Mr. UNTERMYER. That is not a very effective way of conducting business, is it?

Mr. MABON. No, sir.

Mr. UNTERMYER. So that virtually puts him out of business?

Mr. MABON. For the time, yes.

Mr. UNTERMYER. What happens to a member who charges a customer less than one-eighth of 1 per cent for buying or selling a security?

Mr. MABON. He is punished under a certain act which forbids it.

Mr. UNTERMYER. He is punished by expulsion?

Mr. MABON. Suspension, I think it is.

Mr. UNTERMYER. Is he not punished by expulsion?

Mr. MABON. I think the penalty is suspension for one year.

Mr. UNTERMYER. One to five years for the first offense, is it not?

Mr. MABON. Yes.

Mr. UNTERMYER. And for the second crime of charging less than the others he is expelled, is he not?

Mr. MABON. Yes.

Mr. UNTERMYER. That rule is very rigidly enforced, is it not?

Mr. MABON. Yes.

Mr. UNTERMYER. And does it make any difference as to the rate that he must charge, whether the stock is selling at \$5 or \$200 a share?

Mr. MABON. No; it makes no difference.

Mr. UNTERMYER. He has got to charge the same rate of commission on a \$5 share that he would on a \$200 share, has he not?

Mr. MABON. Yes.

Mr. UNTERMYER. I want to call attention to the rules bearing on that subject and read them into the record. That one-eighth of 1 per cent is collected both by the broker who sells and by the broker who buys, is it not?

Mr. MABON. It is, on each transaction.

Mr. UNTERMYER. It is twice on one transaction?

Mr. MABON. It is only once on one transaction. The buyer pays the one-eighth and the seller pays the one-eighth, if that is what you mean.

Mr. UNTERMYER. That is two commissions on one transaction, is it not?

Mr. MABON. The transactions are made by two people.

Mr. UNTERMYER. And each gets one-eighth?

Mr. MABON. Yes.

Mr. UNTERMYER. So that the price on each share of stock is one-quarter of 1 per cent of the transaction, to both parties?

Mr. MABON. The commission is that.

Mr. UNTERMYER. And if a \$100 share, par value, we will say, is selling for \$5, then the tax or commission of both parties on that transaction is how much in money?

Mr. MABON. The man that buys pays \$12.50 and the man that sells pays \$12.50 on 100 shares.

Mr. UNTERMYER. Each pays 12½ cents on a share?

Mr. MABON. Yes.

Mr. UNTERMYER. That is 25 cents tax on that share, which may be selling for \$5 or less?

Mr. MABON. Yes, and there are also stocks that are selling for \$250. That is the off-setting average.

Mr. UNTERMYER. Do you not know that other exchanges in other countries have a graded charge based upon the selling price?

Mr. MABON. I am aware—

Mr. UNTERMYER. In London, for instance.

Mr. MABON. London has just changed its ruling on the matter of commissions. I am not aware of what the present system is.

Mr. UNTERMYER. But the other system is one based on the selling price, is it not?

Mr. MABON. I am not sure.

Mr. UNTERMYER. That seems a better method, does it not?

Mr. MABON. It averages up pretty well, I think.

Mr. UNTERMYER. But it seems fairer, does it not? Where it averages up, it places the burden of the transaction where it belongs, does it not?

Mr. MABON. Yes, it does.

Mr. UNTERMYER. Can you turn to the rule that we want to read into the record on the subject of commissions?

Mr. MABON. These are \$100 shares.

Mr. UNTERMYER. I understand; shares of a par value of \$100.

Mr. MABON. Yes; not \$5 shares or \$10 shares.

Mr. UNTERMYER. Well, it is on every share, no matter what its par value may be, unless it is a mining share?

Mr. MABON. Yes. On the par value. That is, one share of \$5 would not be the same.

Mr. UNTERMYER. I am talking about a share that is selling for \$5.

Mr. MABON. But the par value must be a \$100.

Mr. UNTERMYER. Now I will read this into the record, from article 34 of the constitution:

ARTICLE XXXIV.—*Commissions.*

SECTION 1. Commissions shall be charged and paid, under all circumstances, upon all purchases or sales of securities dealt in upon the exchange, and shall be absolutely net and free from all or any rebatement, return, discount, or allowance in any shape

or manner whatsoever or by any method or arrangement, direct or indirect; and no bonus, nor any percentage or portion of the commission, shall be given, paid, or allowed, directly or indirectly, or as a salary or portion of a salary, to any clerk or person for business sought or procured for any member of the exchange.

Sec. 2. All commissions shall be calculated upon the par value of securities, and the rates shall be as follows.

Then follows the rate as between nonmembers—one-eighth of 1 per cent—and as between members there is a different rate, is there not?

Mr. MABON. Yes.

Mr. UNTERMYER. That is called what?

Mr. MABON. Clearance business.

Mr. UNTERMYER. That is \$2?

Mr. MABON. The clearance business is where a member buys and pays for the stock and turns it over to his principal. The \$2 business is where a member buys and names his principal.

Mr. UNTERMYER. Under subdivision (c) I find the following:

On mining shares, subscription rights, and notes of corporations, such rates to members and nonmembers as may be determined, from time to time, by the committee on commissions, with the approval of the governing committee.

Under that subdivision there is a relaxation of the rule with respect to mining shares, is there not?

Mr. MABON. There has been a specific ruling.

Mr. UNTERMYER. And where the selling price of the mining shares is under \$10, then the commission is one-sixteenth?

Mr. MABON. Yes.

Mr. UNTERMYER. And where it is over \$10, then it comes under the general rule?

Mr. MABON. Yes. It reads:

(d) Government and municipal securities are exempted from the provisions of this article.

Mr. UNTERMYER. But Government and municipal securities can not be dealt in on the exchange unless they are engraved by a company that is approved by the exchange?

Mr. MABON. That is true.

Mr. UNTERMYER. We will come to that later. That is the reason New York City can not get its bonds listed on the New York Stock Exchange, is it not?

Mr. MABON. Yes.

Mr. UNTERMYER. Because the engraving company has not been approved by the exchange?

Mr. MABON. Because we are involved in a \$5,000,000 suit.

Mr. UNTERMYER. Because somebody has sued you, that is the reason the bonds of the city of New York, engraved by that company that has sued you, can not get entrance to the listed securities on the New York Stock Exchange?

Mr. MABON. Yes.

Mr. UNTERMYER. Why should you visit upon the city of New York the fact that the company that engraved the bonds has sued you?

Mr. MABON. We have not visited anything upon the city of New York. The market for the bonds is practically the same as the market for other securities—

Mr. UNTERMYER. But you will not let them be listed on the exchange in view of the fact that this company that engraved the bonds has sued you?

Mr. MABON. The suit is pending.

Mr. UNTERMYER. Because the suit is pending? What has the city of New York got to do with that?

Mr. MABON. I do not know.

Mr. UNTERMYER. Can you give us any reason why you should visit the penalty upon the city of nonadmission of these bonds to the stock exchange?

Mr. MABON. I can give no reason.

Mr. UNTERMYER. Have you ever heard anybody give any reason for that action?

Mr. MABON. That it might have a bearing on the suit that is pending.

Mr. UNTERMYER. You mean that it might hurt you in that suit?

Mr. MABON. It might have a bearing on it.

Mr. UNTERMYER. Do you think your members have the right to protect themselves against the consequences of their act, when they are sued for it, by refusing to the city of New York admission of its securities on your list?

Mr. MABON. I do not see that any damage has been done to the city of New York.

Mr. UNTERMYER. You do not think, then, that the listing of securities on the stock exchange is any benefit, do you?

Mr. MABON. I do, yes; in many cases.

Mr. UNTERMYER. The companies pay pretty well for it, do they not?

Mr. MABON. New York City does not pay for it.

Mr. UNTERMYER. I mean other companies that have their securities listed. They pay how much?

Mr. MABON. Fifty dollars a million dollars.

Mr. UNTERMYER. Fifty dollars on every million dollars of par value?

Mr. MABON. Yes.

Mr. UNTERMYER. I will proceed to read further on this subject of commissions from the regulations of the exchange, at page 85:

COMMISSIONS—RECIPROCAL BUSINESS.

APRIL 14, 1897.

That transacting or offering to transact business in grain, produce, cotton or other commodities, without commission, or for a nominal commission, by any member of this exchange or firm represented therein, for a customer dealing in securities dealt in at the exchange, is a method or arrangement for rebatement of commissions, and is a violation of the commission law.

That giving or offering to give reciprocal business in grain, produce, cotton, or other commodities dependent upon the amount of stock-exchange business received is a method or arrangement for rebatement of commissions and is a violation of the commission law.

The commission law means the law of the exchange, does it not?

Mr. MABON. Yes.

Mr. UNTERMYER. It does not mean any law of the State of New York?

Mr. MABON. Certainly not.

Mr. UNTERMYER. Here is the "law" in reference to mining shares. But we have already referred to that.

From page 86, under the heading "Taking over or accepting transactions," I read as follows:

TAKING OVER OR ACCEPTING TRANSACTIONS.

APRIL 12, 1911.

Whenever a nonmember of this exchange shall cause to be executed in any market outside of the United States any order or orders for the purchase or sale of securities listed on this exchange, other than Government, State, or municipal securities, and said purchase or sale shall be accepted by a member or a firm who are members of this exchange for the account of said nonmember, one-eighth of 1 per cent commission shall be charged said nonmember in addition to any commission charged by the party or parties making the transaction.

From page 89 I read as follows:

INTEREST.

MARCH 26, 1902.

That any agreement or arrangement entered into between a member or his firm, and his or their customer, whereby special and unusual rates of interest are stipulated for, or money advances upon unusual terms are made a condition, in connection with the conducting of an account, with intent thereby to give special or unusual advantages to such customer for the purpose of securing his business, shall be deemed to be a violation of Article XXXIV of the constitution, commonly known as the commission law.

On page 90 I find the following:

STAMP TAX.

MAY 24, 1905.

That in the judgment of the governing committee any member of the exchange who, by agreement or otherwise, directly or indirectly, assumes or bears for his own account, or relieves his principal from any part of the stamp tax imposed by the act of the Legislature of the State of New York, approved April 19, 1905, is guilty of a violation of Article XXXIV of the constitution relating to commissions.

All these regulations were passed, were they not, for the express purpose of preventing any member from getting around the collection of one-eighth of 1 per cent on the sale and one-eighth of 1 per cent on the purchase of any of the stock exchange securities by any device or pretext?

Mr. MABON. Yes.

Mr. UNTERMYER. And the exchange has been very rigid in the enforcement of that rule, has it not?

Mr. MABON. Yes.

Mr. UNTERMYER. And, as I think you said, has suspended and expelled members for noncompliance?

Mr. MABON. Yes.

Mr. UNTERMYER. Why does not the exchange permit its members to compete for business by allowing the giving of such terms on sales and purchases as the members see fit?

Mr. MABON. Because it is a competition of service instead of a competition for the other business. The members who give the best service are competing that way for business at one-eighth of 1 per cent. We find that one-eighth of 1 per cent is a fair charge, and it is uniform and has worked well.

Mr. UNTERMYER. On an average day of a million shares it would amount to \$250,000 cash in a day on the sale of securities, would it not?

Mr. MABON. All transactions are not made on behalf of people who are not members of the exchange.

Mr. UNTERMYER. Yes; but somebody pays for it. You mean that that includes transactions of exchange members dealing for themselves? Is that what you mean?

Mr. MABON. Yes.

Mr. UNTERMYER. But a market of 1,000,000 shares is not unusual, is it?

Mr. MABON. It has been, lately.

Mr. UNTERMYER. Do you not think that if you reform your ways of business the business will increase again if you regain the confidence of the public?

Mr. MABON. We are trying to, Mr. Untermeyer.

Mr. UNTERMYER. Do you not think that if manipulation of the exchange could be stopped, it would make the stock exchange a more desirable place for people who want to invest their money to go and buy securities?

Mr. MABON. One of the greatest efforts of the governors of the exchange is to stop manipulation.

Mr. UNTERMYER. And you know it is going on?

Mr. MABON. I do not think so.

Mr. UNTERMYER. You do not think there is any manipulation?

Mr. MABON. I doubt it, very much.

Mr. UNTERMYER. Have you ever in the last five years, punished anybody for manipulation of the stock exchange—any of your members?

Mr. MABON. I do not remember of it.

Mr. UNTERMYER. You know, do you not, that there have been many instances in which the whole capital stock of a company—

Mr. MABON. Mr. Untermeyer, we have punished members. I do remember a case.

Mr. UNTERMYER. Within five years?

Mr. MABON. Within five years, yes, sir; S. B. Chapin & Co.

Mr. UNTERMYER. Let us see about that. I have not that on my list. Was that a case of creating a fictitious market in Rock Island by giving orders to 20 brokers to each buy 2,000 shares at the opening of the market?

Mr. MABON. Yes.

Mr. UNTERMYER. In other words, the broker gave out orders to 20 members of the stock exchange each to buy 2,000 shares, and to another set of brokers he gave orders to each sell 2,000 shares?

Mr. MABON. I think not. The evidence does not show that; I think not. There were no sell orders given.

Mr. UNTERMYER. Then he gave orders to 20 brokers each to buy 2,000 shares?

Mr. MABON. Yes.

Mr. UNTERMYER. And in that way drove up the price of the stock?

Mr. MABON. Yes.

Mr. UNTERMYER. That was a pretty glaring case, was it not?

Mr. MABON. We punished it.

Mr. UNTERMYER. You punished it very severely, did you not?

Mr. MABON. I do not just remember what the punishment was.

Mr. UNTERMYER. Your punishment was 30 days' suspension?

Mr. MABON. I do not remember.

Mr. UNTERMYER. I say you punished it with 30 days' suspension?

Mr. MABON. I do not remember.

Mr. UNTERMYER. And the man who charges his customer less than one-eighth of 1 per cent is punished by from one to five years' suspension for the first offense and is expelled the second time, is he not?

Mr. MABON. Yes.

Mr. UNTERMYER. And the man who sends a message to a consolidated exchange broker is punished by suspension or expulsion, is he not?

Mr. MABON. Yes.

Mr. UNTERMYER. Was that the time the Rock Island pool was operating?

Mr. MABON. I do not know anything about a Rock Island pool.

Mr. UNTERMYER. You never heard of the Rock Island pool?

Mr. MABON. No.

Mr. UNTERMYER. You never heard of the Reading pool?

Mr. MABON. I have heard the name of the Reading pool.

Mr. UNTERMYER. You never heard of the Reading pool?

Mr. MABON. I have heard the name of the Reading pool.

Mr. UNTERMYER. Have you heard of them selling the whole capital stock of the company in a week on the exchange?

Mr. MABON. I do not know about that.

Mr. UNTERMYER. Do you not know that is about what happened?

Mr. MABON. I do not know.

Mr. UNTERMYER. Do you know whether it happened?

Mr. MABON. I do not.

Mr. UNTERMYER. How long ago were these tremendous dealings in Reading?

Mr. MABON. I do not know which——

Mr. UNTERMYER. The last big operation in Reading?

Mr. MABON. I do not know, Mr. Untermeyer.

Mr. UNTERMYER. You are around every day, are you not?

Mr. MABON. I am around every day; yes, sir.

Mr. UNTERMYER. You know, generally, what is going on down here?

Mr. MABON. I do not follow the stock market at all.

Mr. UNTERMYER. Being a member of the exchange, you do not follow the market?

Mr. MABON. I am interested in the bonds.

Mr. UNTERMYER. But you know that from time to time there are these enormous dealings?

Mr. MABON. Yes.

Mr. UNTERMYER. That are not efforts of investors, all of a sudden, to buy two or three hundred thousand shares of stock or securities on one day?

Mr. MABON. I do not know about that.

Mr. UNTERMYER. You have no idea?

Mr. MABON. No; I say I have no knowledge of the matter.

Mr. UNTERMYER. But you have your opinion about it, have you not?

Mr. MABON. I have not thought very much about it; no.

Mr. UNTERMYER. No; you have not. Well, that is the only case of so-called punishment that you know of in all the manipulations that have taken place on the exchange, is it not?

Mr. MABON. The only case that I recollect, Mr. Untermeyer; and I had even forgotten that until you recalled it.

Mr. UNTERMYER. I read from page 91 of the constitution and resolutions of the stock exchange, under the head of "Telephones":

TELEPHONES.

NOVEMBER 8, 1911.

That the resolution adopted by the governing committee on March 28, 1900, be amended by striking out the words "Sec. 8" and inserting in lieu thereof the words "Sec. 10," so that said resolution as amended shall read as follows, viz:

"Resolved, That the privilege of telephonic communication between the offices of members and the building of the New York Stock Exchange shall not be enjoyed as of right, but shall rest in the discretion of the committee of arrangements or the governing committee, and that the committee of arrangements shall have power, in their discretion, at any time and from time to time to withhold such privilege from any member and to disconnect or cause to be disconnected any private telephone in the stock exchange building. Said committee shall also have power, in their discretion, at any time and from time to time to deprive any member of the privilege of using any public telephone in the stock exchange building. Said committee shall not be obliged to assign any reason or cause for any action taken by them under this resolution."

* * * *

Every decision of the committee of arrangements by which the privilege of telephonic communication with the stock exchange building shall be withheld from any member, pursuant to this resolution, shall be immediately posted upon the bulletin board in the exchange and every member of the exchange shall be deemed to have notice thereof. If after any such notice shall have been posted any member of the stock exchange shall furnish to the member named therein or to his partner or firm or office any facilities for communication between the office of such member and the stock exchange building or between the office of the member named in such notice and the office of any other member of the exchange by means of private wire, telephone, or any electric or other device, contrivance, or apparatus, he may be suspended by the governing committee for a period not exceeding two months, pursuant to the provisions of section 10, Article XVII, of the constitution of the exchange.

TELEPHONE OR TELEGRAPH CONNECTIONS

MAY 9, 1900

[To take effect on June 1 1900.]

First. That hereafter no member of the stock exchange and no firm of which such member is a partner, shall establish telephonic or telegraphic wire connection between the office of such member or firm and the office of any firm or individual not a member of the stock exchange transacting a banking or brokerage business, unless application therefor shall first be made to the committee of arrangements and shall have been approved by them.

Second. Every such telephonic or telegraphic wire connection which shall be so authorized by the committee of arrangements, as well as all existing telephonic or telegraphic wire connections of the same character, shall be registered with the committee of arrangements, who shall make such regulations governing the matter as they shall deem necessary.

Third. That the committee of arrangements shall have power at any time in their discretion to order any connection of the character described in these resolutions to be discontinued.

Fourth. While members of the stock exchange may connect their offices by wire with the offices of nonmembers, in accordance with the provisions of these resolutions, and pay for such wire connection, nevertheless no such member shall directly or indirectly, by himself or through his firm, pay the cost of telegraph operators or any other expense pertaining to nonmembers' offices.

Do you know the reason for that rule, or for that set of rules, limiting the use of telephone communication between the members of the exchange and the stock exchange building and between members and banking houses and others that are nonmembers, other than the Consolidated Exchange members?

Mr. MABON. It is to have a record of what connections there are between the stock houses, their offices, and the men whom they have telephone communications with.

Mr. UNTERMYER. What is the purpose of it?

Mr. MABON. So far as I know, it is simply to order the discontinuance of any telephones which are not to telephone to proper people.

Mr. UNTERMYER. What do you mean by "proper people"? This does not refer to the Consolidated Exchange, now; it refers to anybody else, does it not?

Mr. MABON. Yes.

Mr. UNTERMYER. For instance, a banking house?

Mr. MABON. Yes.

Mr. UNTERMYER. Why should not a stock exchange member have a telephone connection with a banking house without the permission of the stock exchange?

Mr. MABON. We want to know——

Mr. UNTERMYER. What?

Mr. MABON. We want a record of whom the telephones are with.

Mr. UNTERMYER. And if you do not approve of them, then they can not have a connection, can they?

Mr. MABON. As I understand it. I do not know very much about this rule myself.

Mr. UNTERMYER. Have you any other explanation to make of that series of rules?

Mr. MABON. I have not.

Mr. UNTERMYER. You understand that is independently of your relations with the Consolidated Exchange, now, is it not?

Mr. MABON. Yes.

Mr. UNTERMYER. I do not understand why the liberty of members to use telephones between their own offices and anybody they please is to be infringed in this way.

Mr. MABON. I do not think there has ever been a case, to my knowledge, where there has ever been any objection.

Mr. UNTERMYER. But you have got the rule, have you not?

Mr. MABON. Yes.

Mr. UNTERMYER. Do you not know that there has been such a case?

Mr. MABON. No; I know of no such case, Mr. Untermyer.

Mr. UNTERMYER. Have you that record here in the Chapin case? We would like to put that Chapin case in this record, if it is here, if we may be furnished with a copy of it. We will ask that the record of the proceedings of the trial of Chapin be put in evidence, and a copy will be furnished, and will be marked "Exhibit 30, June 12, 1912." That record is on pages 502, 503, and 504 of book No. 6 of the minutes of the governing committee of the New York Stock Exchange.

The extract referred to was marked "Exhibit No. 30, June 12, 1912," and is here printed in full, as follows:

[Extract of minutes, governing committee, Dec. 30, 1909.]

The secretary presented the following charge and specifications against Simeon B. Chapin and Frederick D. Countiss:

NEW YORK, December 30, 1909.

To the governing committee of the New York Stock Exchange.

GENTLEMEN: In accordance with instructions from the special committee of three appointed to investigate and report on the transactions in the Rock Island Co. common stock made upon the exchange December 27, 1909, I respectfully present the following charge and specification against the members of the firm of S. B. Chapin & Co., under section 8, Article XVII, of the constitution of the exchange:

"Charge.—That Simeon B. Chapin and Frederick D. Countiss, members of the exchange and members of the firm of S. B. Chapin & Co., have been guilty of an act or acts detrimental to the interest or welfare of the exchange.

"Specification.—In this, that on December 27, 1909, said firm of S. B. Chapin & Co., by direction of a customer of said firm, gave orders prior to the opening of the exchange at 10 o'clock of the morning of said day to 20 brokers or firms, members of the exchange, as follows: Dudley Bros., Foster & Adams, R. H. Fiero & Co., J. M. Fiske & Co., C. I. Hudson & Co., Foster & Lounsbury, Van Schaick & Co., H. L. Horton & Co., H. K. Burras & Co., W. B. Franklin & Co., Harris & Fuller, Jewell, Stringer & Co., Fairchild & Co., Herrick, Berg & Co., J. J. Manning, S. H. P. Pell & Co., Simmons & Slade, Malcom & Coombe, Shoemaker, Bates & Co., Dick Bros. & Co., each to buy 2,000 shares of the common stock of the Rock Island Co. at the opening of the exchange at the market, which orders were accordingly executed by the persons to whom the same were given. The competitive buying by so many brokers at the same time caused an advance in the price of said stock of about 30 points, and the said stock receded the same number of points after said buying by said members had ceased.

"That said firm, and the members thereof, should have known, and must have known, that the execution of such an order in such a manner could serve no proper or legitimate purpose, but that the same would result in confusion, panic, and loss, and would create a fictitious condition of the market in the same stock, thus depriving the quotations of transactions upon the exchange of their value as standards of the real market value of securities.

"That such execution of said order by said firm constituted a misuse by them of the facilities of the exchange, and was likely to cause, and did cause, the exchange and its methods to be unjustly and adversely criticized in the public press and otherwise, and was an act detrimental to the interest or welfare of the exchange.

"Respectfully,

"GEORGE W. ELY, *Secretary.*"

In that case of Chapin the transaction of giving these orders to 20 brokers each to buy 2,000 shares of stock at the opening, no one broker knowing that the other brokers had orders, resulted in lifting the stock 30 points on the opening, did it not?

Mr. MABON. The record is there.

Mr. UNTERMYER. It says 30 points.

Mr. MABON. If so, that is true.

Mr. UNTERMYER. And as soon as the buying had taken place the stock went down 30 points?

Mr. MABON. If the record shows it. I do not know.

Mr. UNTERMYER. That was an excessive case of manipulation, was it not?

Mr. MABON. The only case I have in mind.

Mr. UNTERMYER. I say it was an excessive one, was it not?

Mr. MABON. I say it is the only one that I know of.

Mr. UNTERMYER. So that you want the committee to understand that in your experience as a broker on the stock exchange you have never heard of the manipulation of securities on the stock exchange except in this one instance; is that right?

Mr. MABON. I have heard in a general way, but I have not——

Mr. UNTERMYER. Do you not know that it is a matter of daily occurrence?

Mr. MABON. I know that it is a matter of daily report. I do not think it is a matter of daily occurrence.

Mr. UNTERMYER. But you know from the way the stocks "act," as the phrase goes, the way they jump, the way they act, and the amount of the dealings, that they are manipulated dealings?

Mr. MABON. I do not.

Mr. UNTERMYER. You do not know anything about it?

Mr. MABON. No, sir.

Mr. UNTERMYER. That is no indication to you?

Mr. MABON. No, sir.

Mr. UNTERMYER. The stock-exchange broker can not take the list on certain days. can he, and by looking at it and seeing the magnitude of the transactions determine that they are the result of a manipulation?

Mr. MABON. I most decidedly think not.

Mr. UNTERMYER. You most decidedly think not? Now, you remember the dealings in Reading a few months ago?

Mr. MABON. Not particularly.

Mr. UNTERMYER. Do you mean to say you do not remember when they dealt in 200,000 shares and over in a day?

Mr. MABON. I do not remember.

Mr. UNTERMYER. You do not remember anything about it, or Union Pacific?

Mr. MABON. I have no doubt there were large transactions in both stocks.

Mr. UNTERMYER. All of a sudden, for a week or two, and then the transactions dropped down to a small amount, did they not?

Mr. MABON. That is very often the case. It does not necessarily involve manipulation.

Mr. UNTERMYER. That does not indicate, to your mind, as a man experienced in the methods of the stock exchange, that there has been a manipulation in the stock?

Mr. MABON. Decidedly not.

Mr. UNTERMYER. Do you know what they call a "movement" in stock?

Mr. MABON. Yes.

Mr. UNTERMYER. Did you ever hear the phrase?

Mr. MABON. Yes.

Mr. UNTERMYER. What does that mean?

Mr. MABON. It means great activity.

Mr. UNTERMYER. Great activity, caused in what way?

Mr. MABON. It may be caused in many ways. I have never figured any particular way of a movement in stock.

Mr. UNTERMYER. Mr. Chairman. I have a letter from Mr. Hepburn, in which he states as follows:

In reading over my testimony, I find on page 545, in answer to your question:

Mr. UNTERMYER. It was a very ill advised blunder to let this thing go the way it did, to say the least?

Mr. HEPBURN. Yes.

My answer there, I am very sure, was the same I had repeated a dozen times, at least, before: "It was a mistake." I would like to have the word "Yes" corrected and changed to "It was a mistake."

If there is no objection may that change be made?

The CHAIRMAN. I order that the change be made in the minutes.

Mr. UNTERMYER. Do you remember the trial of one of your co-members, S. L. Blood?

Mr. MABON. Very indistinctly; I remember it.

Mr. UNTERMYER. December 28, 1904. I would like a record of that. [Referring to book.] I offer in evidence the proceedings of the governing committee of the exchange, Mr. Pomroy in the chair, 33 members present, September 4, 1904, in the case of Sylvester L. Blood, a member of the exchange. The specification of the charge is as follows:

During the period mentioned (that is June, 1904), said Blood was a member of the firm of S. L. Blood & Co.; that said firm did establish telephonic wire communication between the office of said Blood and of said firm, and the office of W. B. Smith & Co.

at 71 Broadway, in the city of New York; that the firm of Smith & Co. transacted a banking or brokerage business, and no one of the partners constituting same was a member of the New York Stock Exchange; that said telephonic wire communication was maintained regularly during all or the greater part of the period mentioned in said charge (that is between Mar., 1904, and June, 1904) during that portion of each business day when business was transacted on the exchange, and that no application for such telephonic wire communication was made to the committee of arrangements by said Blood or by his firm of S. L. Blood & Co., or by any member or representative thereof, nor was the same ever approved by or registered with the committee or arrangements, all of which was in violation of the resolution of the governing committee.

On page 97 of the same record, it being book 3 of the minutes of the governing committee of the exchange, I offer the following:

On motion, the committee proceeded with the hearing of the charge against S. L. Blood. Mr. Blood was called and appeared, and in his presence were read the charge and specification. The governing committee determines that S. L. Blood is guilty of the specification and guilty of the charge.

Resolved, That S. L. Blood be suspended from the exchange for a period of one year.

Would you like to revise your statement, in view of that, as to whether or not this regulation for the use of telephones in the exchange has been enforced?

Mr. MABON. Yes. I was not aware of that case.

Mr. UNTERMYER. What particular moral wrong had S. L. Blood done in maintaining telephonic communication with a banking house?

Mr. MABON. I do not know, Mr. Untermeyer.

Mr. UNTERMYER. There does not appear to have been any charge of wrongdoing.

Mr. MABON. I do not remember the case, at all.

Mr. UNTERMYER. You remember the case of Alley?

Mr. MABON. Very distinctly.

Mr. UNTERMYER. That was the same case as Blood's, was it not?

Mr. MABON. I am not sure.

Mr. UNTERMYER. On the same day?

Mr. MABON. Was it on the same day? The record will show.

Mr. UNTERMYER. Alley was charged with the same offense, of having telephonic communication with the firm of M. M. Looram & Co., transacting a banking and brokerage business. Do you remember that?

Mr. MABON. I do not remember it, and I do not know whether these men were members of the Consolidated Exchange or not.

Mr. UNTERMYER. They were not charged under any such resolution.

Mr. MABON. What date was that?

Mr. UNTERMYER. That is September 28, 1904. I offer in evidence the proceedings resulting in the suspension of W. S. Alley for one year on a charge similar to that preferred against Blood, on pages 84 and 96 of book 6 of the minutes of the governing committee of the stock exchange.

The matter referred to is here printed in the record as follows:

[September 14, 1904.—Governing Committee Minute Book 6, p. 84.]

To the Governing Committee of the New York Stock Exchange.

GENTLEMEN: I hereby present the following charge and specification against William S. Alley, a member of the exchange.

CHARGE.—That at various times between the 1st day of December, 1903, and the 1st day of May, 1904. William S. Alley, a member of the New York Stock Exchange, was guilty of acts detrimental to the interest and welfare of said exchange.

Specification: That during the period mentioned in the charge, said Alley was a member of the firm of Alley, Conger & Co.; that said firm did establish telephonic wire connection between the office of said Alley and of said firm and the office of M. M. Looram & Co., at 25 Broad Street, in the city of New York; that said firm of M. M. Looram & Co. transacted a banking or brokerage business, and no one of the partners constituting the same was a member of the New York Stock Exchange; that such telephonic wire connection was maintained regularly during all or a great part of the period mentioned in the charge, during that portion of each business day when business was transacted on the exchange; and that no application for such telephonic wire connection was ever made to the committee of arrangements by said Alley, or by his firm of Alley, Conger & Co., or by any member or representative thereof, nor was the same ever approved by, or registered with, said committee of arrangements; all of which was in violation of the resolution of the governing committee of the New York Stock Exchange, relating to wire connections, passed May 9, 1900, to take effect June 1, 1900.

Respectfully submitted.

CHARLES L. BURNHAM,
Assistant Secretary.

SEPTEMBER 13, 1904.

[September 28, 1904.—Governing Committee Minute Book 6, p. 96.]

Moved that the governing committee determines that W. S. Alley is guilty of the specification and the charge.

Seconded and unanimously carried.

Moved that W. S. Alley be suspended from the exchange for a period of one year from to-day.

Seconded and carried by a rising vote (23 ayes, 11 nays).

Mr. **UNTERMYER**. Now, I would like the Raymond case, of February 11, 1912. I want to put in the records in all these cases. [After receiving minute book.] I offer in evidence, in book 5 of the minutes of the governing committee of the stock exchange, the minutes of the proceedings in the case of H. Raymond, of the firm of Raymond, Pynchon & Co., February 11, 1902, the charge being that he paid to Gaylord, Blessing & Co., who were nonmembers, of St. Louis, \$314, which was in payment of the cost of Gaylord, Blessing & Co.'s telegraph operator, and he thereby violated the resolution of the governing committee of May 9, 1900, known as the wire resolution. What is the wire resolution? That is a resolution to the effect that they shall not make any payment of commission or rebate any commission under cover of paying for anybody else's telegraphic service, is it not?

Mr. **MABON**. Yes.

Mr. **UNTERMYER**. As this member of the exchange was located in New York and the customer was located in St. Louis, the charge was that he had paid for the use of a telegraph operator in the St. Louis office. Is that it?

Mr. **MABON**. It is very likely.

Mr. **UNTERMYER**. And he was adjudged guilty and suspended for 60 days. Is not that right?

Mr. **MABON**. To the best of my knowledge.

The matter referred to is here printed in the record as follows:

[February 11, 1902.—Governing Committee Minute Book 5, pp. 546, 547.]

The committee of arrangements complains to the governing committee, under section 8, article 17, of the constitution, that on or about March, 1901, Harry Raymond, of the firm of Raymond, Pynchon & Co., did pay to Gaylord, Blessing & Co. (nonmembers), of St. Louis, the sum of \$314, which was in payment of the cost of said Gaylord, Blessing & Co.'s telegraph operator, and did thereby violate the resolutions of the governing committee of May 9, 1900, known as the wire resolutions."

Moved that the governing committee finds that Harry Raymond is guilty of having violated the resolutions of May 9, 1900 (known as the wire resolutions), as set forth in the complaint of the committee of arrangements.

Seconded and carried—33 ayes, 2 nays, and one member not voting.

Moved that Harry Raymond be, and he is hereby, suspended for a period of 60 days commencing from to-day.

Seconded and carried (unanimously).

Mr. UNTERMYER. I offer pages 546 and 547 of the record. The next case is W. F. Raynor, November 4, 1906. You remember the Raynor case, do you not?

Mr. MABON. I just remember it; yes, sir.

Mr. UNTERMYER. He was suspended for four years for dividing his commissions with his customers.

Mr. MABON. The record will show that; I do not keep it in my mind.

Mr. UNTERMYER. While we are looking for that, you said something a little while ago, in answer to my question as to why the members were not allowed to compete for business in the way of regulating their commissions with their customers, that what the stock exchange aimed at was competition in service and not competition in commissions.

Mr. MABON. Yes; in rate.

Mr. UNTERMYER. Why should you not have competition in both?

Mr. MABON. The only reason I can give you, Mr. Untermeyer, is that one-eighth is, we think, very moderate, and we have never heard any complaints from anybody about the rate, and that it has worked well in the past years.

Mr. UNTERMYER. Suppose you should choose to-morrow to make it one-half of 1 per cent, would not that simply amount to an additional tax upon the whole country in the purchase and sale of securities?

Mr. MABON. If we should do that, yes.

Mr. UNTERMYER. Do you not understand that this commission rate is, in effect, a tax upon all investors throughout the United States?

Mr. MABON. Yes.

Mr. UNTERMYER. Do you conceive that you gentlemen performing that public function have a right to do a thing like that?

Mr. MABON. We feel that one-eighth is a proper charge for the service that is rendered.

Mr. UNTERMYER. What, in your opinion, would be the result of abrogating the rule and letting every member of the exchange fix his own bargain with his customers?

Mr. MABON. I think it would be bad for the public and for the exchange as well.

Mr. UNTERMYER. How would it be bad for the public, if they could get their service cheaper?

Mr. MABON. Because in competition for business if the competition should get so low the service would be inferior and the man would lose in service what he would make up in the commission.

Mr. UNTERMYER. That would be applicable to every business, would it not?

Mr. MABON. Yes.

Mr. UNTERMYER. You know that other businesses are not permitted to combine in that way?

Mr. MABON. There is no combination.

Mr. UNTERMYER. Do you not think this is a combination, when your membership is limited to 1,100 and nobody else can go into the business?

Mr. MABON. They can go into the business. Anybody can form a stock exchange—any group of men.

Mr. UNTERMYER. You mean they could start another stock exchange?

Mr. MABON. Certainly.

Mr. UNTERMYER. How about getting corporations to list their securities on another stock exchange?

Mr. MABON. I do not know.

Mr. UNTERMYER. You would not allow it, would you?

Mr. MABON. We would not allow what?

Mr. UNTERMYER. You would take them off your list, would you not?

Mr. MABON. I do not know what we would do.

Mr. UNTERMYER. Do you not know that if another stock exchange were formed you would do just what you are trying to do to the Consolidated Exchange?

Mr. MABON. I do not know it; no.

Mr. UNTERMYER. What would be your reason—

Mr. MABON. I do not know what the exchange would do.

Mr. UNTERMYER. You know what the exchange is doing to kill off another exchange, do you not?

Mr. MABON. Yes.

Mr. UNTERMYER. Is not that a pretty good criterion of what it would do to kill off another one?

Mr. MABON. Not necessarily.

Mr. UNTERMYER. The stock exchange forbids a member of the Consolidated Exchange to sell any securities on the stock exchange, does it not?

Mr. MABON. Yes.

Mr. UNTERMYER. You say that there is nothing to prevent other men from getting together and forming another exchange; is that your idea?

Mr. MABON. Yes.

Mr. UNTERMYER. You know that is impossible, do you not?

Mr. MABON. I do not know it; no.

Mr. UNTERMYER. You know what the experience of the Consolidated has been, after 20 years of trouble, do you not?

Mr. MABON. I do know what the experience of the Consolidated has been; yes.

Mr. UNTERMYER. Do you know the experience of the New York Produce Exchange, when they attempted to start dealing in stocks?

Mr. MABON. In a slight way; yes.

Mr. UNTERMYER. You remember that, do you not?

Mr. MABON. Yes.

Mr. UNTERMYER. You killed that, did you not?

Mr. MABON. I think not.

Mr. UNTERMYER. Does the produce exchange now deal in securities that are dealt in on your exchange?

Mr. MABON. I think not.

Mr. UNTERMYER. It started and tried to do it, did it not?

Mr. MABON. I do not think so; no, sir.

Mr. UNTERMYER. Let us see.

Mr. MABON. They dealt in securities which were not listed on our exchange.

Mr. UNTERMYER. Do you know that the New York Produce Exchange is an incorporated organization?

Mr. MABON. I understand so; yes.

Mr. UNTERMYER. And that under its charter it has the power to deal in stocks and other securities?

Mr. MABON. I do not know it; no. I assume it; I do not know it.

Mr. UNTERMYER. When was it that the produce exchange made an attempt to deal in securities?

Mr. MABON. Several years ago.

Mr. UNTERMYER. Can you tell us about when?

Mr. MABON. I can not tell you about when, Mr. Untermeyer; probably in the last six or seven years, I think.

Mr. UNTERMYER. It was while you were a member of the governing committee?

Mr. MABON. Yes; I think so.

Mr. UNTERMYER. What was the outcome of it?

Mr. MABON. I do not know. They did not trade in securities that were listed on the exchange.

Mr. UNTERMYER. What was the outcome of their attempt to deal in any securities?

Mr. MABON. I never knew that they dealt to any extent in securities; they made an effort to do it.

Mr. UNTERMYER. What sort of regulations did you impose?

Mr. MABON. I do not remember it.

Mr. UNTERMYER. Do you not remember that you imposed a regulation that would make it impossible for any member of the stock exchange to be a member of the produce exchange?

Mr. MABON. I do not.

Mr. UNTERMYER. Do you not know you have a regulation now which would make it impossible for a member of the produce exchange to be a member of your exchange, if the produce exchange were to deal in securities?

Mr. MABON. Absolutely not. That is not a fact.

Mr. UNTERMYER. Oh, yes, it is. Do you not know that no member of your exchange can be a member of any other exchange that deals in securities that are listed on your exchange?

Mr. MABON. Listed on our exchange, yes. The produce exchange were not dealing in securities listed on our exchange.

Mr. UNTERMYER. Your rules forbade any member of your exchange to remain a member of the produce exchange if the produce exchange started to deal in securities listed on your exchange?

Mr. MABON. Very true; but that is not what you said.

Mr. UNTERMYER. A number of the members of your exchange are now members of the produce exchange, are they not?

Mr. MABON. I think so; yes, sir.

Mr. UNTERMYER. A great many of them?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. If the produce exchange had gone on with its endeavor to deal in securities that were listed on your exchange, the members would either have had to get out of that exchange or get out of yours, would they not?

Mr. MABON. Presumably.

Mr. UNTERMYER. And yet you say there is nothing to prevent gentlemen from getting together and forming another exchange?

Mr. MABON. Not at all.

Mr. UNTERMYER. You do not think that rule of your—

Mr. MABON. There is a great deal of business done outside of the stock exchange.

Mr. UNTERMYER. Is there; in the securities listed on your exchange?

Mr. MABON. Oh, yes.

Mr. UNTERMYER. Where is the business done?

Mr. MABON. Principally over counters.

Mr. UNTERMYER. I do not understand you. Over whose counters?

Mr. MABON. The brokers go from office to office and transact business in the offices.

Mr. UNTERMYER. How is one broker to know that another broker has a particular stock to sell?

Mr. MABON. They go on the street from office to office and find out what is for sale.

Mr. UNTERMYER. They do that as to stocks that are listed on the exchange, do they?

Mr. MABON. Securities, yes; and certain stocks.

Mr. UNTERMYER. They do that as to stocks that are listed on the exchange?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. They go from office to office to find out who has these stocks to sell, instead of going to the exchange, where they are sold?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. They do?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. Then, finally, if they find anybody who has any to sell, how is the price fixed?

Mr. MABON. It is fixed by mutual agreement.

Mr. UNTERMYER. Is it not fixed by reference to the quotations on the exchange?

Mr. MABON. Not at all.

Mr. UNTERMYER. Why should they buy at one price over the counter, when there is another price prevailing in the exchange?

Mr. MABON. Because there are a great many securities that are listed on the stock exchange which are very inactive there, and which are traded in, as I say, in the offices. Certain houses are known to be dealers in certain types of securities. Transactions are made with them in their offices.

Mr. UNTERMYER. You refer to inactive stocks, do you?

Mr. MABON. Inactive stocks; yes.

Mr. UNTERMYER. Has not every stock got a place of sale on the exchange; a so-called stand, where it is dealt in?

Mr. MABON. Every stock that is listed has a location.

Mr. UNTERMYER. Every stock that is listed has a stand or place allotted to it in the exchange?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. So that the broker who wants to buy or sell that particular stock, whether it is active or inactive, knows just where to go to offer it, does he not?

Mr. MABON. Yes.

Mr. UNTERMYER. And the people who want to buy know where to go to buy that stock?

Mr. MABON. Yes.

Mr. UNTERMYER. The members?

Mr. MABON. Yes, sir.

Mr. UNTERMYER. With that arrangement in vogue in the exchange, you say that members go around from office to office to find where they can locate a holder of that stock so as to buy it, when they can go to the stand that is allotted to it?

Mr. MABON. I did not say so, Mr. Untermyer. I said there were brokers outside of the stock exchange who did business in these securities.

Mr. UNTERMYER. You mean that there are men that are not in the exchange?

Mr. MABON. Not members of the exchange.

Mr. UNTERMYER. Who buys privately?

Mr. MABON. Yes; and who do a very large business.

Mr. UNTERMYER. Buy privately?

Mr. MABON. Yes.

Mr. UNTERMYER. And sell privately?

Mr. MABON. Yes.

Mr. UNTERMYER. They are not members of the exchange?

Mr. MABON. Not members of the exchange.

Mr. UNTERMYER. Can you name any of those men who make a living at that?

Mr. MABON. I know that there are such men.

Mr. UNTERMYER. Can you name anyone who can make anything like a living out of it, or even office rent, at that sort of business?

Mr. MABON. I think there are a great many, but I can not name them. I see their advertisements in the papers, and I know they do the business, but I can not name them. There are quite a number of such men outside the regular brokers.

Mr. UNTERMYER. Why should a stock exchange broker sell his securities over a counter instead of at the exchange?

Mr. MABON. I did not say a stock exchange broker; I said an outside broker.

Mr. UNTERMYER. An outside buyer and an outside seller, you mean?

Mr. MABON. Yes.

Mr. UNTERMYER. A man might have to ransack the whole town to find a buyer under such circumstances, might he not?

Mr. MABON. I think not; not from my information.

Mr. UNTERMYER. Is that your idea of the way a business should be conducted by a broker, without being a member of the exchange?

Mr. MABON. That is one of the ways. They do a thriving business.

Mr. UNTERMYER. But you can not name any of them?

Mr. MABON. I have not them in mind, no; but I can get their names.

Mr. UNTERMYER. If there are men of that kind who do a thriving business you must have some of them in mind.

Mr. MABON. I can get you the names of outside brokers who do a good business.

Mr. UNTERMYER. I offer in evidence an extract from book No. 6 of the minutes of the meeting of the governing committee of the stock exchange, page 276, concerning the charge against B. F. Raynor, October 24, 1906, and from page 280, also the result of the hearing, which was "suspension for four years."

The extract referred to is here printed in the record, as follows:

[October 24, 1906.—Governing Committee Minute Book 6, p. 276.]

To the Governing Committee of the New York Stock Exchange.

GENTLEMEN: I respectfully present the following charge and specifications against Edwin F. Raynor, a member of the New York Stock Exchange:

CHARGE.—That said Edwin F. Raynor on various occasions and more particularly on or about the dates mentioned herein has violated the provisions of Article XXXIV of the constitution of the exchange, commonly known as the commission law.

Specification 1: In this, that the said Edwin F. Raynor did, during the time from September 8, 1896, to September 14, 1896, both inclusive, purchase and sell stocks in this exchange for the account of E. F. Schroeder, of this city, charging therefor the regular rate of commission, viz, one-eighth of 1 per cent; that thereafter, on or about September 15, 1896, the said E. F. Schroeder received a rebatement, return, discount, or allowance paid, or caused to be paid, to him, by or through the instrumentality of said Edwin F. Raynor, by a credit to the account of said E. F. Schroeder upon the books of said Edwin F. Raynor, of the sum of \$125, and a corresponding debit on or about September 16, 1896, to the individual account of said Edwin F. Raynor upon said books, the same being a rebatement, return, discount, or allowance upon 1,000 shares of stock purchased and sold for the account of said E. F. Schroeder, and that the said Edwin F. Raynor did thereby violate the provisions of Article XXXIV of the exchange.

Specification 2: In this, that the said Edwin F. Raynor did, during the time from November 7, 1898, to January 3, 1899, both inclusive, purchase and sell stocks in this exchange for the account of E. F. Schroeder, of this city, charging therefor the regular rate of commission, viz, one-eighth of 1 per cent; that thereafter, on or about January 4, 1899, the said E. F. Schroeder received a rebatement, return, discount, or allowance, paid or caused to be paid to him by or through the instrumentality of said Edwin F. Raynor, by check of Pearl & Co., upon the Bank of the State of New York, dated January 4, 1899, to the order of E. F. Raynor, and by him indorsed to the order of E. F. Schroeder, for the sum of \$1,362.50, the same being a rebatement, return, discount, or allowance upon 10,900 shares of stock purchased and sold for the account of said E. F. Schroeder, and that the said Edwin F. Raynor did thereby violate the provisions of Article XXXIV of the constitution of the exchange.

Respectfully,

GEORGE W. ELY, *Secretary.*

[November 14, 1906. Minute Book, Governing Committee, 6, p. 283.]

Moved that the governing committee determines that Edwin F. Raynor is guilty of the charge and first and second specifications thereto.

Seconded and unanimously carried.

Moved that Edwin F. Raynor be, and he hereby is, suspended from the exchange for the period of four years, commencing from this day.

Seconded and unanimously carried.

Mr. UNTERMYER. Will you tell me why this man was tried and suspended for four years on that charge of giving a rebate, two years after the alleged offense?

Mr. MABON. I can not; no, sir.

Mr. UNTERMYER. That was for four years. Can you give any explanation of that transaction?

Mr. MABON. I can not.

Mr. UNTERMYER. There is no such limitation in the stock exchange, is there?

Mr. MABON. Not that I know of.

Mr. UNTERMYER. I offer in evidence an extract from book 6 of the proceedings of the governing committee of the New York Stock Exchange, pages 551 and 557, the minutes of the proceedings of the charge against Mr. F. L. Hutton, of the firm of E. H. Hutton & Co.

The extract referred to is here printed in the record as follows:

[May 11, 1910.—Governing committee minute book 6, p. 551.]

NEW YORK, May 2, 1910.

To the Governing Committee of the New York Stock Exchange.

GENTLEMEN: In accordance with instructions from the committee on commissions, I herewith make the following charge and specification against Franklyn L. Hutton, a member of the exchange and a general partner in the firm of E. F. Hutton & Co.:

CHARGE.—That the said Franklyn L. Hutton, a general partner in the firm of E. F. Hutton & Co., represented upon the exchange, has been, through the said firm of E. F. Hutton & Co., guilty of violating section 1, Article XXXIV, of the constitution, relating to commissions.

Specification: In this, that the said firm of E. F. Hutton & Co. did enter into an agreement or arrangement, during the early part of the year 1909, with one Hosmer J. Barrett, who was in the employ of said firm, to pay said Hosmer J. Barrett a salary of \$1,500 per month because of the fact that said firm had profited by the business sought or procured for it by said Hosmer J. Barrett during the preceding three years in a sum amounting to about \$30,000 a year, and said firm paid said Barrett said salary, in accordance with said agreement or arrangement, from May 1, 1909, to April 26, 1910; and said Franklyn L. Hutton, through the said firm of E. F. Hutton & Co., thereby violated the provisions of section 1, Article XXXIV, of the constitution of the exchange.

GEORGE W. ELY, *Secretary*.

[May 25, 1910.—Governing committee minute book 6, p. 558.]

Moved that the governing committee determines that Franklyn L. Hutton is guilty of the charge and specification.

Seconded and carried—29 ayes, 8 nays.

Moved that Franklyn L. Hutton be, and he hereby is, suspended for a period of one year, commencing from this day.

Seconded and carried—28 ayes, 8 nays.

Mr. UNTERMEYER. Were you a member of the committee that passed on this Hutton case?

Mr. MABON. Yes; I was a member of the governing committee.

Mr. UNTERMYER. In effect, the charge against Mr. Hutton was that they had hired a man at a salary, and that his salary was to some extent dependent upon the amount of business he could influence, was it not?

Mr. MABON. That is my recollection; yes.

Mr. UNTERMYER. All the members of the stock exchange have clerks, have they not?

Mr. MABON. Yes.

Mr. UNTERMYER. They all get salaries, I suppose, except partners?

Mr. MABON. I presume so.

Mr. UNTERMYER. Many of them are supposed to be able to influence some business for the firm, are they not?

Mr. MABON. I presume so.

Mr. UNTERMYER. I do not quite understand what offense this firm of Hutton & Co. committed in the employing of a man at a salary. I wish you would explain a little more fully. Was it the size of the salary?

Mr. MABON. It was the salary dependent on the business which he brought to the firm.

Mr. UNTERMYER. It does not say so.

Mr. MABON. That is my understanding.

Mr. UNTERMYER. Well, every man's salary is conditioned upon his usefulness, is it not?

Mr. MABON. I am not qualified to answer that.

Mr. UNTERMYER. Well, it is supposed to be, is it not?

Mr. MABON. Yes.

Mr. UNTERMYER. According to that rule, does the stock exchange have to pass upon what each member shall pay by way of salary to his clerks?

Mr. MABON. No.

Mr. UNTERMYER. The thing that attracted attention there was the size of the salary, was it not?

Mr. MABON. I presume so; yes.

Mr. UNTERMYER. Mr. Barrett's salary was how much a year?

Mr. MABON. If you will refresh my memory I may be able to answer. I do not remember exactly.

Mr. UNTERMYER. \$1,500 a month?

Mr. MABON. \$18,000 a year; yes.

Mr. UNTERMYER. And the gentlemen who suspended Mr. Hutton for a year thought that was entirely too big a salary; did you?

Mr. MABON. Yes.

Mr. UNTERMYER. You did not have to pay it, did you?

Mr. MABON. No.

Mr. UNTERMYER. Is that all you had against Mr. Hutton?

Mr. MABON. That is all I remember.

Mr. UNTERMYER. It is contrary to the regulations of the exchange, is it not, for any member to employ a clerk at a salary conditioned on his bringing in a given amount of business?

Mr. MABON. Yes; that is my understanding—a fluctuating salary.

Mr. UNTERMYER. Or to give him a gratuity if he attracts business to you?

Mr. MABON. I do not know about that.

Mr. UNTERMYER. Are you allowed to give gratuities to clerks or anybody else for bringing business?

Mr. MABON. Not for bringing business; no, sir.

Mr. UNTERMYER. But suppose they bring business; are you allowed to make them presents?

Mr. MABON. Not for the purpose of bringing business; no, sir.

Mr. UNTERMYER. I offer in evidence the proceedings in reference to the charge against I. B. Newcombe, May 23, 1904, from book 6 of the minutes of the governing committee of the New York Stock Exchange, pages 52 and 67.

The extract from minute book 6 referred to is here printed in the record, as follows:

[May 4, 1904.—Governing Committee Minute Book 6, p. 52.]

To the Governing Committee of the New York Stock Exchange.

GENTLEMEN: I hereby make the following charges against Isaac B. Newcombe, a member of the exchange:

FIRST CHARGE.—That at various times between the month of May, 1903, and the month of March, 1904, the said Isaac B. Newcombe, a member of the firm

of Stewart Browne & Co., represented upon said exchange, was guilty of violating section 1 of Article XXXIV of the constitution of the exchange.

Specification 1. That by himself and through the said firm of Stewart Browne & Co., the said Isaac B. Newcombe did agree with one Claude M. Harburger, a clerk of said firm employed in its office, to give, pay, or allow unto said clerk a bonus, or percentage, or portion of the commission for business sought or procured for said Isaac B. Newcombe and said firm.

Specification 2. That at various times between the Month of May, 1903, and the month of March, 1904, in pursuance of such arrangement, the said Isaac B. Newcombe himself, or through the said firm, did pay to said Harburger, a clerk in the employment of said firm, a bonus, or percentage, or portion of the commission for business sought or procured for said firm, which bonus or commission was at the rate of \$2 for each hundred shares of stock transacted by or through the procurement of said Harburger as said clerk.

SECOND CHARGE.—That at various times between the month of May, 1903, and the month of March, 1904, the said Isaac B. Newcombe, a member of the firm of Stewart Browne & Co., represented upon said exchange, was guilty of violating section 6 of Article XXXV of the constitution of said exchange.

Specification. That during a portion of the time in the charge mentioned the said Harburger was employed by said firm as a clerk in their principal office, and during another and later portion of said time was employed as managing clerk of a branch of said firm in the Hotel Savoy, in the city of New York; that as such clerk and managing clerk the said Harburger was not paid by said firm only a fixed salary not varying with the business, but was paid a certain amount as salary, together with other amounts which varied directly in proportion to the business contributed or procured by him for said firm.

Respectfully submitted.

WM. MCCLURE, *Secretary.*

NEW YORK, *May 4, 1904.*

[May 25, 1904.—Governing Committee Minute Book 6, p. 68.]

Moved that I. B. Newcombe is guilty of the first charge and specifications 1 and 2 thereof.

Seconded and unanimously carried (by a rising vote).

Moved that I. B. Newcombe is guilty of the second charge and specification.

Seconded and unanimously carried (by a rising vote).

Moved that I. B. Newcombe be and hereby is suspended from the exchange for the period of five years commencing from to-day.

Seconded and unanimously carried (by a rising vote).

Mr. UNTERMEYER. You have pretty effectually done away with any competition on the question of commission in the exchange, have you not, by these convictions and punishments of from one to four and five years' suspension for the offenses?

Mr. MABON. I hope so.

Mr. UNTERMEYER. What do you mean by competition in service? Will you tell me what is the difference between the service of one broker who gets an order to buy a hundred shares on the exchange and goes to the place where it is sold and buys it and the service of another broker where he is given the price at which he shall buy?

Mr. MABON. It is only one phase of the relations between a client and broker. The broker might give his client information about a security, might advise him not to buy at the present price, but to wait. It is very often a question of whether it is wise to buy at the market price or buy at a limit. In all those ways I think the judgment of the broker is valuable.

Mr. UNTERMEYER. In advising his clients?

Mr. MABON. Yes.

Mr. UNTERMEYER. Then, why should not one broker be permitted to get more for his services than another? Why do you put them all on a labor-union basis?

Mr. MABON. We do it for the sake of uniformity, because we think the service is a proper one.

Mr. UNTERMYER. What is that?

Mr. MABON. The same answer that I made before; that we do it for the sake of uniformity and because we think the service is worth what we charge.

Mr. UNTERMYER. You do it for the sake of preventing competition in rates do you not?

Mr. MABON. Yes; for the sake of preventing competition in the rate.

Mr. UNTERMYER. That is the same purpose you have in mind in limiting the membership—to prevent competition?

Mr. MABON. I do not think so.

Mr. UNTERMYER. What is your purpose in limiting the membership, other than to limit competition and add to the value of a seat on the stock exchange?

Mr. MABON. I am not competent to answer. I never reflected on the matter at all.

Mr. UNTERMYER. I think we ought to stop here for the evening.

Thereupon, at 4.15 o'clock p. m., the subcommittee adjourned until to-morrow, Thursday, June 13, 1912, at 11 o'clock a. m.