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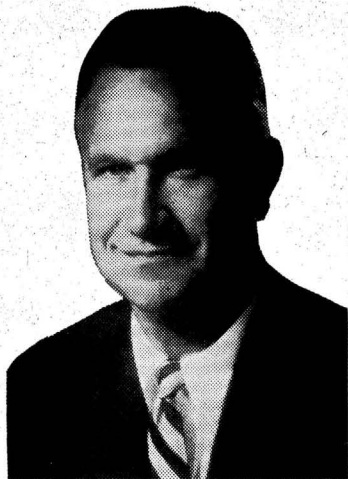
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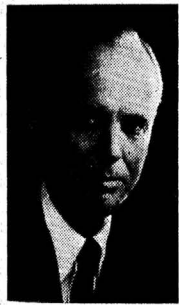
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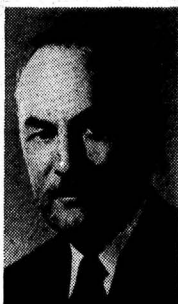
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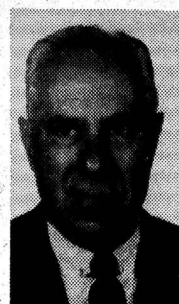
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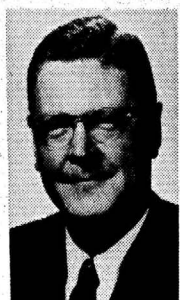
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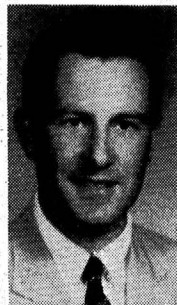
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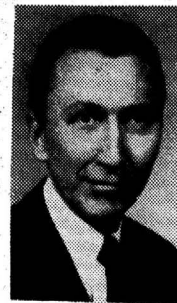
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The New President's Inaugural Address

By David J. Harris,* *President-Elect, Investment Bankers Association of America, and Partner, Bache & Co., Chicago, Ill.*

New IBA head cautions the perfectionists who may take the SEC "Special Study" recommendations too literally not to ignore total cost and practical results in seeking implementation of the proposals. Mr. Harris is a 30-year veteran of the securities industry who has always had pleasant relationships with SEC officials and has found living with Federal securities regulations not to be onerous. Moreover, he praises the value of the exhaustive 5,400 page report and sincerely urges periodic assessments of the industry at least every decade. What he is concerned with is the screening of the practical from the impractical so that our system of providing working capital for industry is not sharply impaired. He pledges to devote himself to the twin tasks of working closely with the SEC to improve services provided and to protect investors, and to prevent impractical regimentation so that the industry remains sufficiently profitable to be able to give investors the services to which they are entitled.

The honor I feel today as your newly elected President is more than matched by my admiration of the work of Amyas Ames. We are indeed fortunate to have had as our President this past year a man of such stature and intelligence to represent our Association in coping with the severe problems with which our industry has been faced. Certainly, Amyas, it was a masterstroke to initiate the formation of an industry Liaison Committee to



David J. Harris

work and advise with the SEC in its interpretation of the SEC staff report and in its recommendations to Congress. The industry owes Amyas Ames the highest honor and appreciation for the effective and leading role he has played in our behalf.

30 Years in the Business

I have been in the securities business for nearly 30 years. During this period, I have gained some experience in all phases of its operations; from a small firm to a very large firm, as an underwriter, as a broker and dealer in listed and unlisted securities, and as an active participant in the administration of one of the nation's exchanges. As you may know, I am now serving as Chairman of the Midwest Stock Exchange and

will endeavor to wear two hats this year.

It is an interesting coincidence that my career in the securities business began just after the SEC came into being, so that I have been accustomed to living with Federal securities regulations all my business life. I have never found this to be onerous; in fact, my personal relationships with SEC officials over the years have been pleasant. Therefore, it was rather startling to read in the papers a short while ago that joint discussions between SEC commissioners and industry representatives was some form of appeasement.

Since you have chosen me as President, I am making the assumption that you want and expect me to look at current events as objectively as possible in light of my experience and to speak out on issues that affect our industry when I think it is gainful to do so.

If this assumption is correct, then I believe the time for me to speak my piece is here and now. Unlike the freshmen Senators and Congressmen who are supposed to spend most of their first years listening much and saying little, I cannot delay. Decisions affecting our industry are being made right now and a year from now it may well be too late.

SEC Study Group's Report

It should be obvious that I am talking about the findings of the Special Study group of the SEC. These findings are now being evaluated by the Liaison Committee drawn from various elements of the industry of which I am privileged to be a member.

As you know, the Special Study

group conducted extensive hearings and reduced their findings to a 5,400-page report—36 critical pounds. The survey was quite exhaustive and delved into almost every conceivable aspect of our business.

There is no question in my mind that the study not only has merit but, in turn, has had a salutary effect on our whole business. It is my belief that periodic studies of our industry would lead to continued improvements in our capacity to protect and serve the public.

In view of the fact that the Federal Government has stressed the importance and effectiveness of self-regulation, should we not then consider periodic studies of our industry as a whole? Wouldn't it make good sense to propose that once every 10 years we create a fund and select personnel of some 65 or more taken from the finance department heads of our great universities to make such a study. I propose this on its merits which would obviously give us a look at ourselves in relation to the investors we serve, take it out of the political arena and provide far more objectivity, since it would be made by men who are knowledgeable and within themselves have no political ambitions.

To summarize the present study, major recommendations called for more full disclosure, broader and higher qualifications for entry into our business, basic capital requirements and a general tightening and strengthening of selling practices and procedures.

Since this was the first full-scale top-to-bottom survey of the securities industry in more than 30 years, the study group found

many areas where standards theoretically could be raised.

Now we come to a basic point.

Wide Difference Between Theoretical and Practical

In my opinion, there is a vast difference between a theoretical ideal standard and one that is practical. The former is much desired by individuals who tend to be perfectionists and particularly those who were given a million dollars to find something wrong.

I am convinced that if this study had not been in the capable hands of Milton Cohen with considered judgments resting with Chairman Cary and the other SEC commissioners who represent probably the best talent we have had in those posts in history, we would be facing serious difficulties and could well have an impossible situation on our hands.

Therefore, the task ahead in the implementation of the many recommendations is to carefully screen the practical from the impractical. Ideal standards are great, but what price will we, and ultimately the investors, have to pay for them?

The study group has recommended 176 changes in existing rules and regulations. The point has been made that some of these changes are designed to have little or no effect on the vast majority of people in the industry. But, although this may be the intention, the fact is that the securities business is so interlocking in its relationships that whatever affects one group will directly or indirectly affect all. This is another reason why it is absolutely essential that our industry associations work in con-

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Primary Issues Pertaining To the Securities Industry

By Amyas Ames,* Retiring President of the Investment Bankers Association of America, and Senior Partner, Kidder, Peabody & Company, New York City

This has been a year of momentous importance to the IBA because of the SEC's "Special Study" impact and because of various crucial bills now pending in Congress. Mr. Ames pledges to the SEC all-out support to end any remaining abuses and undesirable practices by improving quality and performance of the people working in it. He deplors the internal dispute over the proposed revenue bond underwriting bill, and sums up the principal defect in the proposed interest equalization tax bill in urging opposition to the passage of both bills. Mr. Ames charts as the IBA's most important task its ability to work with Government, and criticizes the industry for not tapping the primary source of its policy wisdom. He calls on the wise leaders of the industry to deal with the Government and voice the industry's views on legislation, and he also calls upon the Government and non-Government regulators not to promulgate any rules or regulations until "real" consultation has been effectuated.

This has been a busy and an eventful year. There have been several major policy crises involving obligations in Washington which have made it impossible for me to keep to the schedule which I had set out for myself in the beginning. I have made 14 regional visits around the country, but was unable to get to the Pacific Northwest, to the Rocky Mountain area, and to Canada. I can assure you it took strong pressures to keep me from making these visits as I was most anxious to make them.



Amyas Ames

I should perhaps say a word about this Convention. In the past, our spring meetings at White Sulphur have been working sessions and this major convention, here at Hollywood Beach, has been the time for hearing reports. This

year we are converting a part of this morning's (Dec. 2) session into a work session devoted to the Special Report of the SEC as it relates to the selling practices of the industry. Tomorrow will also be a departure from traditions of the past. We will devote the entire session to municipal business. We have reason to be proud of the work we do raising capital for cities, states and public activities generally—total financing of this kind will exceed \$9,600,000,000 in 1963. George Wendt, the able Chairman of our municipal committee, has developed a most interesting program. We are pleased that Dr. Benjamin C. Willis, General Superintendent of Schools, of the Board of Education, of the City of Chicago, has come here to be our speaker for this session.

William Cary, Chairman of the Securities and Exchange Commission will be our principal speaker for our opening session today. I should say in the very beginning that in asking Mr. Cary to speak to us I explained to him that we wanted to devote the Monday

session to a study of some of the problems arising out of the Securities and Exchange Commission Special Report; that we wanted him to be here as an observer of this working session, but that we did not want him to feel obligated to make any comments on matters which may come up in these proceedings. His role is solely that of an observer. I think you will agree that it would be most unreasonable and inappropriate for us to expect Mr. Cary to modify his speech in any way as a result of the morning's proceedings. We are delighted that Commissioner Cohen is also here with us today.

Because of the two days of working sessions, the reports of our committees will be grouped on Wednesday and Thursday and so must be shortened. However, the full committee reports will be available to the convention and the press, so my main point now is to apologize to our able committee chairmen for reducing their allotted time.

As you know, Secretary Dillon was to have been our principal speaker on Wednesday but he has regretfully notified us that out of respect for our late President, he has felt obligated to cancel all his speaking engagements for 30 days. I have asked Andrew Overby, who is Chairman of our Foreign Securities Committee and formerly Assistant Secretary of the Treasury, to give us a short talk on the problems raised in international investing by the proposed Interest Equalization tax. I am also pleased to announce that Mr. Robert Haack, the new President of the NASD will say a word to us.

I believe it is a wonderful opportunity for us to meet him and at least to hear an outline of the preliminary plans of the NASD for the years ahead. I hope you all will attend that session.

George Woods, President of the World Bank, will speak on Thursday. He has been one of us as President of the First Boston Cor-

poration and is now one of the most qualified men in the country to speak on world financial problems. It is particularly appropriate that we hear him at this time. I think we can look forward to rewarding sessions and I urge you all with your wives to attend.

Interest Equalization Tax

I would like to comment briefly on some of the primary issues which have been dealt with during the year. One issue which has been most ably handled by Andrew Overby, Chairman of our Foreign Investment Committee, is that of the proposed Interest Equalization Tax—a tax on international investing. Andrew Overby will have a more complete report for you later but I would like to add emphasis to what he had to say. As you know, we testified before the House Ways and Means Committee in August and I believe an impressive record opposing this tax has been built in the records of that committee. About ten days ago we prepared a letter which Andrew Overby and I, as President of the IBA, sent to every member of Congress, every member in the Senate and in the House of Representatives. That letter enclosed a brief circular which you will find on the desk in the lobby stating why it is that we believe this legislation is contrary to our national interest and represents a serious abdication of financial leadership in the free world by the United States.

It is a fundamental of international business that trade follows credit. Purchases by foreigners of our export goods and services with dollars obtained from U. S. purchases of foreign securities are an important factor in the creating of jobs for Americans. The uncertainty engendered by the threat of the enactment of a retroactive tax has in effect imposed not merely a limitation but an actual embargo on the sale of new foreign securities in the United States capital market. We believe this to be an improper procedure and wrong in principle. This is particularly so since private foreign investments are asset creating and job creating expenditures.

Revenue Bond Underwriting

One of the most important policy matters to come before the Investment Bankers Association in 1963 was a proposal to change

the Glass-Steagall Act of 1933 by the introduction of legislation sponsored by James J. Saxon, the Comptroller of the Currency, permitting banks to underwrite revenue bonds. Acting on the authority of the Board of Governors of the Investment Bankers Association we testified against this legislation before the House of Representatives Banking and Currency Committee in October. This testimony was printed and sent to all members. You will find copies of the leaflet on the table in the lobby and I urge any of you who have not read it to do so as the issue is a vital one to our business. Fortunately, we have been strongly supported in our position by others, including William McChesney Martin, Chairman of the Federal Reserve Board, so that the record built by the House Committee is a most compelling one and I believe should be most carefully studied by the banks. It is unfortunate that we should have such a difference between members of our organization.

Before going out of office as President of the Investment Bankers Association, I would like to make a plea to the banks who were responsible for this proposed legislation permitting them to enter the revenue bond business, that they reconsider their position. We have worked well together for 30 years and I believe there are compelling reasons why we should respect the dividing line set by the Congress in 1933 which has allowed us to work so effectively together.

SEC Legislative Proposals

Another matter of prime importance which has occupied us this year has been the development of the SEC legislative proposals which are now before the House Committee on Banking and Currency, having been passed by the Senate earlier this year. It is an important part of the policy of the IBA to urge the passage of the legislation in the form in which it is now before the House Committee. The standards of an industry can only be effectively raised by improving the quality and the performance of the people who work in it. The decision last spring to proceed at once towards implementing these legislative recommendations was certainly the correct one. Our review and analysis of the Special Study Report, although not yet

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The SEC After the Special Study of Securities Markets

By William L. Cary,* Chairman, Securities and Exchange Commission, Washington, D. C.

SEC head makes quite clear, in his address covering a wide range of subjects, what is expected of the securities industry and he leaves no doubt that prompt action must be forthcoming in terms of the 175 recommendations made by the SEC's special staff report. He denies that working with the industry has made the SEC a captive of the industry. Strong dissents are expressed regarding: commercial banks moving into mutual funds without the benefit of SEC regulation; growing concentration in the securities industry though no specific Wall Street merger is cited; "front end load" or "contractual plan" sales of mutual funds; and the dissemination of full disclosure. Praise is given for the prompt response and assumption of financial responsibility in the Ira Haupt matter, and for other industry self-imposed, voluntary action taken.

I am delighted to be invited a third time to speak before the Investment Bankers Association. I might say I now feel very much at home mingling among you as a bureaucrat in sheep's clothing. At the outset I should like to say a few words about your retiring President, with whom I have worked so closely during the past year. It has been a most pleasant association. He has demonstrated wisdom and realism. Perhaps I dare go no further in superlatives lest he be tarred as a businessman who has turned soft and thinks government is occasionally responsible. Let me assure you: he has not given anything away!



William L. Cary

sponsible and not flamboyant. This promise has been kept. In fact, the *London Economist* discussing the Report made the following statement:

"Americans who have long admired the quality of investigations conducted by British Royal Commissions may take heart. It can happen here."

Will Consult With Industry

The second promise was that we would consult with the industry in advance both with respect to legislation and rule making—formally as well as informally. This too has been and will be fulfilled. Some may ask why we regard it as necessary and desirable. Since the industry was not consulted on the recommendations of the Study, we need to test them against business practices and reactions to insure that they are supported by experience as well as logic. At this stage, of course, our objective is not to gauge the emotional level of the securities industry but to have carefully documented criticism or support—as the case may be. (I might say in general we find support likely to be less vocal than criticism.) Another reason for discussion with the financial community is a realistic one: Congress always

asks whether we have talked with the industry and is not favorably inclined toward legislation when the responsible leaders have been kept in the dark.

Agency discussions with the industry always generate the criticism or the fear that we might become your captives. This is a problem we all face in Washington. The Scylla and Charybdis of the bureaucrat are the claim that we are encroaching on private enterprise too deeply on the one hand and that we have become its captive on the other. I might say that the SEC has been subject to both criticisms in the same newspaper in the same month. Frankly, I do not have any fear about becoming a captive. My only worry, and in my opinion the worry that should haunt all government regulatory agencies, is over inertia—the loss of initiative. This concern is dramatized by Professor J. K. Galbraith:

"Regulatory bodies, like the people who comprise them, have a marked life cycle. In youth they are vigorous, aggressive, evangelistic, and even intolerant. Later they mellow, and in old age—after a matter of 10 or 15 years—they become, with some exceptions, either an arm of the industry they are regulating or senile."

I do not accept this analogy, although at times there may be a need for revitalization. Still I differ with some of my fellow agency heads who express annoyance and occasionally indignation because their actions are under scrutiny by the Antitrust Division of the Department of Justice, a roving center of the government, or even by the press. These keep us alert and serve as appropriate stimuli.

In sum, I do not oppose working with industry. We have the conviction that discussions with the industry and self-regulatory bodies make for fair, reasonable, and responsible solutions. At the same time we do not have the illusion that every rule or decision can be arrived at with unanimity. Finally, I would emphasize that a belief in fairness and discussion does not mean that we are going to procrastinate in our program of implementation of the Study Report.

II

Since I recognize the IBA as representing many leaders of the securities industry, I have become accustomed to report annually upon our present thinking. This time I shall touch on the three major areas of action in which our Commission is presently involved,

with emphasis upon the Report of the Special Study.

A

Program for Action

The Study contains a wealth of information and analysis. As you all recognize, it is not academic exercise but a program for action—and action has indeed begun. I shall discuss that action, or implementation as it is described in "governmentaleze." I do not mean to take up the merits of specific recommendations but rather to consider our respective roles in the program and the manner and spirit in which we may go about discharging them. Implementation may be broken down into two major areas—first, our proposed legislation, and second, the changes which you or the Commission may make without legislation by rule-making and otherwise.

With respect to legislation, we have made a good beginning. Working closely with the financial community through the Industry Advisory Committee, the Commission has submitted a program which we both regard as constructive. The bill itself, as you well know, involves two primary

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World Bank's Role as Borrower and Lender

By George D. Woods,* President of the International Bank for Reconstruction and Development and Former Chairman of the Board of the First Boston Corp., New York City

New World Bank head, successor to Eugene R. Black, explains plans being formulated to advance and broaden the scope of the widely respected international economic capital financing agency into several new fronts. Mr. Woods adds that this will not lessen the Bank's reputation for hard-headedness in successfully assisting developing countries since there is no intent to undertake soft-loans. The former Chairman of the First Boston Corporation believes the time has now come to assist in the more advanced and complicated stages of development, to see more done in the field of education, to lengthen the loan repayment period, and to finance pilot projects. Review of the Bank's performance finds some encouraging amount of real growth has been accomplished despite overwhelming odds posed by burgeoning population growth and lower commodity export prices. Noted, also, is the step-up in Western Europe's financing aid to where it now exceeds ours as a per cent of GNP.

I very much appreciate this opportunity to appear before the Investment Bankers Association. When Amyas Ames invited me to be here, I knew I was going to have to accept, simply because so many of my oldest friends would be present and I would not soon again have such a good chance to pay my respects to all of you in my new capacity. This also happens to be an exceptionally interesting time in the growth and development of the Bank which I now represent, and whose



George D. Woods

securities many of you have been marketing over the years.

I want to speak to you about two principal subjects. First, I want to talk to you about the World Bank—not only in its role as a borrower, with which I am sure you are familiar, but also in its role as a lender of long-term capital. Second, I want to say something about what has been going on, as I see it, in the less developed world, and about the impact on that world of development assistance from the Bank and from national aid programs.

I

For better or for worse, we are members of a generation in which the United States, already the greatest producing and trading nation, has become the greatest international source of capital as well. In this development, the

World Bank has had a part to play. When we started in business at the end of the war, most of the capital markets of the world were effectively shut down; and the American market, so far as foreign securities were concerned, was fearful and reluctant. We at the Bank began selling borrowers' obligations from our own portfolio to United States investors more than 15 years ago, at a time when virtually no other international paper, apart from Canadian securities, was being placed in the American market. These sales of loans have now become an important aspect of our financial operations. Over the years, we have sold \$1.7 billion of our loans—some \$560 million to commercial banks, insurance companies and others in the United States, the remainder to purchasers elsewhere in the world.

Joint Financing Technique

Our ultimate objective, in the case of all our borrowers, is to help them to sell their own original issues in the American and other capital markets of the world on the basis of their own credit. One technique we have used is to combine with the investment market in the joint financing of a development project or program—the Bank lending long while money of shorter-term is raised through offerings or placements by private investment firms. Altogether, we have used the technique of the joint operation on 16 occasions, helping to sell to the market some \$340 million worth of original-issue European, African and Asian paper. We have cooperated with 11 borrowers in this way, and for all of them, their first joint operation with the Bank enabled them to sell their securities in the United States for the first time ever, or for the first time in the postwar period.

Most of our borrowers, however, have no prospect of being able to come into the market now or for some time to come, so that our foremost concern has been to establish our own credit in the investment centers of the world. When the Bank sold its first bonds in 1947, it was unknown to the market, had no record of performance and only one loan in its portfolio. Its chief asset was the uncalled portion of the United States subscription to capital. Today the Bank's outstanding debt is \$2½ billion, representing 48 separate issues of its bonds. Against this, it has cash, loans and other assets of over \$5½ billion. Moreover, to protect its bondholders, the Bank has uncalled subscriptions of \$19 billion, including \$5.7 billion from the United States and over \$6½ billion from Canada, Japan and nations of Western Europe. World Bank bonds are favorably known in financial circles everywhere, and central banks hold them as reserves. We are now, in fact, in the strongest financial position in our history, and this is a position we mean to keep.

As most of you will remember, in the Bank's early years the American market was the only one in which it was possible to offer World Bank bonds. Nowadays, however, we look to investors outside the United States to provide the larger part of our borrowed funds. The Bank has been able to sell its bonds and notes in more than 40 countries, and investors outside the United

States hold more than one-half of our funded debt.

The other side of this coin is that from time to time the Bank has been able to take long holidays from the American bond market. Right now, we are on such a holiday. Our last American offering was made almost two years ago, and the cash position of the Bank is such that we can cover expected disbursements without further borrowing in the United States at least until the end of 1964.

Role as Lender

The Bank borrows, of course, in order to be able to lend; and as a lender, we operate chiefly—although by no means entirely—in the economically underdeveloped nations of Africa, Asia, Latin America and southern Europe. The net flow of long-term capital from all sources, public and private, to these countries has nearly doubled in less than a decade, and last year, reached \$9 billion. This figure includes many different kinds of items—direct private investments and loans, governmental loans and grants, and even the flow of aid in the form of agricultural commodities. But it does not include strictly military aid—the purchase of military equipment or supplies, or the cost of maintaining troops abroad.

American capital, both private and public, made up just about half this amount. Government sources, including the Export-Import Bank of Washington and the United States Agency for International Development, accounted for the lion's share, some \$3½ billion.

A large part of this amount, however, was devoted to purposes

which helped the American economy as well as the economies of the underdeveloped countries. A billion dollars worth of it was shipped in the form of surplus commodities, and helped continue an orderly domestic market for such items as cereal grains and cotton. Another large part—Federal bookkeeping makes it difficult to say how much—was tied in one way or another to the purchase of American goods, and so helped finance exports by American companies. And while the figures I am quoting do not include direct military aid, they do include financing designed to enable the recipient countries, without undue economic strain, to carry some of the burden of the common defense. In the end, therefore, the American bill for what is somewhat inaccurately called "foreign aid" is in fact a bill for both economic and defense support, and for both foreign aid and aid at home. The bill for what is really foreign aid is a good deal smaller than the gross figures suggest.

Especially against the measure of the gross figures, the World Bank loans in the underdeveloped countries seem relatively modest. Since the beginning of our operations in 1946, we have made commitments of \$7½ billion, of which about \$5¾ billion have been for projects in the countries outside Europe, North America and Japan. Our total disbursements for these developing countries have gotten to a level above \$500 million a year. The net figure, after taking account of repayments, was on the order of \$300 million in the last fiscal year.

The Bank has never taken it as

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The Investment Potential Of an Educated America

By Benjamin C. Willis,* General Superintendent of Schools Of the City of Chicago, Illinois.

Prominent educator bluntly states some fluent truths about education—its compositional level as the more affluent tax-base moves to the suburbs and the more numerous but lower tax-base, disadvantaged school population move into the cities. Not only is education one of the nation's largest participants in the investment market, employer of labor and purchaser of goods, but it also constitutes one of the largest investment potentials in the economy. This investment will not pay off unless we face up to the fact that the migrant, the indigent, the culturally deprived child must be afforded as good an educational opportunity as that obtained in our advantaged suburban school systems. Mr. Willis warns we no more can permit a condition of half-educated and half-ignorant population than we could, in Lincoln's words, have a nation exist half-slave and half-free. Betterment proposals made include making teaching a more attractive and increasingly honorable profession, and bringing about learning situations in cities suffering from a declining per-family taxable base to the level found in the more affluent sections of the country.

The mystery of death, the horror of violent death, the wastefulness in a young man's death, and the dreadful assassination of a President have held a mirror up to us all in the last 10 days. A terrible price has been paid not only by a man and his family but by this country for the insistent passions of willful extremes. But in the immediate, ordained continuation of orderly government and in the national expression of sorrow and sanity, our awareness can be quickened and our actions sobered and enlightened.



Benjamin C. Willis

If the late President's speech, prepared for delivery in Austin, Texas, had been prepared as a last testament, at least one passage in it could serve as a guideline to us all, in any relationship or endeavor:

" . . . This country is moving and it must not stop.

"It cannot stop. For this is a time for courage and a time of challenge.

"Neither conformity nor complacency will do. Neither the fanatics nor the fainthearted are needed. . . .

"So let us not be petty when our cause is so great.

"Let us not quarrel amongst

ourselves when our nation's future is at stake.

"Let us stand together with renewed confidence in our cause—united in our heritage of the past and our hopes for the future—and determined that this land we love shall lead all mankind into new frontiers of peace and abundance."

The late President had a keen interest in education as a means to a strong America in which the greatest good would be enjoyed by the greatest number. Even before his inauguration, he established a task force on education composed of six members, of which I was privileged to be one as the representative of public schools. He lent the full weight of his office as well as the full force of his own interest to our endeavors, as he did again later with a larger group which he convened to study vocational education.

Within a month of his inauguration, Mr. Kennedy sent to Congress a special message on education in which he defined the twin goals as excellence in education and the availability of that excellence to all able and willing to pursue it.

The establishment of the Peace Corps as a great teaching force in foreign countries was a further evidence of his conviction that, through knowledge and the acquisition of skills, the peoples of the world could find ways to work out their destinies in the startling world of today. Tens of thousands, even millions of persons around the world today till

their fields with rudimentary ox-drawn plows beside the jet runways. It has been America's fortunate advantage to evolve with the evolution of technology; most of the countries of the world are being catapulted from primitive to sophisticated life. There are cultural lags in our own society of grievous seriousness and of egregious consequence; many lags elsewhere are greater. Education of high quality and ample opportunity was seen by Mr. Kennedy as a major remedy for the present and a wedge for the future. He was, of course, not alone in this; he did not invent the idea; it did not die with him. He sought sober analysis of the status, problems, and needs of education, rather than caustic or extremist criticism of it. He sought solutions to the problems and means to improve and expand education, some of controversial nature. Essentially, however, he sought awareness and action. It is to awareness and action as they apply to education, as I see them, and

without reference to the late President's solutions that I wish to address these remarks in the spirit of his remarks I quoted before.

Awareness

The investment banking industry and investment bankers as persons have a keen awareness of the investment potential of education. It is to the investment bankers that school boards turn for the sale of bonds, the borrowing of money as needed, and other fiscal transactions. In every community the educational institutions represent the largest single category for capital outlay, usually; the largest single operating budget, and the largest employer. There may be some exceptions to this or some alteration in balance depending upon the factors taken into account. However, as a generality it is true that schools are not only big but biggest business. In the last few years they have accounted for the main increases in employed persons.

Unlike most other businesses, the schools show no financial return on investment. The process of education carried on in the schools on which you hold paper shows no year and profit. We have no stock to split, no dividends to declare. Our balance sheets, like that of churches, social agencies, law enforcement, and legislative, executive, or judicial arms of government, are written years in the future on the statements of industry and commerce, and in the intangible benefits of health, civic competence, and the true happiness of our people, as well as on the pages of national dignity and honor.

Aside from your continued financial investment in schools as proof of your acceptance of these realities, there is another evidence of your belief in the benefits of education. This is to be found in your forums for executives and in the variety of programs your industry sponsors for the continued education of your

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Backgrounds of the New Principal IBA Officers

The slate of officers elected at the Convention on Dec. 5 included a new President and five Vice-Presidents, one of the latter being named for a second consecutive term. The official biographies of each of these officers follow:

DAVID J. HARRIS President-Elect

David J. Harris, Partner, Bache & Co., Chicago, is the new President of the Investment Bankers Association of America. He succeeds Amyas Ames, a Senior Partner of Kidder, Peabody & Co., New York. Following his graduation from the University of Chicago in 1935, Mr. Harris entered the securities business with Sills, Minton & Co.; he became Executive Vice-President in 1944 and President in 1945. He continued as President with its successor organizations, Sills, Fairman & Harris, Inc., and Fairman, Harris & Co., until the latter merged with Bache & Co. in May, 1956. He then became Administrative Resident Partner of Bache & Co. in Chicago in charge of the Middle West Regional Area. Since 1959 he has also been a member of Bache & Co.'s Executive Committee.



David J. Harris

Active in group and national activities of the Association since 1948, Mr. Harris has been a Vice-President for the past three years, was a Governor of the Association from 1956-59, and has served on the following national committees:

Education Committee, 1948-51
Industrial Securities Committee, 1952-55

Group Chairmen's Committee, 1955-56; Chairman, 1957-59
Finance Committee, 1956-59
Membership Committee, 1956-57
Nominating Committee, 1958-59

At the regional level he was Chairman of the IBA Central States Group in 1955-56 and for several years served on the Group's Executive Committee. Mr. Harris has also held positions of leadership in other industry organizations: Vice-Chairman, District No. 8, National Association of Securities Dealers, 1953-55; Governor of the Midwest Stock Exchange, 1959-63; he is now Chairman of the Midwest Stock Exchange (term ending in 1965); he has also been a member of the Chicago Board of Trade since 1956. Mr. Harris is on the Board of Directors of the Liberty Loan Corporation, Kaufman & Broad Building Corporation, and Colonial Acceptance Corporation.

His activities in local civic affairs have included membership on the Lake County District 107 School Board, 1954-57, and chairmanship of the Highland Park Community Chest Drive in 1958. Since 1958 he has been a trustee of the Highland Park Hospital.

Club and fraternity memberships include: Exmoor Country Club, University Club (Chicago), and Delta Kappa Epsilon. His hobbies are golfing and curling during the winter.

Mr. Harris is married to the

former Evelyn R. Carr. They have a daughter and two sons and the family lives in Highland Park, Ill.

MARK DAVIDS Vice-President

Mark Davids, a Senior Partner of Lester, Ryons & Co., Los Angeles, was elected a Vice-President of the Association. A native of Los Angeles, he graduated from Stanford University in 1917 and immediately went into the U. S. Army, serving as a First Lieutenant in the A. E. F. in France during World War I. Upon his return he became Pacific Coast District Manager for The Reading Iron Company until 1925, when he entered the securities business as sales manager with Banks, Huntley & Co., Los Angeles. In 1930 he went to Chicago as Resident Partner of B. B. Robinson Co., a firm active in utility reorganizations and investment trust wholesaling. He returned to Los Angeles in 1939 to become executive Vice-President of Lester & Co. When Lester & Co. and Pacific Co. consolidated in 1951, forming Lester, Ryons & Co., he became a partner of the new firm.



Mark Davids

Since 1945, Mr. Davids has been active in IBA national activities, serving as a Governor, 1958-61 and as a member of the following national committees:

State Legislation Committee, 1945-46

Industrial Securities Committee, 1957-58

Nominating Committee, 1959-61
Arrangements Committee, 1961-62

His activities in other industry organizations include service on the NASD's District Committee, Business Conduct Committee and Nominating Committee. He is an active member of The Los Angeles Bond Club and served as President in 1959. Other club affiliations are: California Club, University Club, Bel-Air Bay Club, and Stock Exchange Club. He is a Director of Holmes Supply Co. and Federal Ice & Cold Storage Co., of Los Angeles, and is a Trustee of Boys Republic.

LLOYD B. HATCHER Vice-President

Lloyd B. Hatcher, Partner, White, Weld & Co., New York, was re-elected a Vice-President of the Association. A graduate of the Virginia Military Institute, he received his MBA degree from Harvard in 1931. Mr. Hatcher has spent his entire career in the securities business, holding positions with various organizations in both Atlanta, his native city, and New York. He joined White, Weld & Co. in 1953 and is a general partner and member of the firm's Executive Committee.



Lloyd B. Hatcher

Mr. Hatcher has been active in IBA affairs since 1940, serving as Chairman of the New York Group, 1960-61, Governor, 1961-62, Vice-President 1962-63, and on the following national committees:

Convention Attendance Committee, 1940-42

Municipal Securities Committee, 1951-52; 1956-62

Governmental Securities Committee, 1952-53

Group Chairmen's Committee, 1960-61

He is also active in other industry organizations, being President of the Municipal Bond Club of New York and a member of both the New York Bond Club and the Municipal Forum in New York. Club memberships include: Chairman of the New England Group, 1952-53, as a Governor.

Country Club, and Lloyd Neck Bath Club, all in New York, and the Piedmont Driving Club in Atlanta.

He is married to the former Barbara Holdsworth of Brookline, Mass., and they and their two children live in New York City.

ALBERT PRATT Vice-President

Albert Pratt, a Senior Partner of Paine, Webber, Jackson & Curtis, Boston, was elected a Vice-President of the Association. A Bostonian from birth, Mr. Pratt was graduated Magna Cum Laude in 1933 from Harvard College where he earned a Phi Beta Kappa Key. Following graduation from Harvard Law School in 1936, he practiced with Goodwin, Procter & Hoar of Boston until called to active duty in the U. S. Navy in 1940. During the war he served aboard the U. S. S. Texas in the North Atlantic, at the Naval War College, and on the staff of Admiral Nimitz, Commander in Chief of the Pacific Fleet. Released from active duty in 1945 with the rank of Commander, he joined Paine, Webber, Jackson & Curtis the following year as Counsel. In 1950, he became a General Partner specializing in corporate underwriting activities; he is now responsible for all the firm's investment banking activities.



Albert Pratt

Mr. Pratt was appointed an Assistant Secretary of the Navy in 1954 and served in this position on leave of absence from his firm until he returned to Boston in 1957. For his services as Assistant Secretary, he was awarded the Distinguished Civilian Service Medal, the Navy's highest civilian decoration.

Active in IBA activities since 1948, Mr. Pratt has served as Chairman of the New England Group, 1952-53, as a Governor.

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1958-60, and on the following national Committees:

- State Legislation Committee, 1948-52; 1957-58
- Group Chairmen's Committee, 1952-53
- Savings Bond Committee, 1952-53
- Federal Taxation Committee, 1953-54
- Federal Securities Acts Committee, 1958-63; Chairman 1959-63
- Research Committee, 1960-61

He is also active in several other industry organizations — a Governor of the New York Stock Exchange, a past Director of the Greater Boston Chamber of Commerce, and a member of the Bond Club of Boston. He is a director of the following corporations: Bowmar Instrument Corporation; FMA, Inc.; Itek Corporation; Laguna Niguel Corporation; Radiation Research Corporation; and Simplex Wire & Cable Company.

His activities in civic affairs and educational organizations are many and varied. He is President of the United Fund of Greater Boston; past President and currently a Director of the Associated Harvard Clubs; Trustee of the Dexter School and The Chestnut Hill School; and a member of the Visiting Committee of the Board of Overseers of Harvard. Club affiliations include: Somerset Club, Union Club of Boston, City Club, The Country Club, Metropolitan Club (Washington, D. C.), Harvard Club of Boston, Duxbury Yacht Club and the Cruising Club of America.

Mr. Pratt is married to the former Alice Mathea Lee and they live in Chestnut Hill, Mass. They have five children: Mrs. Alice M. L. Webb, Cornelia Sanford, Nina Lee, Frederick Halfdan and Kate Nickerson.

JOHN P. LABOUISSÉ
Vice-President

John P. Labouisse, Partner, Howard, Weil, Labouisse, Friedrichs and Company, New Orleans, was elected a Vice-President of the Association. Since graduating from Tulane University in 1929, Mr. Labouisse has spent his entire career in the securities business. Initially he joined the New York firm of Harris Forbes & Co., and in 1934 he co-founded Lamar, Kingston and Labouisse, remaining a partner until 1946. Since then he has been a partner of Howard, Weil, Labouisse, Friedrichs and Company.



John P. Labouisse

Active in IBA affairs since 1948, Mr. Labouisse served as Chairman of the Southern Group, 1953-54, Governor, 1959-61, and on the following national Committees:

- Federal Taxation Committee, 1948-63
- Group Chairmen's Committee, 1953-54
- Savings Bond Committee, 1953-54
- Administrative Review Committee, 1960

He has also participated in NASD affairs, serving a term as a member of District Committee

No. 9. Club memberships include the Metairie Country Club, Louisiana Club, Boston Club and Delta Kappa Epsilon.

Mr. Labouisse has been active in civic affairs and is currently a member of the Sewerage & Water Board for the City of New Orleans. He is also a Trustee of the Howard Memorial Library Association and a former President of the Visiting Nurses Association of Greater New Orleans.

He is on the Board of Directors of the following corporations: Delta Steamship Lines, Inc., Kalvar Corporation, Blossman Hydratane Gas Inc., P & H Tube Corporation, Louisiana-Delta Offshore Corporation, and the Lakeside Shopping Center.

Mr. Labouisse is married to the former Olive May Moore, and they reside in New Orleans. They have one daughter and two grandchildren.

CHARLES C. PIERCE
Vice-President

Charles C. Pierce, President of Rauscher, Pierce & Co., Inc., Dallas, was elected a Vice-President of the Association. A native Texan, Mr. Pierce has devoted his entire career to the securities business.



Charles C. Pierce

Upon graduating from the University of Missouri in 1927, he was employed by the Securities Division of the Mercantile National Bank in Dallas. When he and John H. Rauscher, Sr. organized Rauscher, Pierce & Co. in 1933, he was named Vice-President of the new company. He was elected President of the company in 1963.

Mr. Pierce has been very active in the Texas Group of IBA, where he has served as Chairman of the State Legislation Committee for many years. He has also served the IBA nationally as a Governor, 1959-61, and on the following committees:

- State Legislation Committee, 1948-63
- Nominating Committee, 1960-61
- Membership Committee Chairman, 1960-61

Long active in NASD affairs, Mr. Pierce is a former Chairman of District No. 6 of the National Association of Securities Dealers. He is on the board of directors of the following corporations: Tyson's Foods, Inc., Levine's Department Stores, South Padre Investment Corporation, and Universal Controls (of which he is also Vice-President).

Mr. Pierce is a member of the Dallas-Tarrant Counties Park Commission, and the Dallas Citizens Council, as well as a former Trustee of Wayland College. He is a member of the Dallas Country Club, Dallas Athletic Club (where he is presently First Vice-President), Petroleum Club, Downtown Club, Dallas Club and Salesmanship Club.

He is married to the former Melverne Rawson, and they reside in Dallas. They have two children — a son, Charles C. Pierce, Jr., who is in the Sales Department of Rauscher, Pierce & Co., and a daughter, Susan, who is a junior at Hockaday School.

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- AHEARN, JOHN W.***
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- ALBIN, JOHN S.**
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Foreign Representative, Hong Kong

IBA Memorandum on Selling Practices of American Securities Industry

Document described as "A Proposal of Policy and an Analysis of Related Recommendations in the SEC Special Study" sets forth the views of an Ad Hoc Committee, either pro or con, of the many selling practices recommendations made in the report submitted to the Securities and Exchange Commission.

Retiring President Amyas Ames announced at the convention that 2,000 copies of a 38-page memorandum setting forth the views of an Ad Hoc Committee with respect to certain of the recommendations made to the SEC by its Special Study Group were being mailed to members of the IBA, one for every main and branch office throughout the country. The Committee consisted of: Amyas Ames (Kidder Peabody & Co.), Francis Kernan (White, Weld & Co.), Albert Pratt (Paine, Webber, Jackson & Curtis), Donald Regan (Merrill Lynch, Pierce, Fenner & Smith Inc.), Avery Rockefeller, Jr. (Dominick & Dominick), Counsel: William W. Foshay (Sullivan & Cromwell).

By Mr. Ames at Panel Presentation

Below we reproduce the remarks made by Mr. Ames in connection with panel presentation of the Memorandum; text of his foreword in the Memorandum which is dated Dec. 2, 1963; and the "Summary of Conclusions."

"We are really breaking with traditions by going into a working session here at our Hollywood Beach Convention, with our wives, the press, and the SEC all present. But we are dealing with matters heavily weighted with the public interest and so it is appropriate that we do our thinking in public.

"First, I would like to trace the history of the idea that led to the Memorandum on Selling Practices which each of you now has. The Liaison Committee met with the SEC in October and we discussed the problem of processing all the recommendations in the Special Report. We agreed with Commissioner Cary that the most effective procedure, in fact the only practical procedure, was to take it in sections—to put the spotlight of reason on one area of problems after another. He designated Selling Practices as of first importance. He asked the industry to study this area of problems and to develop preliminary suggestions as to how they might be solved. He indicated that the SEC would at the same time be developing their preliminary solutions. He urged each side to maintain flexibility so that the final product of rules, regulations and procedures would be a melding of the best judgment of business and government. We believe there is wisdom in this procedure as it places us in a position to work constructively with government in the development of the policies and rules under which we are to do business.

"Certain of the problem areas relate primarily to the stock exchanges, others to the NASD or the SEC, but Selling Practices are the concern of the securities firms of all kinds throughout the country. So we appointed a small ad hoc committee to study and to analyze various recommendations in

the Special Study Report that deal with "selling practices" and to make a proposal of policy to be considered by the industry. This committee is made up of men whose firms do business in all parts of the country, and are active in most of the areas of the business—listed markets, over-the-counter markets, underwriting and mutual funds. They are all known to you as men of wide experience in our business and so need no introduction.

"Our procedure in committee was a simple one. After isolating the specific recommendations in the Special Report that concerned selling practices, we asked each member to arrive at an independent solution. We then met with counsel to draw up a common proposal. Naturally there were differences of opinion and varying degrees of emphasis but I can report to you that there was remarkable agreement between the members of the committee on matters of major policy.

"It is not the function of this committee or the purpose of this memorandum to attempt to speak or set policy for the Investment Bankers Association of America or for the industry in general, but wise policy can only be developed after men qualified by training and experience in each area of the business and each part of the country have focused on the problems involved. The securities industry performs a vital function in this country and it is a matter of important public interest that the economic operating unit of this business—the securities firm itself—actively participate in the advance planning for the policies and rules which are to govern its operations.

"So we are considering this memorandum here today and are mailing two thousand copies to the members of the IBA, one for every main and branch office throughout the country. We are asking everyone to study it and make critical comment where indicated.



Amyas Ames



Francis Kernan



Albert Pratt



Donald Regan



Avery Rockefeller, Jr.



Wm. Ward Foshay

"It is hoped that this memorandum will (1) focus the attention of the industry on the problems involved in future rules or guides on "selling practices" to be adopted by the SEC and the self-regulatory agencies; (2) develop criticisms and suggestions from securities firms—before the ideas of either business or government become too rigid; and (3) help us to achieve that goal which we in the industry so heartily endorse, of spreading widely the high standards existing within our industry.

"I would like to make two points of emphasis before asking Pat Rockefeller and Albee Pratt to give you a summary of our conclusions.

"This memorandum took a month to prepare. A month from now we will know whether the industry agrees or disagrees on each point and a month later any differences in the position of the SEC and that of the NASD, the Stock Exchanges, and other industry organizations can be worked out into a program. This is the course of both wisdom and democracy. I am deeply worried that pressures being brought to bear will cause the SEC or the self-regulatory bodies to work too fast—to short cut this healthy consultation and that we will hurt a healthy and important industry of this country by unnecessary haste. In short, I hope you will focus on the procedure that is involved in submitting a memorandum like this to all security firms before negotiations establish rigid positions and insist on this procedure as a right.

"My second and last point of emphasis is that if we proceed to implement the ideas for change and reform in the Special Report with which we agree, listed on page 1, we can realize the objective of both government and business to spread good standards more widely throughout the industry. There is a clear course, where agreement is possible, for us to work together to achieve a common good.

"Conversely, the areas where we disapprove with recommendations in the Special Report, listed on page 2, relate to interference with the prerogatives of management and again and again are unnecessary to the accomplishment of the desired end or would kill the patient by use of too much medicine or the wrong medicine. "Let me explain why I think

this danger is so real. Look at the nature of the Special Report. It was drawn up by an able group of men analyzing all details of the industry over a two-year period. Part of that period was extreme in nature, involving abnormal markets. The Special Report is crammed full of detailed criticism. It has been criticized for being too long, for containing criticism beyond that believed in by the Commission itself and because remedies have not been proposed for all the criticisms.

"But at the same time I would like to defend the length and the detailed nature of the report as being necessary to the thorough investigation that was made, I believe it would be a tragic mistake in the public interest to react to every detailed criticism by compounding new rules. Such a course could hurt the economy, it could reduce a vital industry that supplies capital and creates jobs for Americans—into a dull, plodding, bureaucratic and non-economic operation.

"To return to my point of emphasis, this memorandum clearly outlines a course that will permit both government and industry to achieve the common good of higher standards throughout the industry. Both industry and government must guard against the false idea that detailed rules and regulations can solve human problems in this industry or any other. The course we do agree on is that much can be done to raise the quality of the people and the firms in the industry and that success in this effort will make the detailed rules that are so stifling to good management unnecessary."

"FORWARD"

"The Report of the Special Study of Securities Markets of the Securities and Exchange Commission raises important questions concerning, among others, "selling practices" of the securities industry. The purpose of the Special Study Report has been described as an attempt to raise the entire securities industry to the best standards which the industry itself proclaims. The Commission has asked the industry to develop preliminary suggestions as to the form and the extent of a new rules or guides which will achieve this end and thus we are in a position to work constructively with government in the development

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of the policies and rules under which we are to do business.

"A small ad hoc committee has been appointed to study and to analyze various recommendations in the Special Study Report that deal with "selling practices" and to make a proposal of policy to be considered by the industry. This committee is made up of men whose firms do business in all parts of the country, and are active in most of the areas of the business—listed markets, over-the-counter markets, underwriting and mutual funds.

"It is not the function of this committee or the purpose of this memorandum to attempt to speak or set policy for the Investment Bankers Association of America or for the industry in general, but wise policy can only be developed after men qualified by training and experience in each area of the business and each part of the country have focused on the problems involved. The securities industry performs a vital function in this country and it is a matter of important public interest that the economic operating unit of this business—the securities firm itself—actively participate in the advance planning for the policies and rules which are to govern its operations.

"Therefore, it is hoped that this memorandum will (i) focus the attention of the industry on the problems involved in future rules or guides on "selling practices" to be adopted by the SEC and the self-regulatory agencies; (ii) develop criticisms and suggestions from securities firms—before the ideas of either business or government become too rigid; and (iii) help us to achieve that goal which we in the industry so heartily endorse, of spreading widely the high standards existing within our industry.—Amyas Ames, President, Investment Bankers Association of America."

SUMMARY OF CONCLUSIONS

The following is the text of the "Summary of Conclusions" contained in the 38-page memorandum:

In this memorandum we analyze those recommendations in the Special Study Report which we understand the Commission to regard as of high priority in the area of selling practices. We have also included recommendations of the Special Study regarding minimum capital requirements and qualifications to enter the industry. Although not within the immediate area of selling practices, we believe that proper standards of financial capacity and responsibility, together with adequate supervision of competent personnel, will be by far the most effective methods of eliminating improper selling activities.

While this memorandum is only a preliminary effort, it leads us to propose means by which our industry can work with the regulatory and self-regulatory authorities to achieve a common good.

Recommendations We Support

The Special Study Report was the result of a thorough study of the industry over a two-year period. Many of its recommendations evidence understanding and appreciation of our business and its problems, and we approve them. For example:

(1) We concur that the individual should receive more attention as an appropriate unit for regulatory purposes. The standards of an industry can only be

effectively raised by improving the quality and the performance of the people who work in it.

(2) We agree that standards for entry and continuance in the business should be developed and administered by the self-regulatory authorities, and that they should encompass competence of personnel (in the sense of knowledge tested through examinations and appropriate experience) as well as financial capacity and responsibility of firms.

(3) We also agree that training and supervision of sales personnel should be emphasized anew, and that the supervisory methods employed should be improved wherever possible.

(4) We believe that more effective self-regulation can be devised for certain selling practices, including market letters, advertisements and other sales literature. We also think that more specific standards should be considered by the NASD with respect to "mark-ups" in the over-the-counter markets, and that the dissemination of retail quotations in those markets can be improved.

(5) We support all appropriate steps to stamp out "boiler shop" activities.

Recommendations with respect to subjects such as these can and should be carried out on an industry-wide basis.

Recommendations We Disapprove

The more other recommendations are analyzed, the clearer it becomes that in the course of the Special Study either the problems were not clearly understood or the practical aspects were not given due weight in the formulation of the solutions recommended. To illustrate:

(1) We oppose regulation or self-regulation which would encroach upon prerogatives of responsible management, restrict branch office managers' legitimate sales activities, interfere with management's right to determine what and how employees are paid, or dictate data processing techniques.

(2) While we agree that securities salesmen should be highly qualified to perform their function, we deny that they are or should be responsible for the "suitability" of the purchases their customers make. Adoption of specific "suitability" regulations could so restrict the industry as to preclude performance of its essential function in the American economy.

(3) We deny that abuses can be eliminated by pyramiding regulation and self-regulation, such as, specifically, requirements for marking all orders "solicited" or "unsolicited," for having all customers' cards show investment goals, or for inserting market data in over-the-counter confirmations. Also, we do not believe that improper practices can be eliminated by detailed regulations premised upon the use of mechanical techniques such as initials on documents, names in files, long bibliographies, specific rather than general hedge clauses, and tidy filling of underlying information.

(4) We consider unsound any procedures designed to introduce artificial "deflation" in the after-markets for so-called "hot" first issues, and we oppose the introduction of untried, theoretical procedures designed to revolutionize the over-the-counter markets such as making "wholesalers" into "primary market makers" for the retail markets.

(5) We condemn investigation

and enforcement devices which are novel, theoretical and foreign to our system.

Recommendations such as these encroach unnecessarily on the rights of management and should not be pursued. Their implementation can only result in more harm than good. The objectives of both government and industry can be best realized without resort thereto.

A Proposal for Industry Policy

First: Support the SEC sponsored legislation now before Congress. The proposed legislation will provide the basis for the additional regulation and self-regulation which the industry should endorse, thereby enabling the regulatory and self-regulatory agencies to establish and administer effective industry standards. It will also enlarge significantly the volume of available information about issuers of corporate securities.

Second: Urge statesmanship in the SEC's implementation of its recommendations. The SEC should proceed without haste, with due attention to and regard for practical effects and consequences and with readiness from the outset to consult fully and freely with responsible representatives of the industry.

Third: Urge similar precepts for the self-regulatory agencies. The NASD and the stock exchanges also should consult in advance with their membership generally before adopting rules or other guidelines relating to practice or conduct in the industry.

Fourth: Participate constructively with the SEC and the self-regulatory agencies. At all stages of the administrative processes, however preliminary, industry representatives should offer their practical advice and assistance,

and provide constructive comment and suggestions where the principles are sound, concessions where appropriate, and firm opposition where necessary. To this end, individual firms should contribute the time of their best people.

Fifth: Encourage the SEC and the self-regulatory agencies to reduce and eliminate duplication. The start which has been made in the unification of tests for competence and of the work of special investigations should be continued and extended. Elimination of duplication by the SEC, the NASD, the stock exchanges and the state commissioners is essential, especially if there is to be any additional regulation, and uniformity must be the keynote. Multiplicity in administration or investigation is costly, time consuming and unreasonable.

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Report of Subcommittee To Study State and Municipal Bond Advance Refunding

Alan K. Browne, Vice-President of the Bank of America National Trust & Savings Association, San Francisco, was Chairman of the Subcommittee to Study State and Municipal Bond Advance Refunding. The Committee reported as follows:

The subcommittee was appointed during the Central States meeting of the Investment Bankers Association of America at Chicago, Illinois, March 13-14, 1963. Chairman of the Municipal Securities Committee, George B. Wendt, stated that the appointment of the subcommittee was a step towards informing the membership of the Association on a growing phenomena in the field of Municipal Finance. In accepting membership on the subcommittee, members expressed themselves as being hopeful that they could develop factual information while exploring the pros and cons of advance refunding so that Association members, and in turn their customers, would be reasonably well informed on the subject. It was recognized at the outset that there were ardent supporters of the advance refunding technique as well as those who were equally opposed to this revised method of Municipal Finance under certain conditions. The subcommittee does not believe it is appropriate for the Municipal Securities Committee, Municipal Division Council or the Board



Alan K. Browne

of Governors of the Association to take any position on the subject of advance refunding by States and their political subdivisions at this time. It is hoped, however, that the preliminary findings of the subcommittee will serve as a guide to sound use of the advance refunding technique.

I Definitions

There is nothing new about advance refunding, but for the purpose of clarification it is generally considered to be the refunding of an outstanding bond issue prior to its maturity, or in the case of bonds callable prior to maturity, prior to such optional date of redemption. This entails the issuance and sale of a refunding bond issue, the proceeds from which are deposited with a fiduciary, sufficient in amount to pay interest when due and to redeem the bonds at maturity or at their prior redemption date at their call price. The funds deposited may be invested in Treasury bonds, the interest on which is used to pay interest on the bonds being refunded (or the interest on the advance refunding bonds); either through redemption or sale, the proceeds of the Treasury bonds are then used to pay the principal of and any call premium on the redeemed bonds. On occasion the fiduciary may secure the deposit of funds with Treasury bonds, rather than investing the deposit in said bonds. Also, rather than

a cash deposit, a time certificate of deposit may be issued by a bank who, in turn, may invest the deposit in Treasury bonds.

The preponderance of advance refundings currently being considered or which have been accomplished are based on a saving of interest due to current lower rates. One point in particular is noteworthy and that is that advance refunding is being accomplished today for a much longer period prior to the redemption date of specified issues than has been the case historically; instead of a few months, the period is being extended to 5 years, in some cases 10 years or more, in advance of the maturity or redemption date of the bonds being refunded.

Most advance refunding has been of revenue bonds. There are many fewer and less complex problems, particularly of a legal nature, involved in the advance refunding of revenue bonds than in the case of tax secured (General Obligation) bonds.

While refunding an outstanding indebtedness to obtain a lower interest cost is a legitimate public purpose, critics of advance refundings feel that it oftentimes constitutes a borrowing of money for purposes of investment to gain a profit (rather than for the usual purpose of just effecting a reduction in future interest charges) and in these cases it therefore may be a step beyond proper governmental authority. This seems to be a subjective question of political philosophy which we, in our discussions, have not attempted to judge. Rather, we have been discussing the matter from the point of view of objective arguments pro and con and from the point of view of possible legal problems.

II

Arguments Offered in Opposition To Advance Refunding

(a) *Tax exemption* — While there appears to be no doubt that

the interest on advance refunding bonds is exempt from federal income taxes under the existing federal statutes, a widespread use of this device could conceivably lead Congress to create an exception with respect to advance refunding bonds which in turn might be another "foot in the door" leading to more general invasions of the exemption. The argument here is similar to the one which has been made against municipal industrial aid financing.

(b) *Guessing on Future Markets* — Where advance refunding bonds are not made redeemable prior to maturity at about the time the bonds they refund are redeemable or mature, some aspects of gambling on the future market are present. In this it is similar to the case where a public agency sells its bonds substantially in advance of the time when it plans to use the proceeds thereof because it feels that the market is presently "favorable" and that interest rates may well be higher when the money is needed. If the prediction proves to be wrong (as it has in some cases), the public agency will of course pay a higher rate than it would have paid if the sale had been made later. The feeling that public agencies should not gamble on a future market has led many people to say that as a general rule a public agency should sell bonds when the money is needed and not before. Of course, when an advance refunding is properly set up under favorable rate differentials, a saving is guaranteed and if the advance refunding bonds are made redeemable at or about the time the bonds they refund are redeemable or mature, no gambling against a future market is present (except only to the extent of the extra expense involved, which is usually not material) because a subsequent refunding of both refunded and refunding bonds can still be accomplished at the time the original bonds become callable, and such further savings as are than available taken advantage of.

(c) *Market Dilution* — Advance refunding, if widely used, may defeat itself as far as future use is concerned. To the extent used, the market supply of tax-exempts is doubled during the period both original and refunding bond issues are outstanding (which is until the call of the original bonds). Hence, widespread use of advance refunding could itself drive interest rates up making further advance refunding, or even normal refunding, impractical.

(d) *Ad Infinitum* — If advance refunding becomes standard practice the next step may be the advance refunding of advance refunding bonds.

III

Potential Legal Problems

While all advance refunding bonds are in this day and age approved as to legality by a recognized firm of bond attorneys, thereby resolving any reasonable doubt as to their legality and enforceability, critics of the practice are concerned as to legal complications that could occur under adverse circumstances, particularly with respect to tax bonds.

(a) *Debt Limitations* — If there is a percentage debt limitation ap-

plicable to the public agency, a legal problem may arise if the original issue plus the advance refunding bonds exceed the limit. Most percentage debt limits do not contain any express exception for the refunding situation. However, in the case of a normal refunding, most courts have implied an exception. Thus, these courts hold that the percentage limitation is not violated even though there may be a brief period of time during which both issues are technically outstanding and the total of the two (but not either one taken alone) would exceed the limit. However, there appear to be relatively few cases where a court has applied such implied exception to a case where both issues would be outstanding for a period of some years.

(b) *Bondholders' Rights* — A legal problem will also be present in any case where it is necessary or desired to take away from the holders of the original bonds some of the rights to which they were originally entitled (no such instance has yet been brought to our attention). If the original bonds are revenue bonds, it could be necessary, in order to issue the advance refunding bonds, to violate a covenant against creation of additional debt. In other cases, it may be necessary to take away from the holders of the original bonds liens on property, rights to taxes or assessments, liens on revenues or other rights held under the original bond issue. (In any of these instances, however, it may be assumed no reputable bond attorney would approve the advance refunding bonds.) Nevertheless, if this be tried, the legal question is whether or not the fund consisting of the proceeds of the refunding bonds invested in U. S. Government securities and held to call the original bonds, as well as to pay interest thereon in the interim, is a sufficient substitute for the original rights and would avoid any claim of impairment of the contract rights attached to the original bonds.

We are advised that the courts have usually held that if the issuing agency holds in trust sufficient moneys to pay bonds at maturity (or to redeem the same at a future call date), plus interest to maturity or to the call date, and such moneys are irrevocably dedicated to such purposes then the taking away of original rights is not an impairment of contract. A question may arise as to whether or not this rule applies where the fund is not held in cash but in U. S. Government bonds. An even more serious question of this type could arise if the intervening interest on the original issue is covered, not by assets presently in hand, but only by future interest to be earned on the investments. (Here again we find no precedent — unless complete defeasance of the issuer's contract with the holders of the issuer's original bonds is obtained — by deposit in full of principal, interest to call date or maturity, plus call premium, if any — the pledge of security to the outstanding bonds cannot be effected by the advance refunding and the advance refunding bonds must be secured by the deposit of Government Bonds [or C.D.'s] with no claim on such security

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until the outstanding bonds are actually retired.)

IV

Arguments for Advance Refunding

(a) *Interest Saving*—The arguments pro are obvious. An advance refunding properly set up at a time when rate differentials are favorable will guarantee a saving of interest cost over what would be the cost if the issue were never refunded.

(b) *Indenture Revision*—Restrictions of tight indentures can be obviated by advance refunding where defeasance of the indenture or contract rights of the outstanding bonds can be obtained by advance refundings, permitting the obligor to streamline debt in keeping with changing conditions.

V

Investment Banking Problems

(a) *Collateral Against Refunded Bonds*—Where the proceeds of the advance refunding bonds are pledged to secure the outstanding bonds, proper fiduciary arrangements must be made to insure that all interest payments and principal when due, including premium if any, on said refunded bonds are promptly paid and that the custody of funds, securities and C.D.'s are deposited with a proper banking institution (bond attorney's all appear to be most mindful of the necessity for this).

(b) *Market Dilution*—The legal rights and status of the outstanding bonds should not be adversely affected. The addition of the advance refunding bonds in the market will not impair the value of the original bonds held by investors (no problem of this type has occurred to date—the rating services have almost always upgraded bonds which are advance refunded).

(c) *Secondary Market*—Underwriters of advance refunding bonds should to the best of their ability, maintain active markets for bonds being refunded in order to insure holders of a fair market value. Bonds offered in the secondary market should be identified as to their refunding status.

(d) *Call Notices*—Wide publicity as to bonds being advance refunded is desirable at the time of the delivery of advance refunding bonds, as well as the customary call notice at the proper legal time in advance of the actual redemption date, so that holders of the refunded bonds may know about the refunding and take advantage of any premium resulting from the improvement in security and rating of their bonds. If a negotiated sale of advance refunding bonds occurs, the issuer should advise the original purchaser of the outstanding issue, so that he can inform his clients of the changed status of their bonds.

(e) *Circulars*—Financial statements should clearly indicate the entire debt of an obligor issuing advance refunding bonds so that investors are aware of the double debt, less funds and securities held in trust to redeem the advance refunded bonds. Debt statements should clearly indicate the bonds being called, and the particulars of the redemption (call date and call price, where being paid, etc.) and indicated serial maturities of the called issue being retired prior to the date of redemption. If the

original issue was secured by revenues which are being pledged to the advance refunding bonds, the substituted security (the trust fund) pledged to the refunded bonds should be detailed. Reference should be made to any legal opinions referring to the treatment of the original debt and the refunding bonds, including the treatment of interest.

(f) *Escrow Agreement*—should carefully explain that the government securities held in escrow are held as sinking fund assets for

the account of the issuer for the payment of the refundable bonds.

(g) *Customers*—There is an understandable preference on the part of investors for noncallable bonds as compared with optional bonds. Where the investor takes a long-term commitment in bonds subject to optional retirement in advance of maturity, he is aware that on and after the optional date the bonds may be refunded either from surplus monies or from the proceeds of a new refunding issue under conditions of easier money rates. The practice of advance re-

funding which may give the issuer the privilege of exercising the optional privilege many years in advance of the actual date, would very well cause a rigid resistance on the part of investors to any optional bonds.

Respectfully submitted,
SUBCOMMITTEE TO STUDY STATE AND MUNICIPAL ADVANCE REFUNDING
Alan K. Browne, Chairman
 Bank of America National Trust & Savings Association
 San Francisco, Calif.

David H. Callaway, Jr.
 First of Michigan Corporation
 New York, N. Y.
Frank C. Carr
 John Nuveen & Co.
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Report of IBA Municipal Securities Committee

George B. Wendt, Vice-President of the First National Bank of Chicago, as Chairman of the Municipal Securities Committee, presented the following Report to the Convention:

The volume of new issues of municipal bonds sold during the first 11 months of 1963 aggregated over \$9.6 billion in over 5,990 issues, exceeding the amount previously sold in any full year and indicating that sales for the full year will probably aggregate close to \$10 billion.

Municipal bond prices during this period have continued at relatively high levels, and correspondingly relatively low interest rates for municipal issuers, with the Bond Buyer 20-Bond Index ranging from 3.01% to 3.31% with prices at the latter rate early in November.

Investment banking firms engaged in the municipal bond business should expect a high level of profits during a year of record volume of new issues of municipal bonds, but unfortunately this has not been the case for many firms. Several large issues did not sell at the original offering prices and the underwriters

suffered substantial losses. Experience should be an effective but unpleasant lesson in not bidding too high on new issues.

This year has been one of unusual activity for the IBA Municipal Securities Committee in many areas of importance which are summarized below, including business practices, education and public information and legislation.

I

IBA Municipal Conference

The Second IBA Municipal Conference was held in Chicago June 19-21 and was again a great success, attended by over 385 registrants. Special thanks for their work in planning and carrying out the Conference are due to Russell Ergood (Chairman of the Conference Subcommittee), Arthur Kirtley and Donald Patterson.

II

Special Committee on Municipal Business Practices

An IBA Special Committee on Municipal Business Practices has prepared an extensive report with many suggestions on municipal syndicate operations. This report will be considered by this Committee at its meeting at the Annual Convention.

III

Municipal Industrial Financing

In November, 1951, the Board of Governors of the IBA adopted a resolution recommending to members of the IBA and to dealers generally:

"(1) That each take it upon himself to become thoroughly informed on this whole development and exercise extreme caution in underwriting or marketing such bonds; and

"(2) That each use his best efforts to inform voters, state legislators, prospective issuing units of local government, and other interested parties of the past experience and inherent dangers of public financing of this character."

In May, 1959, the Board of Governors reaffirmed and clarified the original resolution, stating that: "It is the intent to include within the scope of the resolution the issuance of bonds by municipalities to finance the construction or acquisition of land, buildings, facilities, equipment, or any combination thereof, to be leased to private interests for manufacturing, assembling, fabricating or processing articles, unless such manufacturing, assembling, fabricating or processing is merely an appurtenance to, or incidental to the development or operation of, a public facility open to use by the public."

In May, 1961, the Board of Governors approved a report of a Special Committee to Study Industrial Aid Financing by States and Political Subdivisions. This report again affirmed the resolution adopted in 1951 (as reaffirmed and clarified in 1959) as sound in every respect, observing that the language regarding the exercise of caution in underwriting or marketing such bonds does not imply approval of such financing, and concluding that it is poor policy to use public credit for private industrial facilities.

This year this Committee has recommended, with the approval of the Board of Governors, that the best solution to the problem would be the adoption of an amendment to the Internal Revenue Code to deny deductions for rental payments for the use of, or interest payments on mortgages on, industrial plants financed by tax-exempt obligations. A bill for this purpose was introduced in the House on June 4 as H.R. 6772, but no action has been taken on the bill.

The IBA this year published and distributed to its members and to thousands of corporations in the United States a pamphlet entitled "Do You and Your Company Support Private Ownership or Government Ownership of American Industrial Plants?"

The most comprehensive study of municipal industrial financing to date, "Industrial Development Bond Financing," was published this year by the Advisory Commission on Intergovernmental Relations. Of particular interest was the basic conclusion of the report as follows:

"We conclude that the industrial development bond tends to impair tax equities, competitive business relationships and conventional financing institutions out of proportion to its contribution to economic development and employment. It is therefore a device which the Commission does not endorse or recommend. However, the Commission recognizes the widespread and growing nature of this practice and the un-

likelihood of its early cessation. Therefore, we conclude that if the practice is to continue, a number of safeguards are absolutely essential."

A \$50 million municipal industrial revenue bond issue by Lewisport, Ky. (population 750), in October of this year was the largest municipal industrial bond issue to date. Proceeds of this issue were used to pay for land acquisition, construction of buildings and acquisition of machinery, equipment and facilities for an aluminum rolling mill to be leased by Harvey Aluminum Company.

Finally, it is important to note that New York State Comptroller Arthur Levitt has organized a committee of the principal state finance officers from about 20 states to study this problem and a meeting of this committee is scheduled in Washington in December.

Further details and developments on this problem are included in the report of the Subcommittee on Municipal Industrial Financing under the Chairmanship of Marsom Pratt.

IV

Tax Immunity

The proposed Revenue Act of 1963 (H. R. 8363), which has passed the House and is currently the subject of hearings by the Senate Finance Committee, would make no change in the present tax immunity of the interest on state and municipal bonds. However, during the current hearings by the Senate Finance Committee Senator Long (of Louisiana) has proposed to simplify and streamline the method of computing income taxes by permitting a taxpayer to elect an alternate system whereby he would pay taxes on other wise exempt income (including interest from state and municipal bonds) and waive all deductions and pay a 40% rate on his first \$50,000 of income and a 50% rate on all incomes above \$50,000. A married couple filing a joint return would be entitled to the 40% rate on \$100,000 of income and the 50% rate on all

income above that figure. No action has been taken on this proposal but it is under consideration by the Senate Finance Committee.

Earlier this year, the United States District Court for the Northern District of Oklahoma on May 1, 1963, in the Atlas Life Insurance Company Case held that the tax-exempt interest received by the life insurance company was not in fact taxed by the prorationing (between the policyholder's share and the company's share) required under the Life Insurance Company Income Tax Act of 1959. The decision is being appealed to the United States Court of Appeals.

V

Public Education

The work of the Committee for Public Education on Municipal Securities is summarized in a separate report by its Chairman, Fred Stone, Jr. However, we want briefly to note and commend some of the outstanding work of the Committee in the preparation of the sales promotional booklet "Why Professional People Invest in Municipal Bonds," the advertising kit, "Nothing Ventured, Nothing Gained" and the supplementary kit, "Ten New Salesmen," the newspaper series on municipal bonds entitled "Your Community and You," new promotional brochures and a bibliography of material regarding municipal bonds which will be announced in the report of the Committee at the Convention.

VI

Federal Legislation

(a) Bank Underwriting of Municipal Revenue Bonds.

Comptroller of the Currency James Saxon published in the *Federal Register* of June 21 a notice of a proposed rule which would authorize national banks to underwrite and deal in certain public securities, including "general obligations" which were defined to include "an obligation payable from a special fund when the full faith and credit of a state or any political subdivision thereof.

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is obligated for payments into the fund of amounts which will be sufficient to provide for all required payments in connection with the obligation."

IBA President Amyas Ames on July 26 wrote to Mr. Saxon objecting to the adoption of the proposed rule and particularly to the proposed definition of the "general obligation" because the definition would include revenue bonds which are not secured by the full faith, credit and taxing power of the issuer. Mr. William McChesney Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System also wrote to Mr. Saxon expressing substantially similar objections. However, Mr. Saxon announced adoption of the rule with some minor modifications in the *Federal Register* of Sept. 8.

The House Committee on Banking and Currency began hearings on Sept. 23 on several bills relating to the lending power of banks, including H. R. 5845 which would authorize banks to underwrite and deal in municipal revenue bonds which are eligible for bank investment. IBA President Amyas Ames testified against the bill on Oct. 7. No action has been taken on the bill by the Committee.

(b) Federal Aid to Education

In past years each proposed program for a particular type of Federal aid to education generally was introduced as a separate bill; but this year all of the President's programs for various types of Federal aid to education were lumped into a single bill H. R. 3000 in the House and S. 580 in the Senate. Attached as Appendix A is a summary of the proposals in those bills. At hearings on these proposals by the House Committee on Education and Labor and the Senate Committee on Labor and Public Welfare the IBA submitted a statement opposing two parts of the proposed Act which would authorize:

(i) \$1.5 billion in Federal grants over four fiscal years for teachers' salaries or 50% of the cost of construction of elementary and secondary school facilities.

(ii) \$1 billion in low interest rate Federal loans over three fiscal years for academic facilities for colleges and universities, requiring that at least one-quarter of the cost of the construction be financed from non-Federal sources.

A summary of the statement submitted to the House Committee on Education and Labor is attached as Appendix B.

The proposed \$1.5 billion of Federal grants for aid to elementary and secondary schools has not been reported out of committee in either House.

The proposed "Higher Education Facilities Act of 1963" (H. R. 6143) passed the House and Senate with different provisions and the Conference Report (which on Nov. 26 had been adopted by the House but not by the Senate) would authorize:

(i) An aggregate of \$690 million in grants over the next three fiscal years for construction and development of undergraduate academic facilities (structures designed for instruction or research in the natural or physical sciences, modern foreign languages or engineering or for use as a library) with 22% allotted for academic facilities for public community colleges and public technical institutions, with a re-

quirement that the Federal grant shall in no event exceed one-third of the development cost of a project.

(ii) An aggregate of \$145 million in grants over the next three fiscal years for construction of graduate academic facilities, with a requirement that the Federal grant shall not exceed one-third of the development cost of a project.

(iii) An aggregate of \$360 million in loans for construction of college academic facilities, currently at 3% if the funds cannot be obtained from other sources at that rate, with a requirement that one-quarter of the cost must be obtained from non-Federal sources.

(c) Proposed Urban Mass Transit Act

President Kennedy recommended adoption of an Act to authorize Federal grants aggregating \$500 million over the next three fiscal years to assist states and local public bodies and agencies thereof in financing facilities and equipment for use, by operation or lease or otherwise, in mass transportation service in urban areas and in coordinating such service with highway and other transportation in such areas. On April 4 the Senate passed S. 6 which would authorize (a) an aggregate of \$375 million in Federal grants over the next three fiscal years for up to two-thirds of the net project cost

which cannot be reasonably financed from revenues and (b) Federal guarantee of an aggregate of \$375 million of transit revenue bonds issued by states or local public bodies, with a proviso that to be eligible for such a guarantee any revenue bond shall expressly state on its face that the issuer has waived the Federal tax exemption for the interest on such bonds. The House Banking and Currency Committee on April 9 reported favorably a bill (H. R. 3881) similar to the proposal recommended by the President, but the bill has not yet cleared the House Rules Committee for consideration in the House.

(d) Additional Funds for Area Redevelopment

The House on June 12 (by a vote of 209 to 204) defeated a bill to provide additional funds for Federal grants and loans under the Area Redevelopment Administration. The Senate subsequently passed S. 1163 to provide \$456 million of additional funds and the House Committee on Banking and Currency on July 31 ordered the bill favorably reported with amendments reducing the authorized new funds to \$355 million. This bill has not yet cleared the House Rules Com-

Continued on page 67

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Report of IBA Federal Taxation Committee

John R. Haire, Director, Hugh W. Long & Co., Elizabeth, N. J., and Executive Vice-President and Secretary of the Anchor Corp., holding company, was Chairman of the Federal Taxation Committee. Its Report read as shown herewith.

1963 will be a landmark year in the history of Federal Taxation, marking, as it does, the beginning of an effort to stimulate economic growth through a program of major tax reduction for both individuals and corporations. Throughout the year the Federal Taxation Committee has endeavored to make a contribution to the developing tax legislation by expressing our views on the tax structure to Congress and the Administration.

The year began with the submission to Congress of President Kennedy's recommendations for major changes in the Internal Revenue Code to provide both for major rate reduction and for structural tax revision and reform. These extensive proposals were carefully analyzed by the Federal Taxation Committee and in March the Committee submitted a statement to the Ways and Means Committee of the House of Representatives expressing our views on the numerous proposals of the President.

Statement to House Ways and Means Committee

In our statement we enthusiastically endorsed the following

opening statements in the President's tax Message to the Congress and the goals of his program:

"The most urgent task facing our nation at home today is to end the tragic waste of unemployment and unused resources—to step up the growth and vigor of our national economy—to increase job and investment opportunities—to improve our productivity—and thereby to strengthen our nation's ability to meet its worldwide commitments for the defense and growth of freedom. The revision of our Federal tax system on an equitable basis is crucial to the achievement of these goals * * * it has become increasingly clear—particularly in the last five years—that the largest single barrier to full employment of our manpower and resources and to a higher rate of economic growth is the unrealistically heavy drag of Federal income taxes on private purchasing power, initiative, and incentive. Our economy is checkreined today by a war-born tax system at a time when it is far more in need of the spur than the bit."

These statements and goals reflect the substance of the position which representatives of our Association have taken for a good many years. We are pleased to see that there now seems to be general recognition of the need for thoroughgoing tax rate reduction, not only to stimulate consumption but also to encourage investment, to reward initiative, the creative person, the risktaker and the doer.

Indeed, under current circumstances, it is our view that the tax approach most likely to achieve the full employment of our manpower and resources, a rate of economic growth which we all desire, and to provide the jobs necessary for the young people coming into the labor force every year, is to effect substantial rate reduction for individuals in the tax brackets most likely directly to stimulate initiative, incentive, savings and investment, as distinguished from the area of consumption. Corporate rate reduction is equally important for both near-term and long-term economic growth of the sort we most need.

With respect to the specific rate reduction proposals made by the President, we expressed our view that almost any reduction in our presently repressive tax rate structure would be better than no reduction at all. At the same time, in light of our experience, working daily as we do with investors and corporate management, we advocated that a rate reduction formula which would over a given period bring the top individual and corporate rates below 50%, and which has greater thrust in the tax brackets where initiative, incentive, savings and investment can most directly be stimulated, would better achieve the President's overall objective than the tax rate structure which he has proposed. We have long felt, and so stated, that a person or a corporation must be permitted to keep at least 50% of his or its income if we are really concerned about equity, incentive, initiative, savings and new job producing investment.

Proposals for Tax Revision and Reform

While commenting on many of the President's recommendations for structural revision, your Committee's statement gave greatest emphasis to those proposals for change which directly affected

investors and the securities industry.

The President's proposals for the revision of capital gains taxation and his proposal to repeal the existing \$50 dividend exclusion and 4% dividend tax credit involve two areas of our tax law with which our industry has to deal every day, and indeed almost every minute of every day. We thus have a special concern about these proposals and we believe our industry is perhaps especially qualified to comment on their implications, not only for the securities business but also for investors, corporations, our economy generally and the goals to which the President's tax proposals are addressed.

Revision of Capital Gains Taxation

In the area of capital gains taxation, we were able to endorse and to align ourselves with the following observations in the introductory paragraph to this part of the President's Tax Message to the Congress:

"The present tax treatment of capital gains and losses is both inequitable and a barrier to economic growth. * * * The tax on capital gains directly affects investment decisions, the mobility and flow of risk capital from static to more dynamic situations, the ease or difficulty experienced by new ventures in obtaining capital, and thereby the strength and potential for growth of the economy. The provisions for taxation of capital gains are in need of essential changes designed to facilitate the attainment of our economic objectives."

These observations and goals reflect the substance of the position which representatives of our Association have taken for many, many years.

Although endorsing the objectives of his program as stated by the President, we were able to agree with only two of the specific proposals recommended. These were the recommendations to reduce the rate of tax imposed on capital gains by lowering the amount of long-term gain which is taxed and the proposal to permit taxpayers to carry forward capital losses for an indefinite period to permit ultimate offset against future realized capital gains. We are gratified to report that both of these proposals, in their original or modified form, have been approved by the House of Representatives.

Opposed Longer Holding Period

Proposals for changes in capital gains taxation which were opposed by your Committee included the proposal to impose a capital gains tax on net gains accrued but unrealized on capital assets transferred at death or by gift, and the recommendation that the present six-months holding period required to establish a long-term capital gain be extended to a one-year holding period. In May 1963 the Association wrote to all IBA members stating its view that the proposal for a longer one-year holding period should be rejected because it would result in—

(1) **Reduced Liquidity for Capital.** With a longer holding period many investors would postpone selling stocks. The reduced volume of securities transactions would result in poorer markets for the securities now held by 17 million shareholders.

(2) **Less Venture Capital.** Small, new and growing businesses would find it more difficult to obtain capital with which to expand and provide new jobs for our growing population.

(3) **Reduced Federal Revenue.** Fewer sales of securities would mean fewer realized gains. Many gains which could have been realized at the end of a six-month holding period would evaporate or be reduced while investors wait out a longer one-year holding period.

Members and their clients were urged to express their views in opposition to this proposal to the Ways and Means Committee. The response of the membership to this request was most gratifying and, in the opinion of your Committee, played an important role in persuading the Ways and Means Committee to reject this proposal. The proposal to tax unrealized gains at death or gift was also rejected.

Repeal of the Dividend Credit and Exclusion

Your Committee strongly opposed the President's recommendation to repeal both the \$50 dividend exclusion and 4% dividend credit.

By way of summary we took the position that—

(1) We do have in this country double taxation of corporate dividends. Such treatment is not imposed on wages, interest, rents, or other forms of income;

(2) The dividend exclusion and

Continued on page 103



John R. Haire

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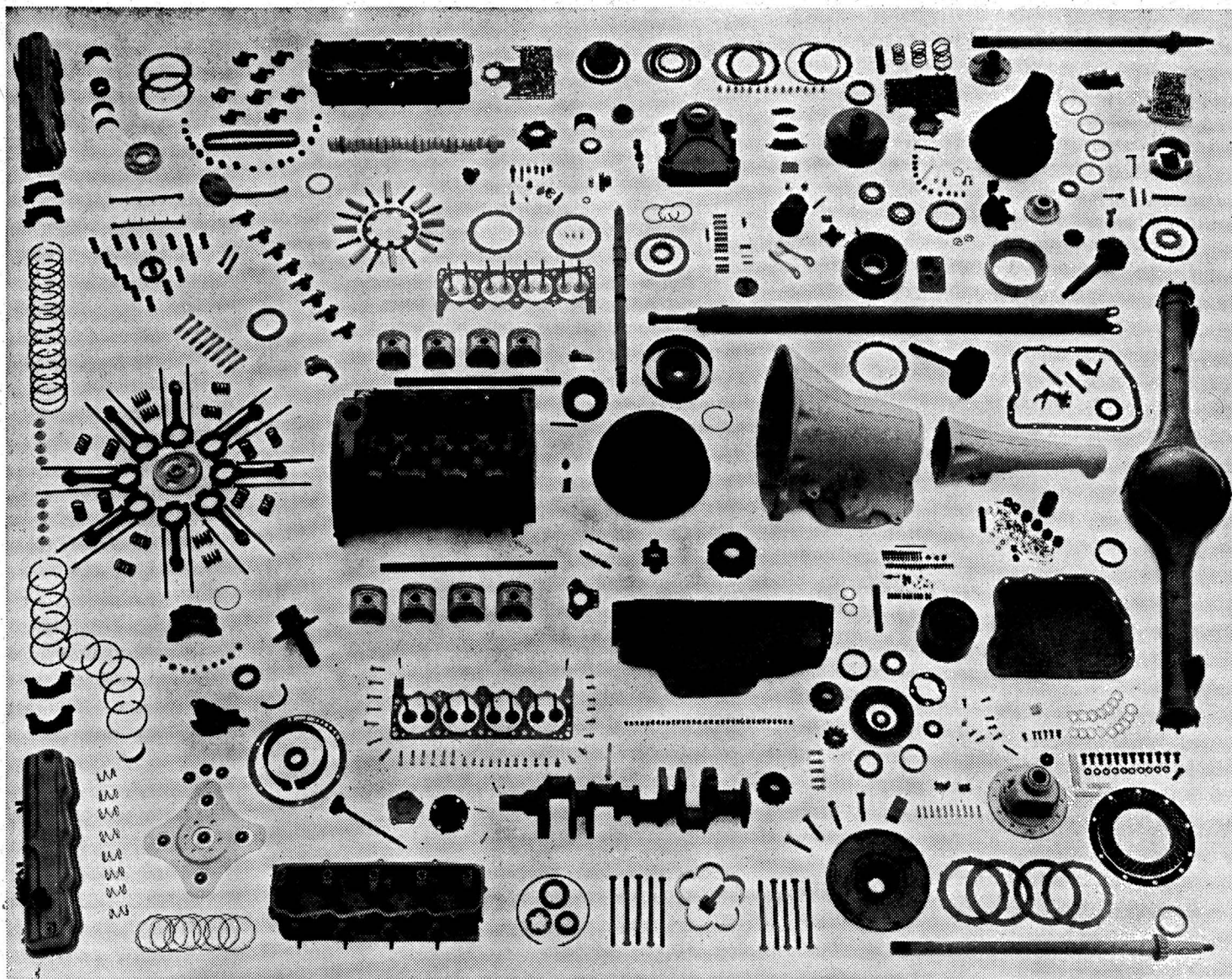
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Report of Subcommittee On Municipal Industrial Financing

Marsom B. Pratt, Manager, Municipal Department, Estabrook & Co., Boston, as Chairman of the Subcommittee on Municipal Industrial Financing, presented this Report to the Convention.

The Subcommittee on Municipal Industrial Financing has reviewed the position regarding municipal industrial bonds and recommends that no consideration be given to modification unless it be in the direction of strengthening the Association's stand in opposition to municipal industrial financing.



Marsom B. Pratt

The IBA Stand

In 1951, the IBA adopted a resolution recommending that members become thoroughly informed on municipal industrial financing, exercise extreme caution in underwriting or marketing such

bonds and use their efforts to inform interested parties of the past experience and inherent dangers of public financing of this character. A resolution was adopted in 1959 which clarified the type of bond covered by the 1951 resolution and reaffirmed the 1951 resolution.

In the report of the Poole Committee approved in May 1961 by the Board of Governors of the Association, the 1951 resolution as clarified was again affirmed as sound in every respect. The report pointed out that the language regarding the exercise of caution in underwriting or marketing such bonds does not imply approval of such financing and furthermore that it is poor policy to use public credit for private industrial facilities.

The report stated that the use of municipal credit to finance construction of industrial facilities constitutes a dangerous use of tax-exempt credit and recom-

mended an amendment to the Federal income tax law as the best solution to the problem.

IBA Sponsored Legislation

This Subcommittee drafted legislation early in 1963 which, as approved by the Municipal Securities Committee and the Board of Governors, was introduced as H.R. 6772 by Representative Robert P. Griffin, of Michigan on June 4, 1963. The legislation if passed would amend the Internal Revenue Code to deny deductions for rental payments for the use of, or interest payments on mortgages on, industrial plants financed by revenue or general obligation tax-exempt bonds. The legislation overcomes criticism leveled at earlier legislation by applying to industrial plants financed with general obligation as well as revenue bonds, by applying to industrial plants financed indirectly by municipal industrial bonds and by excluding from the definition of industrial plants, facilities which are merely appurtenances to, or incidental to the development or operation of, a public facility open to use by the public.

IBA Definition of Municipal Industrial Bonds

The IBA definition of municipal industrial bonds is as follows:

"Tax-exempt obligations, either general obligation or revenue or a combination thereof, issued by any state or possession of the United States, or by any political subdivision thereof, or by any public agency or instrumentality of any of the foregoing including nonprofit corporations, or by the District of Columbia, the proceeds of which are used to acquire, construct or improve (in whole or in part) an industrial plant. The term 'industrial plant' means any building or equipment which is used for manufacturing, assembling, fabricating or processing articles or commodities (including any building, or equipment the used for manufacturing, assembling, fabricating or processing articles or commodities) (including such manufacturing, assembling, fabricating or processing is merely an appurtenance to, or incidental to the development or operation of, a public facility open to use by the public."

The IBA Stand As a Rallying Point

The position the IBA has taken and its efforts to limit municipal industrial financing have influenced other responsible groups to take affirmative stands in opposition to municipal industrial bonds. The IBA position is well known and is looked upon as one of the Association's more important positive stands in the field of municipal finance.

State Municipal Industrial Financing Activity

Legislation which authorizes (on a state or local level) the issuance of municipal bonds to finance industrial plants to be leased to private companies has been passed in 26 states. It is extremely important to note that bonds have not been issued under existing legislation in 11 of these states and limited use (6 or fewer issues) in so far as we are able to ascertain, has been made of such legislation in 8 other states. Only 7 states (Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Nebraska and Tennessee) are actively involved. Many states have passed enabling legislation as a

defensive measure often in conflict with basic principles of their legislative leaders. Therefore, it cannot be assumed that legislators from a state with enabling legislation will vote against remedial legislation such as that proposed by the IBA.

Volume of Financing

The number of issues and dollar volume of municipal industrial bonds sold according to IBA records in each year and in each state through September 1963 (plus the \$50 million Lewisport, Kentucky issue) is as follows:

Financing in 1963

Municipal Industrial Bond issues through the end of September 1963 according to IBA records totalled \$57,620,000. In October, the \$50 million Lewisport, Kentucky issue which nearly doubled 1963 volume was marketed. The largest issue on record prior to

Uncertain	11	\$ 5,715,000	Alabama	35	\$ 83,766,000
1951	16	6,920,500	Arkansas	21	28,448,000
1952	17	8,790,000	Delaware	1	2,000,000
1953	19	9,300,000	Georgia	1	8,500,000
1954	20	4,759,000	Kansas	2	1,625,000
1955	32	11,790,000	Kentucky	56	91,457,000
1956	24	6,421,000	Louisiana	18	12,655,000
1957	22	7,612,000	Maryland	1	100,000
1958	47	12,740,000	Missouri	1	425,000
1959	50	22,946,000	Mississippi	274	88,917,500
1960	74	46,867,000	Nebraska	9	9,750,000*
1961	46	71,771,000	New Mexico	2	5,380,000
1962	70	89,342,000	North Dakota	2	2,650,000
1963 (9 mos.)	54	107,620,000	Oklahoma	3	3,000,000
			Tennessee	84	58,820,000
			Puerto Rico	2	15,000,000
	502	\$412,593,500		502	\$412,593,500

* includes issues not identified by IBA records

this time was the \$25 million Town of Cherokee, Alabama (population 1,349 in 1960) (Armour & Company) 4¾ Industrial Development Revenue Bonds sold in April of 1961.

Since the Lewisport, Kentucky issue is the largest issue of municipal industrial bonds to date and may be looked upon as precedent for comparable issues in the future, a short description of this issue is a proper part of the report of this subcommittee.

On October 7, 1963, the City of Lewisport, Kentucky (population 610 in 1960) sold at competitive sale \$50,000,000 Industrial Building Revenue bonds. One bid was received by the City from a syndicate which agreed to purchase \$8 million 4% serial bonds maturing 1967 to 1972 and \$42,000,000 5% term bonds due in 1988. The bonds were issued for the purpose of paying the costs of the

Continued on page 80

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Summary of Report of Municipal Practices Group

The Report of the Special Committee on Municipal Business Practices, a comprehensive document governing a number of recommendations relating to specific operating procedures of the syndicate system, was presented to the Convention by Chairman Alan N. Weeden, who is Vice-President of Weeden & Co., New York City. In making available the following summary of the Report, the Committee urged that the COMPLETE document be read by the membership of the Association.

Introduction

The assignment made to the Committee and its implementation is reviewed. The report is limited to the consideration of syndicates functioning as undivided accounts on issues sold by public bidding.

New Issue Syndicates

Consideration of competitive syndicates leads initially to the following general principles:

(1) Syndicates are not partnerships. In fact they have many of the aspects of a joint venture with participation subject to invitation and acceptance of the manager's "modus operandi."

(2) Present practice gives to management almost sole authority over the form of, and the procedures followed in their own accounts. For a number of reasons, this existing approach is in fact best for the industry and should continue.

(3) The most effective and practical means of making management authority, and its procedures and practices, responsive to the general desires of the account membership is for members to make these procedures and practices a greater part of their decision to participate in the account.

(4) If participation in an account by a member is based, in part at least, on practices and procedures he considers equitable, then it follows logically that these practices and procedures should be made known precisely and completely to the membership,



Alan N. Weeden

and be readily apparent as to their application.

With the foregoing as preamble, there are submitted a number of specific recommendations relating to syndicate procedure. The more important ones are:

(1) Divided or Undivided Accounts.

Managers should specify whether an account will be divided or undivided at the time of its formation, and should print "divided" or "undivided" in their syndicate letter separate from the main body of the letter.

(2) Participations

(a) Managers should not be restrained from taking larger participations than those of the major bracket.

(b) Managers should not permit members' participations nor their own to become too small before splitting the account.

(c) Where practical, the use of alphabetical listing within participation brackets is recommended.

(d) Revised participations should be established or closely estimated before the final price meeting terminates.

(3) Duration of Account

The language in syndicate letters should be clear regarding termination of the account, particularly as to whether sale of all bonds from the account automatically terminates the syndicate and/or removes price restrictions, and also whether a member or group of members have the right to initiate a meeting to discuss price changes or splitting up the bonds remaining. The committee recommends that sale of all bonds should automatically remove price restrictions and the account should be terminated as quickly as possible thereafter. It also recommends that managers provide

in their syndicate letters for means under which members could call a meeting to discuss the future of the account.

(4) Clearance Fees and Management Fees

Managers have the right to charge any clearance fee or management fee they care to so long as members are advised of their intent to do so far enough in advance to make other arrangements should they so desire. The maximum amount the manager expects to charge should be made part of the syndicate agreement.

(5) Expenses

(a) In compiling account expenses, management's overhead charges, if any, should be labeled as a clearance, handling or overhead charge and should be identified separate from actual out of pocket expenses.

(b) Good business practice and equity requires that expenses be itemized in the settlement letter into something like the following categories (where applicable):

- Federal Funds
- Shipping & Delivery
- Printing of Bonds
- Cost of Legal Opinion
- Municipal Advisory Councils
- Advertising
- Telephone & Telegraph
- Printing & Postage
- Miscellaneous

Clearance Fee or Estimated Overhead Charges
Day Loans

(6) Advertising

Advertising plans and the cost thereof per bond should be announced by the manager at the final price meeting.

(7) Good Faith

If a manager holds good faith deposits for an appreciable period after delivery, then interest on the money should be credited to the account.

(8) Carry Arrangements

Those members desiring to participate in the carry of bonds should be permitted to share pro rata in the carry in the ratio that their participation in the syndicate bears to that of others wishing to share, provided notice of the same is furnished by such member to the manager at least 10 days prior to delivery by the issuer.

(9) Delivery

Redelivery of bonds by the manager should take place as soon as practicable after receipt of bonds from the issuer, preferably at a single location; simultaneous deliveries of new issues in two or more cities is generally impracticable because of greater cost and longer delay.

(10) Settlement of Accounts

(a) Managers should attempt to settle accounts within 30 days following final delivery of bonds. If necessary, costs for which bills have not yet been rendered could be estimated. If accounts have not been settled by 30 days after final delivery, interest on the account's profit should accrue to the syndicate.

(b) In rendering final statements, managers should show total interest earned and total cost of carry where applicable.

(11) Out-of-Town Members and Proxy Arrangements

(a) Out-of-town members should evidence consideration for those firms acting as proxy for them by originating all phone calls; i.e., before the preliminary meeting if they have price ideas to submit; after the preliminary meeting to get a report; before the final meeting to set limits; and just before sale time to get final terms.

(b) Managers might well limit the number of out-of-town members a member may proxy for, in order to reduce the impact of any single member's views on the final bid.

(c) Out-of-town members should be ready to commit as to final bid and participation through

Continued on page 45

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Report of IBA State Legislation Committee

Robert A. Podesta, Senior Vice-President, Walston & Co., Inc., Chicago, as Chairman of the State Legislation Committee, presented the following Report to the Convention.

The activity in state legislation this year is demonstrated in the fact that there were amendments to the state securities acts in twenty-six states. These have been accompanied by many new administrative requirements regarding the qualification of persons in the securities industry, particularly the examination of salesmen.



Robert A. Podesta

I

Amendments to State Securities Acts

Complete new securities acts were adopted this year in Utah and Nevada. A bill proposing a securities act for the District of Columbia (H.R. 4200) is pending in Congress. Amendments to securities acts this year in the following 26 states are summarized in Appendix A.

Arkansas; California; Florida; Georgia; Hawaii; Illinois; Iowa; Kansas; Maryland.

Massachusetts; Minnesota; Montana; Nebraska; Nevada; New Mexico; New York; North Dakota; Ohio.

Oklahoma; Oregon; South Dakota; Tennessee; Texas; Utah; West Virginia; Wisconsin.

The new Utah Act (effective May 14, 1963), based on the Uniform Act with a few modifications, includes antifraud provisions, re-

quirements for the licensing of broker-dealers, agents and investment advisers, and requirements for the registration of securities.

In Nevada, which previously had no state securities act, the new Act (effective July 1, 1963) is unique in several of its basic requirements. Section 13 makes it unlawful for any person to transact business in the state as a broker-dealer or agent unless he is registered under the Act; but Section 5, defining "broker-dealer," provides that the term does not include, among others, a broker or dealer registered under the Securities and Exchange Act of 1934; a person who is a member of the National Association of Securities Dealers; a bank, savings institution or trust company; or a person who has no place of business in the state if he effects transactions exclusively with issuers of the securities involved in the transactions, other broker-dealers or specified institutions. Section 15 of the Act makes it unlawful for any person to offer or sell any security in the state by means of a public intrastate offering unless he has filed a statement containing prescribed information with the Administrator with a filing fee of \$500 and the Administrator has approved such statement.

The proposed new Act in the District of Columbia (H.R. 4200) is based on the Uniform Act with several changes. It includes anti-fraud provisions and requirements for the registration of broker-dealers and agents. Hearings were held on the bill by a subcommittee of the House Committee on the

District of Columbia on May 2, 1963, but no further action had been taken on the bill by Nov. 26.

II

Digest of Exemptions Pertaining to Municipal Securities

The IBA has published and is mailing to members a Digest of exemptions from requirements of state securities acts for (a) state and municipal securities and (b) sales to institutional buyers. A similar Digest was published in October, 1957 and the revised Digest reflects the numerous amendments which have been adopted since that time.

III

State Tax on Distribution of GM Stock to DuPont Shareholders

Appendix B of this Report summarizes the present state tax situation with respect to the distribution of GM stock to DuPont shareholders pursuant to a court order under the antitrust laws. We are pleased to report that several additional states by amendments or rulings this year have provided that such distribution shall be treated as a return of capital rather than as a taxable dividend and that only five states now treat the distribution of GM stock as taxable dividends to DuPont shareholders.

IV

Proposed Policy Regarding Delivery of Offering Circular to Prospective Purchasers to Confirmation

The Midwestern Securities Commissioners Association as a meeting on July 26, 1963 tentatively approved the following proposed statement of policy for the purpose of consideration and further discussion:

"No public sale, offer to sell or solicitation of interest shall be made of an original issue of securities unless a preliminary or final offering circular has been delivered to the prospective purchasers."

This proposed policy would pose some obvious practical and technical problems, but the Midwestern Securities Commissioners emphasized that the proposed policy was approved tentatively for purposes of further discussion. This Committee will consider the proposed policy at its meeting at the Annual Convention of the IBA with a view to submitting recommendations to the Midwestern Securities Commissioners,

V

SEC Study of the Securities Markets

Those parts of the SEC Special Study of the Securities Markets which have been released thus far led this Committee to conclude that many of the recommendations for additional regulation by self-regulatory agencies or by legislative amendments will necessitate close cooperation with state regulatory authorities in order to achieve effective regulation with a minimum of restraint on the conduct of legitimate business by reputable dealers.

For example, in Chapter II of the Study dealing with qualifications of persons in the securities industry, recommendation 7, pointing out that the basic regulatory control in respect to competence is the examination, suggests that to achieve maximum results with minimum burdens, a National Board of Securities Examiners should be established by and for the various regulatory and self-regulatory agencies, to administer existing programs and foster improved programs. Since many states now require examination of salesmen as a condition of registration, it will be essential that some uniform or coordinated examination procedure be adopted.

Fortunately, much is already being done by cooperation between state securities administrators and representatives of the NASD, the stock exchanges and the IBA. It is hoped that a procedure can be developed whereby, in those states which require an examination of securities salesmen, any person passing the NASD or New York Stock Exchange Examination will be

deemed to have met the requirement satisfactorily and all other persons will take the Uniform State Examination, plus any supplementary examination which may be required in individual states regarding the requirements of the laws of that state.

VI

Uniform Form For Consent to Service of Process

The last Annual Report of the Committee reported the preparation of a uniform application for state registration of securities (Form U-1), to be used only where a registration statement covering the securities and the offering covered by the application has been filed with the Federal SEC, and listed 38 states which had adopted the Uniform Form.

The Subcommittee on Uniform Forms of the Committee on State Regulation of Securities of the American Bar Association has drafted a Uniform Consent to Service of Process (designated Form U-2) and a Uniform Form of Corporate Resolution (Form U-2A) to be used in connection with the uniform application to register securities. The Uniform Consent to Service of Process is also intended to be used in applications for broker-dealer registrations with the various states. Both forms were adopted and approved in February, 1963 by the Midwest Securities Commissioners Association and in November, 1963 by the North American Securities Administrators (subject to any local requirements). Great credit for the work in the preparation of these forms is due Donald L. Calvin (Francis I. du Pont & Co., Chicago), Chairman of the Subcommittee on Uniform Forms.

VII

New York Group Legislative Activities

There were several important legislative developments this year in states in the New York Group, in addition to the amendments to the New York Securities Law summarized in Appendix A. New York. One of the amend-

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ments to the New York Securities Law this year (summarized in Appendix A) requires that every broker-dealer required to be registered in the State shall have and maintain a net capital of not less than \$5,000. There is presently some uncertainty regarding the treatment of certain types of securities in computing net capital, but it is expected that there will be a clarification by regulation or by an amendment in the next session of the New York Legislature.

The New York Abandoned Property Law was amended to include securities. The amendment requires that any securities held in New York by a broker or dealer, or a nominee of such broker or dealer as holder of record of a security for a customer, where any amount paid thereon or with respect thereto and received after June 30, 1946 by such broker-dealer or nominee has remained unclaimed by the customer for five years following receipt thereof, be turned over to the State Comptroller as "abandoned property." There is an exception where the broker or dealer has written evidence that the person entitled thereto has knowledge of such account within the past five years. Likewise, any security held by such persons, reflected or recorded or included in an account with respect to which for five successive years all statements of account or other communications which have been mailed to the customer at his last known address have been returned to such broker-dealer or nominee by the postal authorities for inability to locate the customer and with respect to which no written communication has been received from the customer by such broker-dealer or nominee, is deemed to be "abandoned property" and must be turned over to the State Comptroller. This amendment was opposed by the Legislation Committee of the New York Group, but it was adopted.

An amendment was proposed to the section of the Uniform Commercial Code in New York relating to notice of adverse claims. This section provides that notice of an adverse claim, received by the broker or by the purchaser after the broker takes delivery as a holder for value, is not effective as to the broker or as to the purchaser. The proposed amendment would allow the purchaser in such situations to demand delivery from the broker of an "equivalent security" as to which no notice of an adverse claim had been received. This amendment is endorsed by the American Law Institute and the National Conference of Commissioners on Uniform State Laws, but it was vigorously opposed by the Legislation Committee of the New York Group, both as to principle and because of its vagueness. Final consideration of this amendment was postponed until next year.

Changes in Connecticut
Connecticut: A bill introduced in the Connecticut Legislature would have required any stockholder of record who is not the beneficial or true owner of stock, upon inquiry by the Secretary of a corporation, to disclose in writing the names and addresses of all beneficial owners of 1% or more of the issued and outstanding stock of any particular class. The bill further provided that on default of timely disclosure of such information, such stock would not be entitled to vote at a stock-

holders' meeting held within six months after the default. This bill was opposed by the Legislation Committee of the New York Group which pointed out, among other reasons, that it might be impossible in certain cases for a broker-dealer to determine whether the beneficial owner in fact held 1% or more of stock; that if the law would only apply to cases where the owner of record held 1% or more of stock, the bill could easily be circumvented by placing stock in a number of street names; and that the information was only available for management and would not be available to other stockholders. The bill was amended to require a series of notifications from the

Secretary of the corporation to the stockholder setting forth the basis of his determination that such information was required by law and also making any information secured pursuant to the law available to all stockholders and not merely to management. In Connecticut Section 8-313(3) of the Uniform Commercial Code (originally providing that notice of an adverse claim, received by the broker or by the purchaser after the broker takes delivery as a holder for value, was not effective as to the broker or as to the purchaser) was amended to allow the purchaser in such situations to demand delivery from the broker of an "equivalent security" as to which no notice of an ad-

verse claim had been received. This amendment was vigorously opposed by the Legislation Committee of the New York Group, but it was adopted. In Connecticut there was also proposed a transfer tax on all sales, agreements to sell, memorandum of sales or other transfers of sales or certificates of stock at a rate of 4¢ on each \$100 of face value or, where the shares were issued without designated value, at a rate of 4¢ for each and every share. It was indicated that the tax was also intended to apply to original issuance of securities. The bill also would have required every person and firm engaged in making sales, delivery or transfer of shares or certificates, or con-

ducting or transacting a brokerage business, to keep records to reflect compliance with the Act. This proposal was opposed by the Legislation Committee of the New York Group and was defeated.

Important Amendments to New Jersey Statute
New Jersey. A bill introduced in New Jersey proposed several important amendments to the New Jersey Securities Act. There were industry objections to several provisions of the bill and it is believed that a substitute bill which avoids most of the objections will be considered. It is also reported that efforts will be made to obtain adoption in New Jersey of legis-

Continued on page 51

Financial Prudence

Year after year the budget of Puerto Rico furnishes evidence of the Commonwealth's sound fiscal policies. For example, the budget requirement for this year's debt service—including both principal and interest—is less than 6%.

This means that approximately 94% of all revenues can be utilized for a dynamic program geared to meet the needs of Puerto Rico's rapidly growing economy. Moreover, nearly half of each year's expenditures is allotted to education, health and welfare.

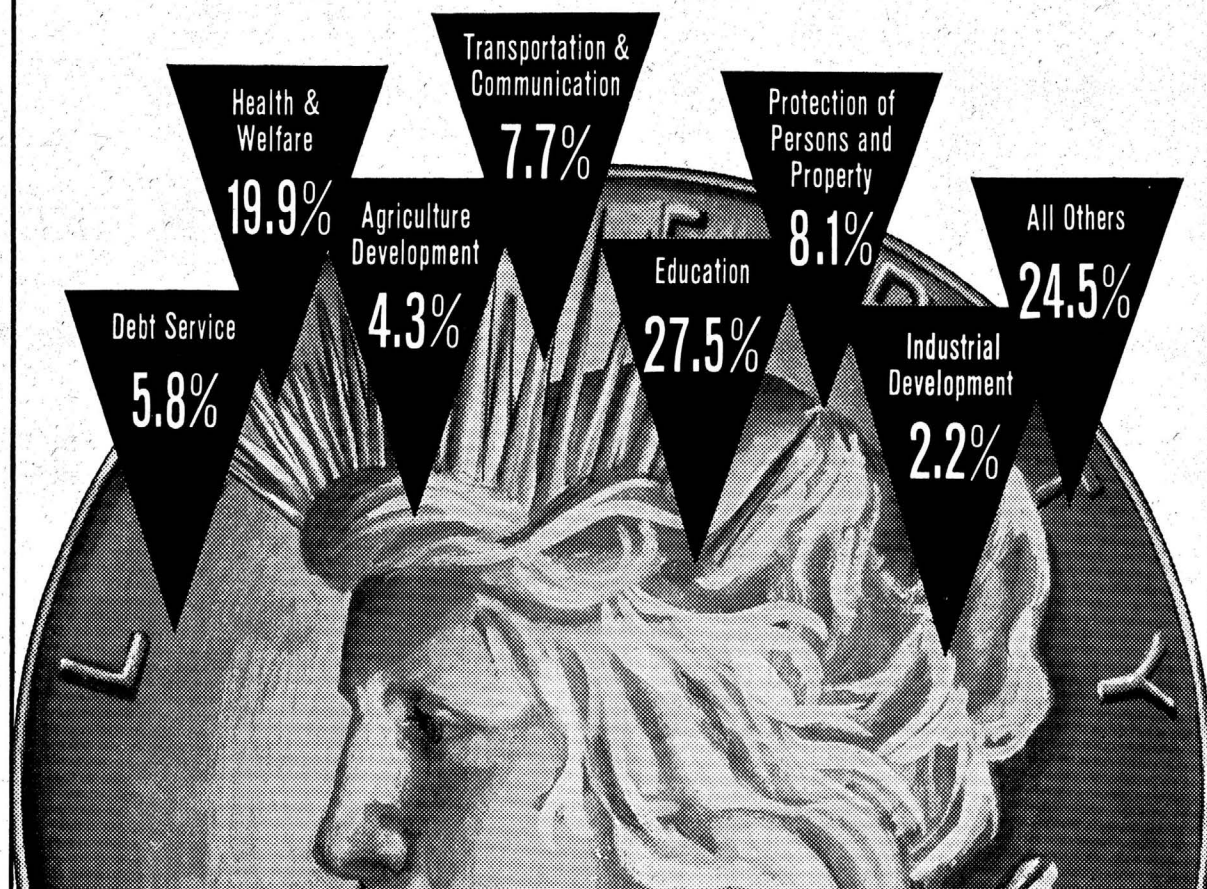
The Commonwealth's small indebtedness is a basic factor in the soundness of its general obligation bonds. Free from both Federal and State income taxes, they provide attractive returns at current prices, as do the revenue bonds of the various Puerto Rican Authorities.

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Report of IBA Governmental Securities Committee

Robert B. Blyth, of The National City Bank of Cleveland, who was Chairman of the Governmental Securities Committee, submitted the following Report to the Convention:

The United States Treasury has continued to work effectively in 1963 at the job of keeping our massive public debt under control. Particularly noteworthy is the way in which the Treasury succeeded in reconciling domestic monetary objectives with the disciplines forced on this country by the adverse balance of payments. Based upon almost all accepted criteria of sound debt management the Treasury team achieved a high score.

The increase in marketable debt outstanding of over \$4 billion has been financed entirely outside the banking system. Indeed there has been a material reduction in bank held debt thus far in 1963.

The size of the debt due within

one year has been well controlled. It will increase about \$1.7 billion with an offsetting reduction of \$3.2 billion in 1-5 year maturities.

The average maturity of the marketable debt outstanding will be extended moderately. The average was 4 years and 11 months on 12-31-62 and 5 years and 2 months on Oct. 31.

New Debt Management Techniques

During the year further efforts were made to improve debt management techniques.

(1) Two auctions of long bonds were held. A total of \$550 million of long bonds were sold at very close spreads from the market. The prices received were favorable but the auctions certainly could not be described as an unqualified success because of the adverse impact that they had on the technical condition of the market. In order to correct this condition official purchases of long-term bonds were made. Subsequently the Treasury placed over \$1,250 billion of long bonds

in the September advance re-funding.

(2) The Treasury introduced a new monthly series of one year bills. The monthly series of approximately \$1 billion displaces the quarterly series of \$2 to \$2½ billion which at times had appeared to be an amount too large to auction. The new series has been readily accepted but it does bring the Treasury into the market eight more times than the quarterly auction did and it does pose some interference with the pricing of short-term issues in the regular quarterly financing operations.

(3) The Treasury continued the use of the Advance and pre-re-funding techniques and effectively varied the exchange offerings to attract investor participation.

Finally, the Treasury with the essential cooperation of the Federal Reserve achieved its objective of increasing short-term rates in order to stem the outflow of gold in response to interest rate differentials abroad. This was accomplished without interfering with the free flow of capital and the orderly creation of credit in this country.

The Treasury financing operations on the whole fitted smoothly into the market. As a matter of fact, the price fluctuations in intermediate and long-term bonds was materially less than it has been for many years. This was true despite a tightened monetary policy by the Federal Reserve. It was also true in spite of the strong efforts of the Treasury to extend the maturity of the debt.

"Operation Twist"

The success of the Treasury in increasing short term rates without any undesirable effect on other rates has been attributed in part to additions that were made to the supply of Treasury

Bills supplemented by Federal Reserve open market operation outside the short term area of the market and accelerated Treasury Investment Fund purchases. These activities have been described as "Operation Twist."

I am perhaps foolish to comment on Operation Twist at all. Certainly I cannot give you a consensus of the thinking of the Governmental Securities committee on this matter, we have all shadings of opinion as to proper Federal Reserve open market policy. We all are convinced, however, that long bond purchases should not be associated with any program of maintaining interest rates at any given level. We do substantially agree that when you look at the year 1963 as a whole interest rates have moved very largely in response to natural forces—implemented by appropriate monetary decisions and not in response to manipulation in the supply of Treasury Bills on the one hand or open market purchases of longer term issues on the other.

Short term rates have risen very largely as a result of the continued strength in the economy together with the important monetary actions that have been taken. These actions include the reduction in free reserves in the banking system and the increase in the discount rate from 3 to 3½% in July. In addition Regulation Q was modified to permit banks to pay up to 4% on time deposits of 90 days or over. This permitted banks to be more competitive in offering negotiable time certificates of deposit to corporations as a substitute for other short term investment. This is a developing business of tremendous importance in the money market. The certificates are actively traded in the market and it is estimated that about \$10 billion are currently outstanding. The continued increase in the issuance of these certificates by banks will tend to produce further upward

pressure on short term money rates.

In the long term money market far and away the most important influence has been the tremendous accumulation of savings and other time deposits in the Commercial Banking System.

Impact of Enlarged Time Deposits

Last year there was an increase of about \$15 billion in all time deposits in Commercial Banks and the increase this year may be about the same. In contrast the average annual increase was only \$3½ billion in the 10 year period ending 12-31-60. This continued large time deposit increase has altered supply and demand forces in the short term market in the direction of higher rates and since the money has been channeled selectively into longer term assets it has tended to produce lower yields in other markets. The markets that have obviously been most affected have been the municipal market and the mortgage market.

This will be an interesting period for economists with a low interest rate bias to evaluate remembering that it was the higher interest rates paid on time and savings deposits that resulted in the mobilization of the savings of the country so effectively that the great credit expansion of the past three years has been handled in a non-inflationary atmosphere and without strain in the money market.

Official Market Activities

Open market activities of the Federal Reserve and the Treasury have certainly had a market impact but they must be viewed in perspective. It is our opinion that for the year as a whole official market activities have not in themselves been the major factor in the equation that has established the present level of rates. At times, the Federal Reserve presumably has been able to satisfy open market objectives with less rate impact by purchases outside the Treasury Bill area. At other times, the Treasury has



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prevented technical conditions in the market from themselves becoming a major determinant in the course of interest rates. In all of 1963, over \$15 Billion of U. S. Government securities with maturities of over five years will have been issued. As recently as 1957 only \$1.3 billion of such securities were issued. In the first eight months of 1963 official market purchases of securities with maturities beyond 1968 amounted to \$1.088 billion compared with the new issues of \$6 billion in this same maturity range in the same period. Certainly these purchases have been a less significant factor in the long bond market than the strong efforts of the Treasury to issue longer term securities.

In 1962 and 1963 over \$31 billion of Bonds with maturities beyond five years have been sold. As part of the effort to improve the debt structure in 1963, 15 different issues of securities representing over \$43 billion of publicly held debt were offered 37 different options to extend maturity in advance of their due dates. Holders of over \$14 billion or about 1/3 of the dollar amount involved accepted an extension offer. The \$43 billion figure is equal to 37% of the entire publicly held marketable debt outstanding exclusive of Treasury Bills and Federal Reserve and Treasury Investment Account

holdings. To illustrate what an important tool the advance re-funding technique is, it should be noted that at the end of October, 1963, 33% of all outstanding marketable debt had been issued in such operations.

New Problems Created

Considering the very strong effort being made to improve the debt structure the results certainly serve to illustrate the continuing nature of the job that must be done. Furthermore the magnitude of the effort being made is itself partly responsible for the creation of some new problems. For example the way which a large segment of the market is offered many different exchange options certainly narrows the role of the government security dealer in the secondary market. In a similar manner the original issuance of Treasury Bills of three, six and 12 month maturities at frequent intervals gives the investor greater latitude for investment than ever before and again diminishes the role of the secondary market. Finally, official market activities of large dimension can have a debilitating effect on the market as dealers become too dependent on "official action" in the ordinary conduct of their daily business.

These are developing problems that need careful study and our

comment on them is in no way a criticism of anything that has been done. Indeed we commend the Treasury for its receptiveness to new ideas and the strong purpose it has displayed in its efforts to improve the debt structure.

Respectfully submitted,
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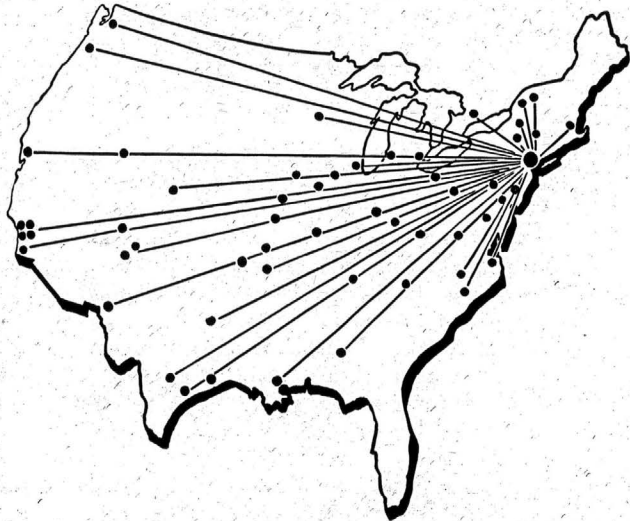
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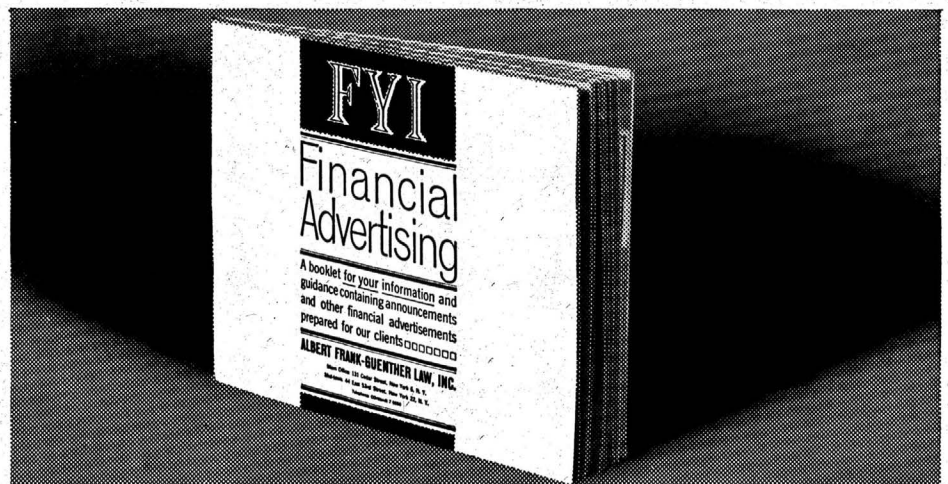
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Report of Subcommittee On Municipal Trading and Cashiering Procedures

As Chairman of the Subcommittee on Municipal Trading and Cashiering Procedures, Joseph Vostal, Partner, Kidder, Peabody & Co., New York City, reported to the Convention as follows:

We are pleased to report on several subjects which have been brought to the attention of this Subcommittee since the Spring Meeting:

I Complete Description of Purpose of Municipal Bonds

We recommend that all pertinent details as to the purpose of an issue of municipal bonds be included in the description of the bonds in the official statement or notice of sale by the issuer, in all circulars and in all transactions when possible. Bonds are sometimes advertised as "general improvement" or "various purpose" when they are being issued for purposes that are not generally popular, such as a marina, swimming pool or golf course as contrasted with water, fire protection or streets. The purpose of an issue is at times an important consideration in the pricing. Bond certificates should state the purpose or purposes for which they were issued. This practice would avoid misunderstandings and facilitate identifica-



Joseph Vostal

tion in trading in the years following issuance. Pursuant to the foregoing recommendation, we also strongly recommend that all municipal industrial aid general obligation bonds should be so described. A description of such bonds as Public Improvement General Obligation Bonds is not sufficient. We further recommend that the Liaison Subcommittee submit these recommendations to the M.F.O.A. and the Local Government Law Section of the American Bar Association.

II Fully Registered Bonds

We endorse the issuance of fully registered bonds instead of coupon bonds and recommend that the Liaison Subcommittee support the preparation of a model law or proper legislation for those states in which it is required, and that local groups of the IBA sponsor and support legislation for this purpose.

The practice of issuing fully registered corporate bonds to initial purchasers, unless coupon bonds are specifically requested, is gaining momentum. There is further indication that corporate management is looking on this method of issuing bonds with favor and that it will continue to grow. Over 30 of the largest corporations in the United States make no charge or have waived charges on exchanging registered

bonds for coupon bonds or the reverse.

In the municipal field, in the case of the larger issues with registered and conversion privileges, the number of bonds registered at the time of initial delivery is becoming greater with each issue. One large casualty company will buy only those issues which can be fully registered.

The acceptance of the registered bond is gradual. The advantages of registered bonds are many. There are also disadvantages, but none of them appear insurmountable.

Experienced registrars would continue to do a fine job for the large issuers. We seriously question, however, the advantages that might accrue to the small borrowers to whom a large registrar might not be practical or economical. If the small borrower were to use the local agent as registrar, there might be delay in the conversion. Inasmuch as accessibility and efficiency are of paramount importance to a quick transfer or registration, this is a point that cannot be regarded lightly. New issue volume this year totals \$9 billion through October. Issues of \$10 million and under constitute 47.6% of this volume and number 5,375. Issues of \$10 million and over number 128.

Much of the buying of municipal bonds today is by the large institutional investors. It may not always be that way. Perhaps the issue should be offered for sale in such a way that the market will determine whether it wants a fully registered offering or a coupon or a combination of both.

It is only recently that the custom of the \$1,000 denomination was broken by the issuance of the \$5,000 bond. Today, it is accepted without question. In addition to custom, there are also legal requirements to be met before fully registered bonds and attendant problems become nationally accepted. Legislation would be required in many states. The Liaison Subcommittee and the California Group of the IBA have been at work and as a result the necessary legislation was passed in that state this year.

III

Good Delivery of Mutilated Bonds

There is no uniformity of standards for condition of bonds and coupons for acceptance as good delivery. There is a variation in the requirements for acceptability of bonds for the redemption or payment of funds as paying

agents, as between the Clearance Department and the Corporate Trust Department of the same institution. We have been assured by major paying agents that mutilated coupons, when attached to the bond, are routinely validated by the paying agent.

There are such wide variations in what constitutes mutilation (holes punched, border missing, signature missing, signature not legible, number missing, scorching, etc.) that it does not seem advisable at present to attempt to write a set of rules which would apply to all conditions.

The N.A.S.D. rule states—"Mutilated securities shall not be a good delivery until appropriately authenticated by the trustee, registrar or paying agent."

The New York Stock Exchange will rule as to good delivery on those securities listed on the Exchange. This ruling is, when requested, binding upon members. On unlisted securities, they will express opinions as to whether an obligation might be considered a good delivery or suggest what might make it so. Their consideration of mutilation leans in favor of the buyer. They feel the buyer is entitled to an obligation which should pass without too much question.

The significant factor in each case of delivery is whether the bond would be honored on presentation for redemption to the paying agent or trustee. In any case where there is a real question, the obligation should be presented for validation or substitution of a new obligation.

It is evident that the degree of mutilation, with respect to delivery or payment, is a matter of judgment. We recommend, therefore, that this subject be studied by a committee composed of members of the Liaison Subcommittee and the Cashiering and Trading Subcommittee to work out a list of standards, recognizing the possibility that the standards would not necessarily be all inclusive. It may also be feasible to cooperate with the New York Clearing House Committee which recently has initiated a study of mutilation.

IV

Price of Callable Bonds

A question has been submitted regarding the pricing of the New Public Housing Authority Bonds in the secondary market, selling at a premium. The example: New York City P.H.A. 3½s of 1-1-83, callable, are offered at 3.05%. The approximate dollar price at this basis to 1-1-83 is 106.49. The

yield at 106.49 to the first call date 1-1-68 at 104 is approximately 2.74%. No mention is made in the offering that the yield to call is less than the offering yield to maturity of 3.05%. Apparently, the question stems from the fact that the 2.74% yield to 1-1-68 is 10 or 15 basis points better than equal quality bonds of this maturity, so that the buyer is protected.

This Subcommittee unanimously agrees that the yield on callable bonds should be computed in such a manner that the purchaser would receive not less than the yield indicated if the call feature should be exercised, unless there is mutual agreement on some other basis by the buyer and the seller.

This conclusion is in accord with recommendations by the IBA and the booklet on Recommendations for Computation of Principal and Interest effective 1-1-62 (page 7—Callable Bonds and the note thereto).

Respectfully submitted,

IBA SUBCOMMITTEE ON MUNICIPAL TRADING AND CASHIERING PROCEDURES

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Report of Public Utility Securities Committee

Milton F. Lewis, Vice-President, A. G. Becker & Co., Inc., New York City, presented the following Report of the Public Utilities Securities Committee, of which he was Chairman.

The year 1963 has again proved to be an eventful year for the electric utility industry. The electric utility industry, the telephone industry and the gas distributing companies have again shown outstanding results.



Milton F. Lewis

For many years, we have expressed our concern over the rapid development of public power.

The year 1963 has witnessed many attacks on the investor-owned utility industry. Your Committee has sent two communications to the membership of the IBA. One was a reprint of the *Congressional Record* of Feb. 18, 1963, titled, "There's No Stopping REA—Or Is There?" The other communication, dated Oct. 9, 1963, requested the membership to contact its Representatives and Senators to urge them to vote for Senate Bill S.1926 and House Bill H.R.7861. The former was introduced by Mr. Lausche for himself and Mr. Bennett. It is a bill to amend the REA Act of 1936, as amended, to make more specific the purpose for which loans may be made under Sections 2 and 4 of the Act, and to modify the provisions of interest rates on loans made under the Act.

REA's Job Virtually Completed

This Bill can save millions of dollars in taxes. REA's job is substantially finished. It is time for

it to stop bleeding the taxpayer, —and to stop helping pile up the soaring national debt.

It stops the 2% interest rate for REA's. The Act "is amended by striking out 'and shall bear interest at that rate of 2 per centum per annum.'"

It makes the REA's pay the same interest rate as the U. S. Government has to pay by inserting "and shall bear interest at a rate equal to the average rate of interest payable by the U. S. A. on its marketable securities."

It stops the REA from loaning money for any use except to supply electricity. "No loan shall be made . . . except for the sole purpose of furnishing electric energy to persons in rural areas who are not receiving central station service. . ."

If you have not already sent a note to your Senator or Representative — please write them now. They need your advice and support. Write to them to support Senate Bill S.1926 and House Bill H.R.9861.

Gas Industry Also Under Attack

In our 1961 report, we specifically called your attention to the REA's activities. Today this activity is not only attacking the electric industry but the gas industry as well. It was gratifying to see the new President of the American Gas Association dedicate himself to this threat in his acceptance speech only two months ago in Los Angeles.

Up to this time low-cost loans made under provisions of the Section 5 in the REA Act have been made to finance wiring, electrical and plumbing appliances and equipment to encourage

farmers to make use of electric service.

This new criterion has so changed the original intent that we now see 2% REA loans being given to rural electric cooperatives to finance a housing development, a saw mill, a commercial seed-cleaning and retail hardware store, a commercial seed potato business and a gravel crushing and washing operation. How far afield the REA is going in making 2% REA loans is typified by the recent action of the Jo-Carroll Electric Cooperative in Elizabeth, Illinois, which loaned \$30,000 borrowed at 2%, to a recreational resort customer at 4% for the purchase of electrically-operated snow-making equipment for a ski slope.

In our report of 1962 we called to your attention the Alabama Electric Cooperative proposed loan. This loan has been granted by the state finance director, and its adjudication is now in the courts.

This year we must note the current proposal of the Colorado-Ute Electric Association of Montrose, Colorado, to build an unnecessary 150,000 kilowatt steam electric generating station near Hayden in Western Colorado.

The primary purpose of such a large power plant, which would eventually have a generating capacity of 600,000 kilowatts and cost around \$120 million, would be to provide power to the Salt River Power District in Arizona, 700 miles away. Salt River Power District is not an eligible REA borrower. It serves parts of the rapidly growing and prosperous Phoenix suburbs.

Although the loan has been granted by the REA, subsequent appraisal of Colorado-Ute's cost analysis and other pertinent data on the Hayden plant indicate that existing sources used by Ute's co-op members are both adequate and available at reasonable costs.

Construction of the proposed Hayden plant and transmission systems should have nationwide as well as area-wide implications. Because the Salt River District is located 700 miles from the Hay-

den plant, it is planned to have the Bureau of Reclamation sell power from the Colorado River Storage Project's Glen Canyon Dam in northern Arizona to Salt River. The Bureau will then take the power from the proposed REA Hayden plant in northeastern Colorado as replacement electricity for Upper Basin preference power users.

This is not an isolated case. It is becoming increasingly clear that power plants and transmission lines financed by REA are being so located as to tie in with other Federal power facilities. This use of the REA program is completely foreign to the intent of the Act.

Together the rural electric cooperatives and the investor-owned utilities have done a remarkable job of bringing electricity to nearly every farm in the U. S. It is evident, however, that REA is being expanded in ways far removed from the original intent of the Act.

We feel it is imperative for us to encourage needed reforms which will correct unfair economic differences between cooperatives, Federal power agencies and investor-owned electric utilities, in the fields of taxes, cost of money, subsidies, Federal influence and preference, and regulatory procedures. We have the obligation to inform our representatives at all levels of government from city councils to

state legislatures to the national Congress, as to our desires concerning those issues in which we have an interest. Again we are concerned with expansion of TVA, with public power authorities and with the REA's and other government projects which are actually public power developments subsidized at the expense of the American taxpayer.

The Passamaquoddy Project

The year 1963 has seen the Interior Department's Passamaquoddy Tidal Power Plant proposal win the approval of President Kennedy. This is a billion-dollar monstrosity which would waste the taxpayers' money on a totally unnecessary and unjustified project.

Secretary Udall's report to the President forecasts the salable output of the Quoddy development at 2,363 million kilowatt hours of electricity annually at a total cost to produce of \$36,872,000, or an average cost of 15.6 mills per kilowatt hour.

Impact of Tax Avoidance

A large-size modern power plant built today can produce electricity at an average cost—including Federal, state and local taxes—in the range of six to seven mills per kilowatt hour, or less than half the cost of Quoddy power as projected by the Secretary of the Interior. If investor owned utilities enjoyed the tax

Continued on page 84

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Report of IBA Investment Companies Committee

Herbert R. Anderson, President of Distributors Group, Incorporated, New York City, again was Chairman of the Investment Companies Committee. Its Report is given below in full text.

There has been a great deal of interest in the figures relating to mutual fund sales and redemptions over the past 18 months, and well there might for this has been an unusual "testing period" — an abrupt decline in stock prices of near-panic proportions; a rather rapid, although quite selective, recovery resulting in new highs in stock averages; the release by the SEC of the results of a comprehensive study of the securities business and of the so-called Wharton Report.



Herbert R. Anderson

Behind the Figures

Figures are interesting—but an interpretation of them is vital—because we are not dealing here with some abstract mechanism. We are concerned with people, with their results, and with their reaction to these events in relation to the various forms of investment available to them.

First, to state the figures, sales of mutual funds through Sept. 30 of this year are running at an annual rate of \$2.4 billion—a rather substantial amount, but off about \$300 million from the 1962 level. Redemptions look like they may be up about \$370 million for the year to a new high, at an estimated \$1.5 billion—although, as a proportion of assets, this is actually well within the range of the past 10 years because assets also are at a new high of about \$25 billion. Nevertheless, net sales will probably be off this year by about \$650 million

to \$700 million from recent peaks.

Odd-Lot Transactions

For a better understanding of these results, let's turn to what the "small investor" has been doing outside of mutual funds, using transactions in odd lots on the New York Stock Exchange as our measure. In fairly heavy volume on both sides, he was a net buyer of \$322 million of odd lots on the New York Stock Exchange in the first 7 months of 1962 (\$3.182 billion of purchases versus \$2.860 billion of sales—see Appendix). Thereafter, he has liquidated on balance in every month from August 1962 through September 1963. Thus, we arrive at this new high in market averages with "people" having liquidated a total of \$628,776,000—net—in odd lots.

This contrasts rather sharply with net purchases of mutual funds by investors of \$1,045,303,000 for the same 14-month period, despite lower gross sales and somewhat higher redemptions.

Two other aspects of this relationship between odd lot volume and mutual fund sales and redemptions appear significant. The first, relative to investor purchases of mutual funds, is that during this period they have held in a quite constant ratio to purchases of odd lots, actually increasing slightly from a figure of 59.3% in 1962 to 61.4% for the first 9 months of 1963. The other factor that stands out, relative to redemptions, is that the liquidation of odd lots during this period has run from about 3 to almost 4 times the dollar volume of mutual fund redemptions, which would seem to be of particular interest relative to the old "bogey man" of the potentially dangerous "snowballing" of re-

demptions of mutual funds during periods of market uncertainty.

Banks in the Securities Business?

Thirty years ago, in response to conditions none of us would like to see duplicated, Congress passed legislation divorcing banks from the securities business, while also providing for the regulation of the securities markets and the protection of investors through full disclosure. Insofar as investment companies are concerned, the protection of investors was further fortified through the later passage of the Investment Company Act in 1940.

Earlier this year the Comptroller of the Currency issued a controversial new regulation which for the first time since 1933 purported to allow banks to operate and offer a collective fund for so-called agency accounts. In plain terms, that means the equivalent of a mutual fund that could be offered by banks to virtually any type of investment account. Currently bills (S-2223 and HR-8499) have been introduced into Congress which would confirm this authorization. Were this legislation to pass, banks not only would be free to return to the securities business but to do this under an exemption from the federal securities laws. In the opinion of your committee, this would be bad for the banks, it would be bad for the securities business and it would be bad for the public generally.

Were banks to be authorized to be in the retail securities business, even under the same standards as the broker/dealer, they would enjoy an unfair and improper competitive position. They have a unique knowledge of their customers' available assets. They are in a position to grant, or withhold, credit. Now looked to quite largely as an unbiased adviser in personal financial matters, they would jeopardize that position and thereby the public confidence in banks themselves. At a time when further steps are being taken to raise minimum standards of training, experience and other qualifications of all persons engaged in the sale of securities—actually through amendments to the Securities Acts jointly sponsored by the industry and the SEC—bank personnel who would offer these securities would be subject to no standards or qualifications. Thus, this would seem to be abandoning the principles established thirty years ago while providing an "open season" for banks in the offering and sale of their commingled funds.

Other Salient Points

Let two other points be made clear. First, it should not be assumed that the offering of these securities would be limited to the larger banks in metropolitan centers. Through their correspondent relationships, banks in virtually every community could, and probably would, be "in the act". In addition, it should not be assumed that these collective funds would be competitive only with conventional mutual funds. Particularly in view of the banks' relationship with their depositors—or borrowers—it is only reasonable to believe that many persons who otherwise would be buyers of individual issues through broker/dealers would instead become investors in these commingled funds.

At the operational level of such funds, questions could surely be raised as to pressures on banks to make inappropriate loans to com-

panies whose securities are held in the bank collective fund portfolio; as to the risk of inappropriate fund investments in companies with which the bank has outstanding commercial loans; as to the risk of biased advice in connection with corporate financing by reason of this dual interest; and as to other problems arising from an expansion of bank underwriting activities.

It would appear clear that if the banks are to be allowed to enter the securities business, they should be subject to all of the regulatory and disclosure requirements of the securities laws, but your committee believes that even this is secondary to the more fundamental necessity of the continued divorce of the banks from the secu-

rities business for all the reasons this was brought about in 1933.

Respectfully submitted,
INVESTMENT COMPANIES COMMITTEE

- Herbert R. Anderson, Chairman**
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- Henry F. Cate, Jr.**
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Calvin Bullock, Ltd.
New York, N. Y.

APPENDIX

	Odd-Lot (N.Y.S.E.)		Mutual Fund*	
	Purchases	Sales	Sales#	Redemptions
	(000's)		(000's)	
1962 Jan.	\$ 515,993	\$ 447,700	\$ 361,846	\$ 99,960
Feb.	363,691	342,245	271,351	83,418
Mar.	377,206	372,163	288,889	99,043
Apr.	396,229	366,649	260,123	91,274
May	689,756	596,356	292,345	121,673
June	503,127	452,539	218,621	107,009
July	336,069	282,167	206,581	73,524
Aug.	287,008	294,299	154,769	78,529
Sept.	243,027	271,425	133,654	82,686
Oct.	286,660	314,338	156,689	91,717
Nov.	298,796	352,391	162,879	89,225
Dec.	255,166	343,940	191,302	104,637
	\$4,552,728	\$4,436,212	\$2,699,049	\$1,122,695
1963 Jan.	\$ 374,003	\$ 407,225	\$ 234,595	\$ 116,414
Feb.	277,179	328,216	165,935	114,905
Mar.	249,398	304,116	200,267	116,646
Apr.	374,083	440,669	203,451	133,364
May	345,777	412,584	193,628	132,250
June	302,600	355,638	194,366	115,433
July	306,921	314,789	218,926	123,517
Aug.	323,526	356,821	192,973	123,496
Sept.	396,773	453,242	205,855	141,667
	\$2,950,260	\$3,373,300	\$1,810,496	\$1,117,692

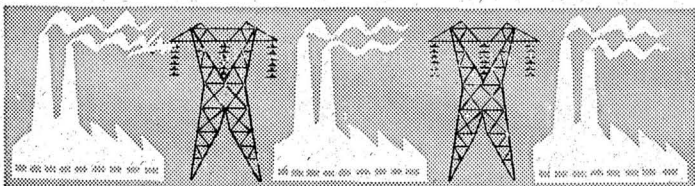
*Member companies of Investment Company Institute
#Amount received by member companies, ex any sales charge

Ratio Mutual Fund Sales to Purchases of Odd-Lots

1962 59.3%
1963 (9 mo.) 61.4%

Ratio Mutual Fund Redemptions to Sale of Odd-Lots

1962 25.3%
1963 (9 mo.) 33.1%



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- Lewis J. Whitney, Jr.**
Dempsey-Tegeler & Co., Inc.
Los Angeles, Calif.

Report of Subcommittee On Municipal Liaison and Bond Sale Procedures

*Walter W. Craigie, Partner of F. W. Craigie & Co.,
Richmond, Va., was Chairman of the Subcommittee
on Municipal Liaison and Bond Sale Procedures,
and presented this Report:*

Representatives of this Subcommittee met with representatives of the Municipal Finance Officers Association, the Local Government Law Section of the American Bar Association and the Municipal Forum of New York at the Annual Meeting of the M.F.O.A. in Detroit in June and at the Annual Meeting of the American Bar Association in Chicago in August and at the IBA Convention at Hollywood, Fla. in December. We express again our appreciation for the cooperation of these organizations on problems of municipal financing.



Walter W. Craigie

I Registered Bonds

The IBA Municipal Securities Committee at its meeting at the 1962 Annual Convention recommended "that issuers of large amounts of municipal bonds make them more attractive to investors by providing (where permissible, practical, and subject to appropriate safeguards), that coupon bearer bonds are freely interchangeable, at the expense of the issuer, with bonds registered as to both principal and interest in any denomination desired by the owner".

It was recognized that in some states legislation would be necessary to authorize the issuance of municipal bonds in registered form or the conversion of municipal bonds to registered form and re-conversion to coupon form. The Chairman of the Liaison Committee of the Local Government Law Section of the American Bar Association has drafted an act which, among other things, would authorize the interchange of coupon bonds and registered bonds with-

out coupons. This Committee would encourage the adoption of legislation for this purpose but has taken no action on the draft because it has not yet been approved by the Liaison Committee of the ABA.

II

Counterfeiting of Municipal Bonds

At the 1962 Annual Convention of the IBA, a report of the Trading and Cashiering Procedures Subcommittee on counterfeiting of municipal obligations was referred to this Subcommittee for further consideration. Part I of that report discussed guides for detection and recommended efforts along educational lines directed toward investors generally and also bank and investment house personnel who are responsible for the examination and handling of securities and we concur in that recommendation.

Part II of the report recommended specifications for municipal bonds. We believe that those recommendations should be withheld for further consideration because the Lithographers & Printers National Association is making organized efforts to make the counterfeiting of lithographed securities more difficult and the success of these efforts might affect our recommendations.

III

Advance Refunding

The subject of advance refunding of municipal bonds was one of the principal topics of discussion at the meeting of the liaison committees at the M.F.O.A. meeting and at the Bar Association meeting. This subject is under study by a subcommittee of the IBA Municipal Securities Committee.

IV

Tax Immunity

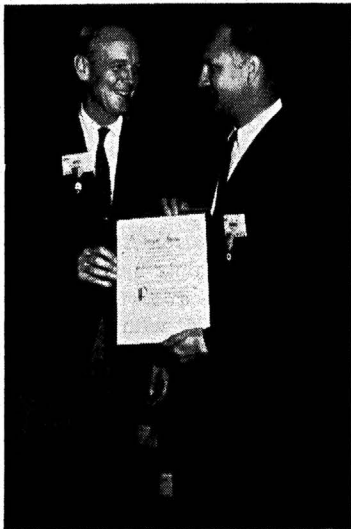
The proposed Revenue Act of 1963 (H.R. 8363), which has passed the House and is currently the subject of hearings by the Senate Fi-

nance Committee, would make no change in the present tax immunity of the interest on state and municipal bonds. However, during the current hearings by the Senate Finance Committee Senator Long (of Louisiana) has proposed to simplify and streamline the method of computing income taxes by permitting a taxpayer to elect an alternate system whereby he would pay taxes on otherwise exempt income (including interest from state and municipal bonds) and waive all deductions and pay a 40% rate on his first \$50,000 of income and a 50% rate on all incomes above \$50,000. A married couple filing a joint return would be entitled to the 40% rate on \$100,000 of income and the 50% rate on all income above that figure.

When this proposal was made, we immediately notified other principal organizations concerned with municipal finance, including the M.F.O.A., the Council on State Defense, the American Municipal Association, the Association of County Officials and the National Conference of Mayors. No action has been taken on this proposal but it is under consideration by the Senate Finance Committee.

Respectfully submitted,
IBA SUBCOMMITTEE ON
MUNICIPAL LIAISON AND
BOND SALE PROCEDURES

- Walter W. Craigie, Chairman**
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Report of IBA Insurance Securities Committee

Shelby Cullom Davis, Senior Partner of Shelby Cullom Davis & Co., New York City, presented to the Convention the Report of the Insurance Securities Committee, of which he was Chairman. The Report follows:

I Review of Fire and Casualty Insurance Stocks

Although dollar losses caused by fires in the United States rose 13% to a new record high of \$875 million in the first seven months of 1963, stocks of a representative list of fire and casualty companies rose on balance during the period. Underwriting results during the first six months of this year were particularly bad for those insurance companies specializing in fire lines, including multiple-peril homeowner policies. The predominantly casualty companies were generally able to produce somewhat better underwriting results than the property insurers but overall underwriting margins for all fire and casualty insurance companies were generally unsatisfactory.



Shelby Cullom Davis

Investors' Philosophy

Four principal explanations have been put forth to explain the willingness of investors to maintain a favorable attitude toward fire and casualty insurance company stocks in spite of their poor underwriting records for the first half of 1963.

The first reason seems to be that investors in stocks of these companies evidently accept the proposition that freak weather conditions accounted for a major part of the sharp rise in fire and other claims this year. Improvement in underwriting results in June and July and in preliminary returns for August of some companies suggests that a turnaround in underwriting performance may be in the making as the weather moderates. In 1960, Hurricane Donna turned an otherwise good underwriting year into a poor one and in 1961 Hurricane Carla spoiled

the year's underwriting results for many companies.

A second basis for hope for eventual betterment of underwriting performance is that a majority of fire and casualty insurance companies has been making solid progress in recent years in reducing expense ratios. A representative list of 33 stock fire and casualty insurance companies reported an average expense ratio (underwriting expenses to premiums written) of 38.6% in 1962, down 2.4 percentage points from a ratio of 41.0% in 1958. This increase in efficiency is expected to lay the groundwork for solid gains in underwriting profit margins as losses are brought down to more nearly normal levels. Increases in efficiency have been achieved in part by simplification of organizational set-ups, by reductions in commission rates on certain mass insurance lines and by the imposition of economies in many areas of administration. Continued progress along this line is looked for in the next few years.

Bull Market Stimulant

The factor which is mentioned in third place but which may deserve a higher ranking in importance is the favorable trend of the investment results of most fire and casualty insurance companies. Since these companies carry their stock investments on their books at market quotations, this year's stock market rally has benefited book values and estimated liquidating values substantially. The 1962 market drop caused surplus of the fire and casualty companies to decline by about 6% from the beginning to the end of the year (the depreciation at mid-year was much greater). However, the stock market improvement to date in 1963 has much more than offset last year's decline. In addition to higher book and liquidating values, the investment side of the fire and casualty business has been responsible for a steadily rising level of net investment income. For the past five years the average annual gain in the net invest-

ment income of stock fire and casualty insurance companies has been approximately 8%. For 1963 the increase over 1962 is expected to average 9%, based on the rate of gain for the first six months. The steady compounding of an 8% to 9% annual rise in net investment income may be considered a most important contributing factor to increasing values of fire and casualty stocks even in the face of poor underwriting results. It has long been the practice of fire and casualty companies to pay dividends to stockholders only out of net investment income, and the percentage pay-out rate has averaged about 50% or less, so that current dividend rates appear to be well covered. In fact, the growth of investment income has enabled a number of fire and casualty insurance companies to raise their dividend rates even though underwriting operations have been conducted at a loss.

Merger Trend

The fourth major reason why investors currently may be taking a more favorable view of fire and casualty insurance company stocks than their underwriting records seem to justify is that the merger movement in this field has provided and may continue to provide bonuses to the stockholders of affected companies. The acquisition of Aetna Insurance Company by Connecticut General Life Insurance Company early in 1962 was a major step in the combination movement as was the recent joining of forces of American Insurance and Fireman's Fund of San Francisco. United States Fidelity & Guaranty Insurance Company has acquired Merchants Fire Assurance Company and Northern Insurance has gone with Maryland Casualty. The most recent major merger development has been the announced plan of Continental Casualty Company to offer an exchange of its shares for those of American Casualty Company of Reading. Each one of these combinations results in a larger and stronger surviving company, increasing competitive pressures within the industry and stimulating other groupings.

The continuing relatively high expense ratios and unprofitable underwriting records of many smaller units, together with an aging and insufficient supply of top managerial talent suggests that more combinations are in the offing. The reinsurance of the fire and casualty business of Springfield Fire and Marine Insurance Company with the Home Insurance Company is an example of a type of action which may take place when management finds it next to impossible to operate its underwriting business at a profit. To some extent, the merger movement, with its promise of the payment of premiums to the stockholders of the acquired company has stimulated the market for fire and casualty insurance company stocks.

Better Performers

Some of the best market performers among the fire and casualty insurance stocks to date in 1963 have been such predominantly casualty units as Aetna Casualty & Surety Company, Ohio Casualty, Pacific Indemnity and United States Fidelity & Guaranty Company. These companies have

been able to avoid the sizable underwriting losses experienced by the companies with large fire and extended coverage business. Two other fire and casualty companies which have achieved substantially better than average market performance to date in 1963 are Home Insurance and Reliance Insurance, both of which have been favored by investors despite the fact that they have felt the impact of increased fire losses on underwriting results. Perhaps the fact that both these companies have strong management teams and both have been involved in recent acquisition of other companies gives them better than average future prospects. Home Insurance purchased the fire and casualty business of Springfield Fire and Marine within the past year. This provides a broader base for future growth. Reliance recently acquired Central Standard Life Insurance Company of Chicago on favorable terms and split its stock two-for-one this year.

Three other fire and casualty issues which, for one reason or another, appear to be moving into more favorable positions are Fireman's Fund, Great American and Phoenix Insurance. Fireman's Fund has reduced its expense ratio commendably in recent years and should be able to continue this process with the help of the volume increase obtained from the acquisition of the American Insurance Company early this year. Great American also has been establishing a basis for long-range betterment through expense ratio reduction. Phoenix Insurance still is well in the red on its underwriting operations but has been strengthening its position by a program of purchasing its shares in the open market and by reducing its expenses. As of Dec. 31, 1962, Phoenix had purchased in the open market 37,600 of the 1,000,000 issued shares of its capital stock. On June 30, 1963, the total number of its shares held in the Company's treasury had been increased to 42,500 shares.

Industry's Problems

Imposing underwriting problems continue to face the fire and casualty insurance companies. Automobile liability lines generally remain unprofitable or only marginally profitable. The key to the solution of the basic difficulties in this area of the business has not yet been found. With respect to

the fire lines, the widespread adoption of the homeowner multiple peril package policy has resulted in rate concessions of such magnitude as to shrink profit margins beyond the limits of acceptability. It has been stated that there is nothing wrong with this business that rate increases on the order of 10-15% would not cure. The hope is that steps to achieve the needed rate relief will be taken before long, but the time lag in obtaining such increases threatens to be longer than should be tolerated.

II Life Insurance

During this year significant events have taken place in the life insurance industry. The acquisition of fire and casualty companies by life companies, the acquisition of life companies by fire and casualty companies, and the organization of life companies by fire and casualty companies has continued. So far, no major life company has organized a fire and casualty company. Further, the life companies are striving for larger policies by a more professional approach which requires intensive training of salesmen in many areas: estate planning, taxes, inheritance laws, dissolutions of partnerships by death and retirement and educational plans. Visible indication of the pressure for sales is evidenced by the more aggressive use of television, newspaper and magazine advertising, and by solicitation of stockholders.

Mutual Fund Package

Ordinary policies written last year by U. S. Companies were almost twice the size of the average in force at the beginning of the year. Some of the concentration for greater size is on package policies embracing most types of insurance which the individual either will need or can use with monthly payments. A further development, mainly by small companies, is the sale of life insurance combined with an equity investment with periodical payments; in some states salesmen are now licensed for the dual functions of insurance and security selling. The equity investment in some cases is made in a mutual fund created and operated by the insurance company, and in others in an outside fund already established. This type of approach, so

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far, has made greater progress than the variable annuity, which is still having a battle.

In addition, many or most life companies announced new and lower rates during the past year and now life insurance costs less than ever. The principal causes leading to this reduction in price are new mortality tables which require less reserves, estimated lower operating expenses mainly through the use of electronic equipment, and greater earnings from interest on reserves. The ordinary policyholder death rate has become practically stationary since 1949. The rate averaged 7.5 per thousand during the 1930's, 7.0 in the 1940's, 6.1 in the 1950's, and 6.1 in the first three years of the 1960's. A further significant trend has been in the percentage of life insurance in force in the stock companies compared to the mutual companies. In 1945, the stock companies had in force 30.3% of the insurance in force in the United States, in 1950 the figure was 32.7%, in 1955 the figure was 36.8%, in 1960 the figure was 38.6% and in 1962 the figure was 40.0%.

Favorable Economic Factors

The growth of United States life companies as an industry is continuing to follow the climb of the past several decades. For the last fifty years, insurance in force, premium income, investment income, admitted assets and sales have doubled on the average of about every eleven years. The economic factors and the profit factors which produced these results have not changed and become adverse.

With relation to the economic factors, since the available figures of 1930, life insurance per family in that year was 147% of disposable personal income; 171% in 1961, 175% in 1962. The second economic factor; the ratio of premiums to disposable income, was 4.8% in 1930, rose to 7.2% in the depression, dropped to 3.3% after the advent of social security, and in 1962 it has risen to 3.8%, slightly above 1961. A contributing factor to profits has been the drop of 19% in policyholder death rates during the last 25 years. A factor affecting profits, the ratio of operating expenses to total income, had shown little increase since 1930. It was 16.5% in 1930, dropped to 13.4% in 1933, rose to 17.7% in 1960, and declined to 17.1% in 1962.

The factor of interest has be-

	Economic Factors		Profit Factors			
	Life Insurance Per Family	Disposable Personal Income Per Family	Ratio of Premiums to Disposable Personal Income	Ratio of Ordinary Policyholder Death Rates	Net Rate of Interest Earned on Invested Funds	Ratio of Operating Expenses to Total Income
1930	\$ 2,800	\$ 1,900	4.8%	7.1%	5.05%	16.5%
1931	2,800	1,600	5.7	7.4	4.93	14.9
1932	2,600	1,200	7.2	7.4	4.65	14.4
1933	2,400	1,200	7.2	7.6	4.25	13.4
1934	2,400	1,300	6.7	7.8	3.92	13.9
1935	2,400	1,400	6.3	7.7	3.70	14.0
1936	2,500	1,600	5.5	7.9	3.71	13.8
1937	2,600	1,700	5.3	7.7	3.69	14.2
1938	2,600	1,600	5.7	7.4	3.59	13.9
1939	2,600	1,600	5.4	7.4	3.54	14.0
1940	2,700	1,700	5.1	7.4	3.45	13.9
1941	2,800	2,100	4.3	7.1	3.42	14.0
1942	2,800	2,600	3.5	6.7	3.44	13.9
1943	3,000	2,900	3.3	7.1	3.33	13.6
1944	3,100	3,200	3.3	7.7	3.23	13.6
1945	3,200	3,200	3.4	7.9	3.11	13.7
1946	3,600	3,400	3.5	6.7	2.93	15.7
1947	3,900	3,500	3.6	6.3	2.88	17.0
1948	4,100	3,800	3.5	6.3	2.96	17.0
1949	4,300	3,800	3.6	6.1	3.06	17.0
1950	4,600	4,100	3.5	6.1	3.13	16.8
1951	4,900	4,400	3.4	6.1	3.18	16.5
1952	5,300	4,600	3.5	6.3	3.28	16.7
1953	5,800	4,700	3.6	6.2	3.36	17.0
1954	6,300	4,800	3.7	6.1	3.46	17.1
1955	6,900	5,000	3.7	6.0	3.51	16.9
1956	7,600	5,300	3.7	5.8	3.63	17.2
1957	8,300	5,500	3.8	6.1	3.75	17.8
1958	8,800	5,600	3.8	6.0	3.85	17.9
1959	9,500	5,900	3.9	6.0	3.96	17.6
1960	10,200	6,200	3.79	6.0	4.11	17.7
1961	10,800	6,300	3.82	6.1	4.22	17.3
1962	11,400	6,500	3.84	6.2	4.34	17.1

Source: Institute of Life Insurance

come steadily more favorable in the last few years. In 1930 the differential between interest earned and allowed on policies being written was about 1%, dropped to less than 1/2% in 1947 and this year is greater than in 1930.

Future Trends

There are some fairly general impressions among people in the life insurance industry as to the future course of the business. Competition in breadth of coverage and in price will be intensified especially in the "one stop" and monthly payment credit insurance policies. The umbrella coverage of life, accident and health, savings, education, automobile and residence is expected mainly from the middle income group. Combination (ordinary plus industrial) companies will pursue an advantage which they possess of developing business vertically rather than horizontally; they are finding it is cheaper to increase the size of policies held than it is to seek new customers. Prices per unit are declining but there is occurring an offsetting factor of the

expense saving due to the greater size of the policies. The population explosion is bringing a problem as well as an opportunity. From man's advent on earth to 1850, the population of the world had grown to one billion, in 1930 the population was two billion and in 1960 three billion. Estimates for 1975 are four billion and for 1985, five billion. The recruitment and training of salesmen is becoming a correspondingly greater problem for the industry to keep pace.

The public's interest in life insurance stocks began to attain importance about a dozen years ago, then flagged in the period of the middle to late 50's with the fear of new and heavy income taxes. After the tax bill of 1959 was passed, the interest resumed. The result of this interest in stock companies on the part of the public and of a growing tendency of managements to inform the public about their companies has resulted in increased demands for the stocks and consequent higher prices for them.

Investor's Problem

For the investor the important further need is a way of knowing the actual operating results of the companies. The life companies report earnings after charging to current operating expense the investment in new business. Until the amount of this charge or the amount earned on renewed business is made known, meaningful comparison of the relative values of companies is not possible. Several months ago the chairman of the Securities & Exchange Commission caused to be filed in Congress a bill which would subject the insurance business to disclosure requirements of the Securities & Exchange Act of 1934.

The growth of the life insurance industry and the figures which show that the trends are not yet changing have been set forth above. In order that these facts may not be construed as a recommendation for the purchase of life insurance stocks generally,

a few further words must be added. premium on the unpredictable development of a new company.

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Report of the Municipal Conference Committee

The Report of the Municipal Conference Committee, as submitted by Chairman Russell M. Ergood, Jr., Vice-President of Stroud & Co., Inc., Philadelphia, was as follows:

The IBA Second Municipal Conference was held in Chicago on June 19-21, 1963 at the Pick-Congress Hotel. It is now pleasant history.

Carrying out the purpose of the First Municipal Conference, which was to make available under the IBA umbrella more time for more people interested in municipal finance to discuss, study, and explore the many varied problems confronting the municipal bond industry, this Second Municipal Conference resumed where the First ended, on the next higher plateau of understanding and thinking. From all reports I am certain that those in attendance found the entire program interesting and educational,



Russell M. Ergood, Jr.

and took home with them much food for thought.

Another Financial Success

Once again the Conference attendance was over 400, with representatives from all of the 17 IBA groups in the United States. You will also be happy to learn that the Conference again was a financial success (25% more surplus this year than last), which, of course, is important since the IBA has authorized us to operate on a fully self-supporting basis, and again this was accomplished.

We were most fortunate in having on our program many notables in the field of finance from both industry and government, whose messages were educational, stimulating, and informative. For the information of those who were not in attendance, there is attached as Appendix A, an outline of the Conference program. [Ed. Note: Full text of the program appeared in the "Chronicle" of May 2, 1963.]

The outstanding national press coverage was another one of the highlights of the Conference. All of the large New York and Chicago newspapers were represented as well as all of the commercial publications of our industry. Our press room was something all can be proud of. Mr. John M. Nash, of our Washington staff, is to be complimented for this fine work.

Annual Meeting Endorsed

The conference questionnaire which was sent to all of those in attendance requesting their comments, received a tremendous response, with replies received from all sections of the country. In reply to the question, "Should a Municipal Conference be held annually for two days?"—it was unanimously affirmative. It also appears that the vast majority would like to have the conference moved annually to various geographical locations throughout the country. In general, we can report that the comments were highly enthusiastic and the following samples were typical:

"This is an excellent and well organized conference and should be continued."

"This being my first attendance I found the entire program quite educational and most interesting."

"Thought it well handled and should be of distinct benefit to younger fellows attending."

"I enjoyed it immensely for educational value and exposure to other members of our professional community."

"Less speeches and more panel questions selected in advance to stimulate discussions. Meet in a different place each year."

"Beautifully arranged and presented for second year in a row. Congratulations to committee and staff."

The Committee appreciates the many answers to the questionnaire, and suggestions submitted with respect to subjects for the program and for the general arrangements of the conference. They will be most helpful in setting up the program for next year.

We have already received several informal requests from various IBA groups concerning their acting as host for next year's municipal conference.

Another Meeting in 1964

The joint committees on program and arrangements, under the capable leadership of Donald C. Patterson and Arthur E. Kirtley, respectively, were composed of representatives from large and small dealers from various sections of the country, representing every local group in the IBA. We owe a vote of deep appreciation and sincere thanks to each and every one of them. They are listed in Appendix B. George B. Wendt, as hard-hitting chairman of the Municipal Securities Committee, can never be thanked enough for his untiring efforts and energetic support of this worthwhile cause. Also, we would be completely remiss if we failed to acknowledge Gordon Calvert and the IBA staff for their full cooperation and excellent assistance in every detail, for without their support, this conference could not be realized.

The Board of Governors has already authorized the holding of another Municipal Conference

next year. At their fall meeting at Pebble Beach, Calif. they unanimously passed a resolution authorizing that the Third Municipal Conference be held in 1964.

We will need assistance from many of you. We invite suggestions from all of you. We hope the conference next year will be even better than the one this year.

Respectfully submitted,
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Report of IBA Oil, Natural Gas Securities Committee

Kenneth E. Hill, Partner in Eastman Dillon, Union Securities & Co., New York City, and Chairman of the Oil and Natural Gas Securities Committee, submitted the following Report to the Convention:

Domestic Petroleum Industry

Although overcapacity in production and refining continue to be a problem for the United States petroleum industry, revenues and earnings of this sector of the business are expected to show significant improvement this year in comparison with 1962. A representative group of integrated oil companies will report domestic earnings of about \$2,150 million, up from \$1,990 million in 1962, an increase of approximately 8%. Consumption of petroleum, including exports, will reach 10.7 million barrels per day in 1963, as compared with 10.4 million in 1962, which represents a gain of 2.9%. Crude oil production was up 3% to 7.5 million b/d, and marketed gas production increased similarly to 14 trillion cubic feet. Output of natural gas liquids gained 6% to 1.1 million b/d this year.

Recently, however, a cloud has been placed on the domestic industry with the recurrence of product price wars which have plagued it from time to time, caused by excessive inventories and warm weather. This lower realization for products leads to doubt as to the immediate outlook for earnings. However, the in-

dustry is in better condition to endure periodic marketing vicissitudes through operating economies, better integration and diversification into allied activities. In addition, earnings from foreign production and domestic oil and gas acquisitions make most companies much less dependent upon fluctuating product prices for satisfactory earnings levels.

Demand

In the United States it is estimated that demand for petroleum will continue to expand at the rate of about 300,000 b/d through 1970, a compound growth rate of 2.7%. Natural gas consumption should grow at a somewhat faster rate with the consensus of various estimates approximating 4% per annum.

Supply

The petroleum industry is still faced with a larger surplus crude oil producing capacity than is necessary or desirable. In the United States this approximates 2.5 million barrels per day as compared with estimated production of crude in 1963 of 7.5 million barrels. However, recent years have witnessed little addition to domestic producing capacity while production has increased gradually. And with drilling steadily declining, this trend should continue.

Table I shows the trend of several pertinent factors of this important division of the industry with a rough estimate of the probable situation in 1965. Noteworthy is the fact that crude oil reserves have reached a peak and started to decline. Only Louisiana has

added reserves during the past five years, mostly offshore. Other important states have experienced declines, and except in Louisiana, there have been no major oil fields discovered during this period.

With a smaller number of exploratory wells turning up fewer important discoveries, it is difficult to maintain a backlog of development locations, and it seems inevitable that drilling will continue to decline slowly in the United States. As a consequence, oil reserves must also gradually decline and producing capacity will certainly drop sometime before 1970. Only in Texas and Louisiana is there now spare producing capacity of significance, about 1.5 million barrels daily in Texas and 750 thousand in Louisiana.

Under these circumstances, it is apparent that the domestic excess producing capacity will become less onerous within a few years. It should be remembered that it is necessary to maintain a surplus capacity of at least 10-15% in production and refining to provide a cushion for both seasonal needs and emergencies. If the above forecasts eventuate, slowly improving allowables in Texas and Louisiana could occur, starting after 1965.

Table II illustrates the probable trend in domestic supply related to demand.

Of the expected annual increment in domestic supply of nearly 300,000 barrels per day, domestic liquids production should account for about two-thirds with imports of crude and products comprising the remainder. Although the production outlook in the United States appears more sanguine, prospects for a crude price increase during this period appear remote.

Refining and Marketing

In domestic refining the industry has refrained from providing additional capacity in recent years, merely adding units to upgrade products and to modernize and automate. As a result, crude runs to stills in the United States are likely to average about 8.6 million barrels per day in 1963, or around 85% of capacity of about 10.2 million, up from 80% in 1958. And during January 1963, when the Western World experienced a record cold spell, most large domestic refineries were running at capacity, thus providing further evidence of the necessity for a 10-15% cushion for seasonal and emergency needs. Most marginal refineries have been closed down, leaving the industry with large, highly efficient, automated units which can be operated by half the work force of five years ago.

Marketing in the United States will continue to be highly competitive as the larger companies push their marketing diversification across the country. At the same time, marginal outlets are being closed and higher gallonage per station and per employee is being attained.

Financial

Although the domestic petroleum industry is characterized by extremely competitive conditions caused principally by overcapacity, various efficiencies introduced during the last five years have allowed the return on invested capital to increase from 7.2% in 1958 to an estimated 9% currently. The importance of this is demonstrated when it is realized

that the invested capital of this group of companies in the United States is about \$24.5 billion and every additional return of 1% represents \$245 million more in earnings.

During the past five years capital expenditures have been running between \$3 and \$3.3 billion each year for the Chase Manhattan group in the United States if we exclude the \$450 million for offshore lease expenditures in 1962, down about 10% from the level of 1956-57. During the same period, net income from United States operations has increased

from about \$1.35 billion to \$2.10 billion, or about 50%. Noncash charges for depreciation, depletion and amortization applicable to United States operations for this group has increased at least 25% during the same five-year span, thus providing more than ample funds for increased dividends and capital expenditures.

As long as overcapacity exists in the domestic industry and cash flow continues to improve, there does not appear any necessity for outside financing for internal expansion by the domestic oil industry. However, purchases by

TABLE I

United States Crude Oil Producing Data

Year	Producing Capacity Thousand Barrels/Day	Production Thousand Barrels/Day	%		Years Life	Wells Drilled
			Utilized	Reserves Billion Bbls		
1958	9,650	6,710	69.6	30.5	12.7	47,758
1959	9,700	7,054	72.7	31.7	12.4	49,496
1960	9,900	7,035	71.0	31.6	12.4	44,018
1961	10,100	7,183	71.0	31.8	12.2	43,871
1962	10,150	7,332	72.3	31.4	11.8	43,779
1963 (Est.)	10,200	7,500	73.5	31.3	11.4	42,500
1965 (Est.)	10,200	7,800	76.5	31.2	10.8	41,500

TABLE II

United States Supply and Demand

	Estimated		
	1962	1963	1965
	Thousands of Barrels/Day		
Crude Oil	7,332	7,500	7,800
Natural Gas Liquids	1,017	1,050	1,150
Total Production	8,349	8,550	8,950
Crude Oil Imports	1,126	1,150	1,200
Refined Product Imports	953	1,000	1,100
Total Imports	2,079	2,150	2,300
Total Supply	10,428	10,700	11,250
Demand	10,396	10,650	11,250
* Including Exports	1.8	150	150



Kenneth E. Hill

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integrated companies of large crude oil producing properties and chemical companies will have to be financed by equity, oil payments, and cash borrowings. During 1963 it is estimated that nearly a billion and a half dollars will be expended for acquisitions by large oil companies in the United States, of which one-fifth represented equity capital and the remainder long term borrowings from institutions. Transactions of this nature will probably continue to be substantial because additional sales of properties by independent producers are anticipated, as well as acquisition of diversified companies.

Despite the slow rate of growth in consumption in this country, the gap between supply and demand is expected to be reduced within a few years so that firmer prices for crude oil and products might be expected, and a major expansion program in the domestic industry may become necessary, principally in refining and marketing. At that time, cash generated within the industry may not be adequate to meet both the increased capital expenditures and a higher level of dividend payments. But debt-to-equity ratios for most companies will remain modest so that long term debt financing will likely provide the great bulk of these funds.

International Petroleum Industry

The petroleum industry is the largest industrial activity in the world from almost any aspect. Outside the United States it tends to dominate the economies of many countries since it often represents one of the largest sources of employment and capital investment. It is, therefore, vital to understand its contribution to energy consumption and capital investment in the Free World and the outlook for the future.

Demand

Today petroleum accounts for 46% of the Free World's energy requirements and natural gas a further 16%, making a total of 62% of all energy supplied by the oil and gas industry. Table III shows total energy consumption in the Free World for 1962 and 1963 broken down between petroleum, natural gas, coal and hydroelectric power.

As oil and gas continue to make inroads into coal as an energy source throughout the world, it is believed that by 1970 oil may have 49% of the market for energy and natural gas 18%, so that oil and gas, between them, will furnish two-thirds of the Free World's energy needs. This forecast is based on the phenomenal growth in petroleum de-

mand experienced in Western Europe over the past few years, which has exceeded 10%. But even this expansion has been eclipsed within Japan where the growth rate has been averaging 18% each year with the result that Japan will soon be the second largest petroleum consuming nation in the world, after the United States.

As a result of this rapid growth abroad and modest but steady expansion in the United States, it is expected that demand for petroleum in the Free World will increase over the remainder of this decade as shown in Table IV. The table indicates that the consumption of petroleum in the Free World should average about 23 million barrels daily in 1963 and increase at a rate of about 4.5% each year to a range of 31 to 32 million barrels per day in 1970. This is equivalent to an annual increment of 900 thousand barrels daily outside the United States and 300 thousand domestically, making a total of 1.2 million barrels of production and other facilities which must be provided each year for the anticipated expansion. The annual rate of growth in the United States at 2.7% per annum is less than half the 6.0% forecast for the rest of the Free World, and only one-third the annual volume.

Supply

Throughout the Free World it has been evident for some time that there is more than ample reserve producing capacity. It has been estimated that the world could produce five million barrels per day more than present rates of production, and of this amount about one-half is located outside the United States. But this ability to bring crude to markets outside North America is limited by existing pipeline capacity and port facilities rather than the productive capabilities of the known fields. However, it should be remembered that demand in the Free World is growing at the rate of 1.2 million barrels per day each year, which is the equivalent of the present production in the United Kingdom alone. It is, therefore, quite necessary to take the long range view of reserves and producing capacity in order to provide ample supplies for the future although the world today appears surfeited. Furthermore, political instability and uncertainties in the more prolific foreign producing areas requires excess producing capacity from many diversified sources as a hedge against political uncertainties. Therefore, despite the present excess capacity which should be with us at least through this decade, it is necessary from a long range standpoint for the Free World industry to continue its active search for oil and gas reserves in order to keep pace with the steadily increasing consumption of hydrocarbons. Such major additions of energy as the recent discoveries of natural gas in Holland can only be welcomed as a further hedge against political uncertainties, though it will tend to displace fuel oil and coal in Western Europe.

Transportation

From the foregoing it is obvious that the Free World has ample oil reserves to fulfill current demand. Yet to move these reserves to consuming markets requires large scale logistical

planning, pipelines, and a vast tanker fleet. The availability of tanker fleets has a direct bearing on the ease of movement and thus effects the world's oil supply pattern. Equally important is the fact that an abundance of tankers is conducive to lower transport rates and thus will deliver crude or products to the consuming nation at lower prices. At the end of 1962 the world tanker fleet (excluding ships of less than 2,000 dead weight tons) totalled 70.3 million dead weight tons, an increase of 3.2 million tons over the year earlier. The trend towards super tankers continues as does the retirement of older, smaller ships. In fact, most of the World War II T-2 type tankers have been scrapped, retired or, at best, are seeing very limited use. Tanker freight rates for general purpose tankers were quoted in October of this year at the lowest rates experienced for these tankers in the last two years though there has recently been some stiffening of rates. Short of some major political upheaval or interruption in the Free World supply pattern, there is little reason to expect that tanker rates will be increased significantly. In fact, it would appear that the availability of tankers is such that oil produced abroad in prolific quantities and at low cost should continue to be delivered cheaply in any consuming area of the world.

The Organization for Petroleum Exporting Countries (OPEC)

The members of OPEC continue to voice their discontent with existing agreements with companies producing oil in their countries and the pricing practices engaged in by the international oil industry. They have asked for numerous adjustments in present contractual relationships which would lead to higher income to the host countries per barrel of oil produced. At this time various companies are meeting with individual country representatives to discuss possible alterations of these contracts. It is rumored that the companies may be prepared to consider a change in the present method of considering royalty payments as an income tax item and accede to the demands of the host countries by considering them as an expense item instead. If this is true, a profit split of around 58-42 would result. In return for this, according to well informed sources, the companies will have a freer hand in setting more realistic posted prices and it is known that they are insistent on utilizing prices closer to actual discounted realizations for the calculation of income taxes rather than fictitious posted prices. If this rumored change in the contracts for the production of oil becomes effective, it is expected

Continued on page 88

TABLE III
Free World Energy Consumption

	Estimated		Change %	1963 1962	
	1963	1962		-% of Total -	
	Thousands	of B/D			
Petroleum	23,200	21,800	+ 6.4	46.4	45.5
Natural Gas	7,800	7,400	+ 5.4	15.6	15.5
Coal	15,400	15,300	+ 0.7	30.8	31.9
Hydroelectric	3,600	3,400	+ 5.9	7.2	7.1
Total	50,000	47,900	+ 4.4	100.0	100.0
United States	23,400	22,650	+ 3.3	46.8	47.3
Other Countries	26,600	25,250	+ 5.3	53.2	52.7
Total	50,000	47,900	+ 4.4	100.0	100.0

TABLE IV
Free World Growth in Demand

	1963	1965	1970	Growth Rate %/Year 1963-1970
	---- Thousands of B/D ----			
United States	10,500	11,100	12,500	2.7
Free Foreign	12,600	14,400	19,000	6.0
Total	23,100	25,500	31,500	4.5

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Report of Committee For Public Education on Municipal Securities

Fred D. Stone, Jr., Vice-President of the Buffalo, N. Y. office of the Marine Trust Co. of Western New York, in his capacity as Chairman of the Committee for Public Education on Municipal Securities, presented this Report to the Convention.

Once again, it is our privilege to report to our membership on the activities of the Committee for Public Education on Municipal Securities. Though the past year has been a very busy one for the industry and for all of us as individuals, your Committee has continued to work diligently in pursuing a course designed to create better public understanding as to the function of the municipal bond industry and to develop new materials to assist members to expand their municipal bond business.



Fred D. Stone, Jr.

Newspaper Coverage

Increased distribution of the newspaper series on municipal bonds entitled, "Your Community and You," was sought and was received through the excellent cooperation of the Group Chairmen. We are happy to report that an additional 106 community newspapers, as well as a number of dailies, were furnished with and are making use of these articles, bringing our total placement to over 400 papers. The articles have appeared in California, New Jersey, Pennsylvania, New York, North Carolina, Virginia, Connecticut, Maryland, Georgia, Michigan, Ohio, West Virginia, South Carolina, Tennessee and Texas newspapers, and undoubtedly elsewhere.

Following the success of our first advertising kit, "Nothing Ventured, Nothing Gained," it was decided that further flexibil-

ity as to variety and size of ads would strengthen our efforts in this field. The series of ten one-column ads entitled, "Ten New Salesmen," was developed and furnished free to members. We are happy to report that these proved to be most acceptable and received good use.

In the area of sales promotion, our booklet, "Why Professional People Invest in Municipal Bonds," has experienced sales in excess of 200,000 copies, with orders being received daily. The Committee is persuaded that these accomplishments represent reasonable progress but recognizes that much more remains to be done.

Many of our IBA members are just beginning to experience expanded business created by the power of advertising and the use of new sales promotion techniques. We are particularly gratified by the quality and scope of the advertising programs developed during the year by some of the smaller firms around the country, as evidenced by the display in the arcade. This success will lead to a greater demand for more effective and sophisticated promotional materials in the future, and we shall try to produce them.

Two New Brochures Available At This Convention

In fact, two new brochures are being introduced. One is entitled, "Why the Informed Investor Buys Tax-Exempt Municipal Bonds." The other, aimed at the distaff side which is reported to represent 51% of the shareholders of publicly owned American corporations, is entitled, "What Every Woman Investor Should Know About Municipal Bonds." We suspect that our female population affords us many likely municipal bond prospects, so we have a new brochure to develop that new area. Incidentally, this brochure was written in collaboration with the Washington staff and your Committee by a woman who for many years was the Woman's Editor of the "Baltimore Sun," and who is currently associated with a public relations and advertising firm specializing in the woman's market. We believe it will sell.

In addition to these two brochures, a bibliography of materials prepared by IBA member firms relating to the municipal bond business is being compiled. The information available through this pamphlet should prove of value to our industry. Copies will soon be distributed.

Many ideas and plans are being reviewed to develop new ways to expand and strengthen your municipal bond business in the coming year. You will hear more about these, we are sure, from your new Chairman and his Committee.

Last but not least, you have all by now inspected the Advertising Exhibit in the lower lobby. Here you see proof that advertising and sales promotion perform a vital service in expanding both our business and profits—that public education pays.

Respectfully submitted,
COMMITTEE FOR PUBLIC
EDUCATION ON
MUNICIPAL SECURITIES
Fred D. Stone, Jr., Chairman
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Report of IBA Foreign Investment Committee

Andrew N. Overby, Vice-President of First Boston Corp., New York City, in his capacity as Chairman of the Foreign Investment Committee, presented the following Report to the Convention.

During 1963, the Foreign Investment Committee has been mainly concerned with moves to restrict the traditional freedom of our capital market and most specifically with the proposed "Interest Equalization Tax Act of 1963" which President Kennedy recommended to the Congress on July 18, 1963 in his special message on the balance of payments. The Committee in previous years has expressed its belief that our balance of payments problem could and should be solved by wage, price, fiscal, monetary and other policies of a fundamental nature without resorting to measures of a restrictive and negative character which would interfere with the basic freedom and the economic strength of our economy which



Andrew N. Overby

Proposed Interest Equalization Tax

The President of the IBA and the Chairman of the Foreign Investment Committee of the IBA, with their associates, appeared before the Ways and Means Committee of the House of Representatives on Aug. 21, 1963 to testify in opposition to the proposed "Interest Equalization Tax Act of 1963."

The substance of the testimony of the IBA in opposition to the proposed tax is summarized in the following points.

(1) The proposed tax will adversely affect the United States balance of payments in the long run and will not significantly improve it in the short run.

Private foreign investment is an asset-creating expenditure. It improves the international asset position of the United States and benefits the balance of payments in future years through payments of interest dividends and return

of capital. In the five years from 1958 through 1962 the aggregate net outflow for new investment of \$16,626,000,000 was nearly offset by \$15,419,000,000 of income from all private foreign investment; in 1962 income exceeded the outflow.

Trade follows credit. With the dollars they obtain from U. S. purchases of their securities, countries such as Canada and Japan buy our goods and services. In many cases, the connection is direct and the proceeds of foreign issues are specifically used to buy U. S. goods and services and provide jobs for Americans. Moreover, over the years the U. S. balance of payments benefits from the repayment of principal and interest.

So far as purchases by Americans of outstanding foreign securities are concerned, if adjustment is made for securities which are to be exempted under the proposed Act, there was actually in 1962 a net surplus in the American balance of payments of \$56 million arising from transactions in outstanding foreign securities.

Considering the proposed exemptions under the Act—including a proposed exemption for new issues of Canadian securities—it would appear that the proposed tax would at best contribute to a slight temporary reduction in our balance of payments deficit by reducing the accumulation of long-term assets.

Fundamental Causes Ignored

(2) The proposed Act is not addressed to the fundamental causes of the balance of payments deficit.

Government grants and capital outflows in 1962 amounted to \$4.3 billion; moreover, overseas military expenditures of the United States amounted to a further \$3.0 billion. There is little hope of correcting our balance of payments deficit unless the balance of payments leakage that is involved in these Government expenditures is reduced, and reduced substantially. We must also improve our cost position in relation to our competitors abroad, and enhance the attractiveness of investment in the United States by reduction in personal and corporate income taxes and other appropriate measures.

(3) The proposed tax is more accurately described not as a tax at all but rather as a new protective tariff to limit the importation of foreign securities. The so-called "tax" represents a new barrier to the free international movement of capital and is a retreat from our long-standing policy of freedom for capital movements.

(4) The United States capital market, and foreign economies dependent upon it, may be seriously damaged. The U. S. has been the only free capital market in which the amount and terms on which the issuer can sell its securities are limited only by the market place. This is a precious national asset which should not be dissipated without convincing reasons of national interest.

(5) The proposed tax may create fears of further restrictions. Part of the responsibility of being the leading financial power of the world is to keep our currency strong and free from restrictions on its use. We must not impair the value of the dollar as the key currency of the world nor create fears that further restrictions may be imposed.

(6) The proposed tax is discriminatory. It selects only one aspect of private expenditure abroad, namely, private portfolio investment, for restriction through a special tariff while leaving unaffected private expenditures abroad for tourism, direct foreign investment and commercial bank loans.

(7) The proposed tax is administratively complex. Compliance and enforcement procedures will prove burdensome.

Alternative Suggestions

For the reasons enumerated above the IBA stated its belief that the restriction of portfolio investment by U. S. persons through the proposed Interest Equalization Tax Act was neither an effective nor desirable means of improving the U. S. balance

of payments position and should not be enacted. Any probable short-term beneficial effects would fall short of justifying the adverse consequences. It would be most injurious to the U. S. international capital market, which is a national asset to be fostered rather than injured. It would impose a hardship upon our friends abroad that over the long-run could only be detrimental to us as well.

Our long-term balance of payments position and outlook is strong. It would be better to deal with our present problem by improving our international competitive position, encouraging increased foreign investment in the United States, reducing our non-asset-creating expenditures abroad

Continued on page 111

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Report of the IBA Canadian Committee

J. Ian Crookston, Resident Director and Vice-President of Nesbitt, Thomson & Co. Ltd., Toronto.

The report on economic developments and financial conditions in Canada for the years 1962 and 1963, is being submitted to you together with the usual statistical supplement.



J. Ian Crookston

The Canadian economy in 1962 continued to advance from the recession trough of '60-'61, although in the second half of the year there was a clearly discernible pause. Thus the seasonally adjusted index of industrial production, which ended 1961 at 180.5, rose to 188.7 in August but in the ensuing five months rose by only one point. The same pattern has appeared in 1963. By May the index had reached 195.7, but at latest report in August it was still only 195.4. This was 18% higher than the recession low, hence both in amplitude and term, the current expansion must be rated as among the best in Canadian history.

Growth of Secondary Industry

An unusual feature of this expansion is that it has not been based on natural resource development. Rather it has arisen very largely from the growth of secondary industry, particularly iron and steel products, transportation equipment, chemicals and textiles. Some of the basic factors that have contributed to this have also been influential in the economy of the United States, such as the changing age composition of the population and the rising

scrapage rates of consumer durables. But an additional factor influencing the Canadian scene was the devaluation of the Canadian dollar to 92½ cents on May 2, 1962.

This measure immediately affected Canadian costs relative to those of other producers. The temporary imposition of import surcharges and the reduction in the amount of goods Canadians could bring back from abroad without paying duty reinforced the benefits conferred by devaluation upon Canadian production.

Wheat Sales to Russia

More recently, however, there have been indications that our natural resources may play a more positive role. In agriculture, a number of agreements have been signed with Communist countries which, taken in conjunction with increased requirements of what might be called regular customers, indicates that the record wheat crop this year of 723 million bushels will be completely sold, and a strong demand for Canadian grain should continue for the next two years at least. In base metals, prices of lead and zinc have been creeping upward as demand has been out-running supply in the free-world market, while aluminum has also strengthened slightly and output of this metal is rising. Natural gas continues to be one of the strongest growth areas among the minerals but oil, production of which has surged ahead under the stimulus of the National Oil Policy, will likely grow at a somewhat slower rate after 1963. The other major form of energy, hydro power, is coming to the fore again with the Canadian Government having reversed its policy with regard to exports on a long-term

basis. These will now be permitted, and discussions are underway concerning the development of the Columbia River, the Peace River and the Hamilton Falls, with a good part of the energy developed and at least two of these projects being destined for the U. S. market.

Balance of Payments Outlook Improved

These prospects in the area of natural resources have considerably improved the outlook for one aspect of the Canadian economy that has given rise to particular concern during the last two years — namely, the balance of payments. In each year since 1952 Canada has incurred a deficit in its current transactions with the rest of the world, reaching a peak in 1959 of \$1.5 billion. Since then the deficit has declined and this year it is expected to amount to approximately \$500 million compared with \$848 million in 1962 and \$982 million in 1961. Nevertheless, the consistent deficits of the past decade, financed as they have been by (and to some extent due in part to) the inflow of capital from the United States, imposed a steadily rising burden of interest and dividend payments on the current account and weakened significantly the balance of international indebtedness. The problem was aggravated by monetary policy which was particularly restrictive towards the end of the 1950s and forced interest rates in Canada significantly higher than in the United States, thus encouraging an inward movement of capital, forcing the Canadian dollar to a premium and making it more difficult for exporters to compete in foreign markets and easier for imported goods to compete with domestic products.

Canadian Dollar Devalued

Recognizing the essential nature of the problem and the importance of the exchange rate, the then Minister of Finance instructed the Central Bank to intervene in the exchange market with a view to bringing down

the value of the Canadian dollar, down through the winter of 1961-62. This occurred at the beginning of 1960, but the policy was only partially successful and in 1962, however, there was considerable talk of "Canada living beyond its means," of the weakness of the Canadian dollar, the dangers of the present position and the inability of the government to correct it. A flight of capital accomplished overnight, and the Canadian dollar continued to ease the dollar was devalued and

During the general election of 1962, however, there was considerable talk of "Canada living beyond its means," of the weakness of the Canadian dollar, the dangers of the present position and the inability of the government to correct it. A flight of capital accomplished overnight, and the Canadian dollar continued to ease the dollar was devalued and

Gross National Expenditure by Quarters
(Billions of Dollars. Seasonally adjusted at Annual Rates)

	1961					1962					1963	
	I	II	III	IV	YEAR	I	II	III	IV	YEAR	I	II
Consumer Expenditure	12.0	12.3	12.3	12.5	12.3	12.8	12.7	12.9	13.0	12.9	13.2	13.2
-Non-Durable Goods	2.6	2.7	2.9	2.7	2.7	2.9	2.9	2.8	3.0	2.9	3.0	3.1
-Durable Goods	9.4	9.5	9.6	9.7	9.5	9.8	9.9	10.0	10.1	10.0	10.4	10.5
-Services												
Total	23.9	24.4	24.7	24.9	24.5	25.5	25.6	25.7	26.2	25.7	26.6	26.8
Private Investment												
-Residential Construction	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
-Non-Res. Construction	2.6	2.6	2.7	2.8	2.7	2.8	2.7	2.6	2.7	2.7	2.7	2.8
-Machinery & Equipment	2.5	2.4	2.5	2.5	2.5	2.6	2.6	2.8	2.8	2.7	2.8	2.8
Total	6.5	6.4	6.7	6.8	6.7	6.9	6.9	7.0	7.1	7.0	7.1	7.2
Change in Inventories												
-Business	-	0.4	-	.8	0.3	0.2	0.3	.8	0.2	0.4	.1	-.1
-Farm	-.3	-.5	-.4	-.5	-.4	-.2	-.1	-.2	-.3	-.2	-.4	-.4
Total	-.3	-.1	-.4	.3	-.1	.4	.4	1.0	.5	.6	.5	.3
Government Expenditure on Goods and Services												
-Federal	2.9	2.9	3.0	3.1	3.0	3.0	3.2	3.0	2.9	3.0	3.1	3.0
-Provincial and Munc.	4.2	4.2	4.3	4.3	4.2	4.4	4.7	4.9	4.9	4.7	5.0	5.2
Total	7.1	7.1	7.3	7.4	7.2	7.4	7.9	7.8	7.8	7.7	8.1	8.2
Exports (Goods and Services)	7.3	7.5	7.9	7.9	7.6	7.9	8.3	8.2	8.4	8.2	8.5	8.9
Deduct: Imports (Goods and Services)	-8.4	-8.2	-8.7	-8.9	-8.5	-9.0	-9.2	-9.1	-8.8	-9.0	-9.1	-9.3
Net Exports	-1.1	-0.7	-0.8	-1.0	-0.9	-1.1	-0.9	-0.9	-0.4	-0.8	-0.6	-0.4
Gross National Expenditure	36.2	37.1	37.7	38.6	37.4	39.5	40.0	40.8	41.3	40.4	42.0	42.4

Gross National Product, by Quarters
(Billions of Dollars. Seasonally adjusted at Annual Rates)

	1961					1962					1963	
	I	II	III	IV	YEAR	I	II	III	IV	YEAR	I	II
Labour Income	18.6	18.9	19.2	19.5	19.1	19.9	20.3	20.5	20.7	20.4	21.3	21.5
Farm Income	1.0	1.0	1.0	.9	1.0	1.4	1.4	1.5	1.3	1.4	1.5	1.6
Corporate Profits	3.0	3.4	3.6	3.8	3.5	3.7	3.8	3.8	4.0	3.8	4.0	4.1
Deduct: Dividends Paid Abroad	-0.7	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.5	-0.6	-0.6	-0.6	-0.5
Other Income *	5.3	5.2	5.5	5.5	5.3	5.7	5.5	5.4	5.8	5.6	5.6	5.7
Net National Income	27.2	28.0	28.8	29.2	28.3	30.1	30.4	30.7	31.2	30.6	31.8	32.4
Ind. Taxes less Subsidies	4.6	4.7	4.6	5.0	4.7	5.2	5.2	5.4	5.3	5.3	5.6	5.4
Capital Consumption All.	4.5	4.5	4.6	4.6	4.5	4.7	4.7	4.8	4.9	4.8	4.8	4.9
Gross National Product	36.2	37.1	37.7	38.6	37.4	39.5	40.0	40.8	41.3	40.4	42.0	42.4

* Incl. Military Pay and Allowances, Rent, Interest and Miscellaneous Investment Income, Net Income of Non-Farm Unincorporated Business and Inventory Valuation Adjustment.

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Selected Monthly Economic Indicators
(Seasonally Adjusted)

Selected Monthly Economic Indicators - Continued
(Seasonally Adjusted)

Selected Monthly Economic Indicators - Continued

Selected Monthly Economic Indicators (Seasonally Adjusted)				Selected Monthly Economic Indicators - Continued (Seasonally Adjusted)			Selected Monthly Economic Indicators - Continued			
Industrial Production Index (1949=100)	Employment (Thousands)	Unemployment (% of Labour Force)	Labour Income (Million Dollars)	Retail Trade (Million Dollars)	Merchandise Exports (Million Dollars)	Merchandise Imports (Million Dollars)	Wholesale Prices (Index, 1935-39=100)	Consumer Price (Index 1949=100)	Prices of Industrial Common Stocks (Index 1956=100)	
1962										
January	179.1	6,136	6.0	1,650	1,426	502	509	237.0	129.7	136.2
February	181.4	6,145	6.2	1,660	1,430	521	516	237.1	129.8	137.0
March	183.9	6,202	5.9	1,675	1,463	508	534	237.0	129.7	138.6
April	184.0	6,210	5.8	1,680	1,457	513	500	237.4	130.3	136.7
May	186.1	6,235	5.6	1,692	1,454	561	567	239.3	130.1	130.5
June	1,863	6,279	6.0	1,695	1,439	531	527	240.3	130.5	115.4
July	186.7	6,251	6.4	1,704	1,464	527	553	241.3	131.0	113.8
August	188.7	6,264	5.9	1,709	1,445	530	528	242.6	131.4	120.7
September	188.8	6,208	5.7	1,713	1,445	530	528	241.9	131.0	117.6
October	189.1	6,200	5.8	1,723	1,466	531	524	241.7	131.5	113.8
November	189.6	6,244	5.9	1,729	1,474	544	505	242.2	131.9	121.2
December	189.7	6,230	6.0	1,730	1,486	543	499	242.2	131.9	124.0
1963										
January	189.4	6,226	5.8	1,771	1,510	539	520	242.9	132.0	129.8
February	191.1	6,254	5.6	1,769	1,512	534	500	242.7	132.1	129.0
March	194.0	6,265	5.7	1,778	1,504	576	503	242.4	132.1	129.0
April	194.3	6,299	5.4	1,790	1,495	575	545	242.8	132.3	134.7
May	195.7	6,293	5.7	1,795	1,511	607	533	244.4	132.3	139.6
June	195.9	6,351	6.0	1,800	1,525	573	557	245.8	132.8	137.4
July	193.1	6,400	6.0	1,800	1,508	542	560	246.2	133.5	133.0
August	195.4	6,404	5.4	1,827	1,530	557	557	244.7	133.9	130.7
September		6,374	5.3			602	565	245.2	133.4	136.0
October										

pegged at 92½ cents U. S. while arrangements were made with the International Monetary Fund, the Bank of England and the Federal Reserve of New York to make available \$650 million U. S. Other measures were taken at the time to stem the flow.

Beneficial Results

These steps were successful, but the experience had a two-fold effect on the thinking of Canadian authorities. The first was that our vulnerability to a flight of capital had to be reduced, which meant strengthening our balance of payments by increasing exports or reducing imports to the extent where Canada would not need to import any capital. We are coming close to this position. The second effect was that officials were pleasantly surprised at the stimulus the devalued and pegged dollar gave to Canadian secondary industry, and it is a second cardinal feature of Canadian policy at the present time that the exchange rate must be defended and prevented both from going down any further and from going up. This policy, and its implications, have been made clearly apparent by the events in recent months as described under the heading of financial markets.

Capital Spending Higher

With rising exports and a strong domestic market, Canadian industry has been operating at higher ratios of capacity. Indeed, in steel, chemicals, textiles and automobiles, output is pressing capacity. Under these circumstances, capital spending on new plant and equipment has again started to rise. In 1962, for the

first time since 1957, there was an increase in the real volume of capital expenditures on new plant, equipment and housing, with the increase being close to 4%. However, the total value in terms of 1957 dollars was still only \$8.1 billion, equivalent to 21.8% of the gross national product, compared with \$8.7 billion or 27.3% of gross national product in 1957.

The latest estimates of public and private investment for 1963 published by the Department of Trade & Commerce projected an increase of 6.9% in terms of current prices over 1962. There are indications that the actual value of work put in place may fall a little short of this projection, but the uptrend is a welcome continuation of that of 1962 and expectations are for a further increase in 1964.

Inventory accumulation has continued to be quite moderate and the inventory sales ratio has remained remarkably steady at a fairly low level. Government expenditures on goods and services, particularly at the Provincial and Municipal levels, have been rising steadily apart from a decline in Federal spending in the second half of last year. Consumer expenditures have also remained strong, although this has been accompanied by an expansion of consumer credit, which this year may rise by 8½%-9% in continuation of the average rate of growth experienced since 1955. There is some cause for concern in the fact that the Canadian consumer appears now to be carrying as heavy a debt burden as his counterpart in the United States, as measured both in debt per

capita and in relation to personal disposal income.

Further Growth in GNP

The gross national product, which in 1962 increased by 8%, is expected to rise by 5½%-6% in 1963, with the increase in volume terms being of the order of 4½%. From what can be seen at this stage, there appears a good possibility of further growth in 1964 of from 4%-4½% in gross national product.

Financial Conditions

Financial conditions in Canada during the past two years have been determined by developments in our balance of payments. Domestic conditions called for a relatively easy money policy, for unemployment, as shown in the accompanying table, has remained fairly high at between 5% and 7% of the labor force on a seasonally adjusted basis and there was a good deal of excess capacity in Canadian industry. Hence so long as there was no very great pressure on the Canadian gold and foreign exchange reserves, the Central Bank expanded the money supply at what for Canada was an above average rate. When,

however, the reserves came under pressure, as they did in the Spring and early Summer of 1962 at the time of devaluation, and as they did again in the Summer of 1963 when the President of the United States announced the interest equalization tax, the Bank of Canada has moved quickly to tighten credit.

From the start of 1963 until the end of July, the seasonally adjusted money supply rose by 5.5% to reach \$16.1 billion. By historical standards in Canada this can certainly be described as being easy money, and it is therefore no surprise that the bond market was generally firm throughout most of this period with the government of Canada 4½% 1983, the usual yardstick for the long-end of the bond market, rising from approximately 92½% to 94½% early in June.

The tightening of credit in July forced interest rates upwards. The Government of Canada 4½% 1983 fell from 93 on July 17 to 89½ in early September. In September, however, there was a change. The bond market improved noticeably with the 4½% 1983 recovering again to around

93¼ by month's end at which level they have tended to stabilize.

However, the 1963 crisis was not nearly as severe as that of 1962, and the amplitude of the fluctuation in interest rates was therefore very much narrower. This was particularly noticeable in the short-end of the market. Whereas last year the average yield on the three month Treasury Bill tender at month-end ranged from 3.07% to 5.45% between April and June, and ended the year at 3.91%, the range so far in 1963 has been from 3.19% to 3.71%. In November, the rate on three month bills in Canada was only ten basis points above that on three month bills in the United States, and U. S. 90 day forwards were quoted at a slight discount under spot—an unusual occurrence. This narrowing of the spread between interest rates in Canada and the United States reflects the strengthened balance of payments position and an undertaking by the Bank of Canada not to increase the reserves of gold and foreign exchange unduly by

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interest equalization tax by the President of the United States, however, recourse to the New York market has been almost non-existent. Net new issues of Canadian securities in the second half of the year have been almost entirely absorbed in the Canadian market, with almost half of the total being represented by Canada Savings Bonds.

Apart from the brief crisis during the Summer months arising from the budget and the interest equalization tax, financial markets in Canada can be described as having been fairly stable. In view of the continued improvement in the balance of payments position, we would expect interest rates to move broadly in line with those in the United States during coming months.

Respectfully submitted,

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Summary of Report of Municipal Practices Group

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their proxies at the final meeting. (d) Managers should not impose on a member the necessity of filing a pre-meeting limit, but should allow him to appoint a proxy with discretion to act in his behalf at the final meeting.

(12) Observance of Syndicate Terms

(a) The account deserves protection against syndicate violations by members; members should report any known violations to the manager who, in his discretion, may notify the account of the violation and the violator.

(b) Managers should set up some criteria to determine which banks the account considers dealer-banks and therefore who may receive a dealer concession on member sales. We suggest a specific list or appearance in a dealer directory. Managers should definitely specify whether or not the granting of the dealer concession to dealer-banks extends to revenue bonds.

(c) The practice of going short bonds in syndicate account by a member of that account should be considered a violation of syndicate terms.

(13) Bona Fide Offering

Managers should incorporate in their syndicate letters a statement to the effect that a member is expected to make a bona fide initial offering to the public of bonds bought by the syndicate and allotted to him. The term "initial offering" might be interpreted as a period of 24 hours after a member knows his allotment.

Syndicate Allocation Procedures

Many changes have occurred postwar in the distribution and allocation processes of the municipal industry. The committee is uneasy over the direction which this change is taking; it is concerned over the form into which our allocation processes have evolved. The committee believes that these allocation procedures often produce results in conflict with two basic principles, namely:

(a) In allocating bonds the manager acts as agent for the

account. In this respect he acts somewhat as a fiduciary and his own separate interests must be subordinated to the best interests of his principals. In short the procedures the manager adopts should be designed to insure that there is no profit derived specifically from his acts as agent. These procedures should (i) minimize conflicts of interest between the manager's sales force and the interests of the account as a whole, (ii) avoid an obligation on the part of customers to the manager that might be created by the manager in accepting and allocating against priority orders, (iii) insure release to the account of pertinent information which properly belongs to the account and (iv) insure equal treatment of members under similar circumstances.

(b) In its allocation processes, the industry is under an obligation to produce results that as much as possible are equally fair to all concerned—the small member and the large member—the small investor and the large investor—the dealer bank and the non-dealer bank. These procedures should lead toward the availability of securities for all classes of legitimate investors. To do other than to insure such fairness to those involved is to invite deserved criticism from both within as well as outside our industry. Practices currently in use such as permitting escalation of orders, reclassification of orders, and auctions during the order period do not always do this.

The committee believes the industry needs new procedures or strengthening of old ones that are consistent with the above general principles. Under the four natural divisions of priority orders, pre-sale orders, members' orders and sales at down prices, certain procedures in the allocation process are recommended that the committee feels are in harmony with these criteria.

(I) Priority Orders

The committee recommends the following specific procedures:

(a) Continue the practice of allowing net buyers to designate

sales on priority orders (although some managers will perhaps prefer not to permit them and it is admitted this choice would certainly simplify the allocation process).

(b) Have a single priority category. Group net orders would have no priority over designated orders; however, if a conflict exists in any maturity, all bonds in that maturity would be confirmed

out for the benefit of the account at the net price.

(c) Adopt a split order period in which priority orders will be accepted during only the first half of the period; in this way members, when putting in their orders, will have the benefit of knowing what group business was received by the account.

(d) The manager should advise all members of the account, as

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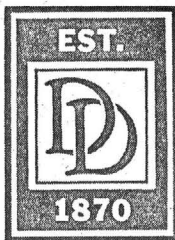
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Summary of Report of Municipal Practices Group

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promptly as possible, the names of all priority buyers and the amounts and maturities of their purchases.

(e) (i) Allow no more than the dealer concession as a designated sales credit, and perhaps limit it to something less than that. (ii) The committee considers any priority status that the intention of the institutional account is to use the bonds for investment purposes.

(f) Limit priority orders to bona fide institutional accounts and make implicit in the granting of priority status that the intention of the institutional account is to use the bonds for investment purposes.

(g) Discontinue the practice of

allowing banks to place priority orders for investment at the dealer concession; however bank members of the syndicate should have the right to place investment orders on a priority basis and receive themselves the designated sales credit, provided no conflict exists.

(h) Prohibit a group buyer from reclassifying the size of his order or making it all or none during the order period with the obvious intent of insuring allocation of his full order. It is also recommended that managers not confirm bonds before the end of the priority order period even though the order is predicated upon immediate confirmation.

(i) In the event of conflict, confirm group orders pro rata to the

size of the order in each maturity, provided other factors, in the manager's judgment, don't weigh against this method.

(2) Pre-sale Orders and Indications

In as much as all members of the account are present or represented by proxy at the final price meeting, there appears to be no reason that prevents the account from selling bonds pre-sale to whomever it wishes at whatever price it wishes.

The committee recommends the following specific procedures:

(a) A bona fide polled vote of members should be taken on confirming pre-sale orders.

(b) Members are entitled to know the nature of the order—whether bonds are "going away" or whether they will be re-offered in the street; whether the bonds will be sold net or at a concession; whether or not the buyer is a dealer or dealer-bank, etc. Disclosure of this information will permit members to base their decision on the practical questions—does the order help the bid? Is confirmation of the bonds best for the deal?

(c) If a pre-sale order is placed by a group buyer who has requested that he be covered only by the manager, his name should be disclosed and the order treated as a group order, with the right to designate credit if he chooses.

(d) If a pre-sale confirmation of bonds is against a take down by a member or group of members and not against a definite order, then any other member of the account should be permitted a share of the bonds in the ratio that his participation bears to that of the others who want to share in the take down.

(3) Members' Orders

The committee recommends the following specific procedures:

(a) (i) The method that seems most correct is allocation maturity by maturity and, in case of conflict, pro rata to participation rather than to size of order. (ii) Managers usually should allocate against orders in a manner designed to move the greatest number of bonds. (iii) Strip orders should receive no preference. (iv) The question of who gets bonds where an all or none order conflicts with members' orders must be left to the manager—in general the non-qualified order should get preference, however.

(b) A member should not be confirmed bonds before the end of the order period even though his order is predicated upon early confirmation.

(c) It is not feasible for the manager to have responsibility for determining whether a member's subscription is against an order or only for take down; nor are we at all certain whether the question is material so long as a bona fide offering is required.

(4) Sales at Down Prices

The process of selling bonds against bids at less than list prices is a painful process for syndicates and never free from problems. Among these problems are: (i) the universal conflict between those who feel a commission should be paid on down sales because a salesman has performed a useful function and those who feel a commission should not be paid unless all members enjoyed the same right to solicit the bid; (ii)

the occasional lack of disclosure by the manager to all members that a sale has taken place at a price below syndicate terms; (iii) the jeopardy in which a member's relationship with his customer is placed should the member offer or sell to the customer at list price without disclosure that other sales have taken place at a down price.

We make the following specific recommendations:

(a) A manager on the initial sale at a down price or a subsequent sale at a lower price should obtain the approval of a majority participation in the account. Obtaining this approval in a large account can involve a major effort, so when a limit is established by the initial sale, the account should authorize the manager, in his discretion, to permit further sales inside this limit.

(b) The same sort of disclosure mentioned above under Pre-sale Orders, as to the nature of the order, should be made to the members.

(c) Members should be notified of all cut price sales to protect them with their own customers. If prior to such notification, a member comes into the manager to take down bonds at a higher price, he should be told of the cut price sale.

(d) A member who objects to a sale of bonds at a cut price, which sale has been given majority approval by the members, has no right to claim that his own pro-rata share of the bonds be sold to him at this price (on the theory that the syndicate agreement stated that pricing of bonds would be done by the majority interest of the account.)

(e) A bid for a block of bonds should be considered by an account and accepted or rejected before other outlets for the bonds are tried; it appears to be poor procedure for a buyer's bid to an account to be shopped.

(f) If a bid is rejected by an account, the buyer should be allowed to leave it in to protect himself against later sales at the same price. If the buyer doesn't want to do this, the account seems to owe him no obligation if it chooses at a later date to accept another buyer's bid at the same price.

(g) It doesn't seem reasonable for a member to have the right to force a manager to poll the account on any bid the manager deems unreasonable. However, as

pointed out before, we believe a sufficient number of members should be able to petition a manager to call a meeting to discuss the future of the account.

(h) If an account sells bonds at less than list price against a bid, it should not permit a member who holds bonds of like maturity outside the account to automatically match the sales price on his own bonds. He must obtain the account's permission to do this.

Conclusion

It is hoped that the foregoing will be accepted by managers or will stimulate them to devise other allocation procedures consistent with their obligation to account members and the public investor. It is also hoped that managers will make these procedures available to members in written form, either in the syndicate letter or separately.

Respectfully submitted,
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The SEC After the Special Study of Securities Markets

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objectives: namely, to extend disclosure to unlisted securities having a broad public interest and to strengthen qualification standards and controls over those in the securities business. We believe that improvements in the securities markets are best insured by the combination of better information about securities on the one hand and better qualified persons to use and evaluate that information on the other. I am sure you concur with this view.

There is a lesson which may be drawn from this effort. It is possible to evolve a program which serves both your interest and the public interest. Undoubtedly the exchanges may obtain some new listings as a result of this legislation and the NASD will obtain some new members and increased stature. However, you support the bill not for these reasons alone, but because it will raise standards and serve the interests of the investing public. To that end the NASD, for example, has stated its clear willingness to assume the additional responsibilities and the added burdens which this legislation will entail for it.

Non-Legislative Proposals

Our joint approach to the bill thus furnishes a constructive foundation upon which we can go forward with the more intricate, and I suspect more controversial, problems involved in those changes which we and you may make without legislation in response to the Study's recommendations. The greatest number of the Study's 175 specific recommendations fall in this category. These recommendations cover the gamut: the securities industry, the markets, the self-regulatory agencies, and the Commission itself.

In this area we have so far done several things. We have expressed our views regarding the Study's recommendations in three letters to the Congress. We indicated where we agreed with the Study and where we believed a problem warranted further examination. Further, we have established certain priorities which I recently detailed to the Congress. The priority projects may be broken down into those which are of industry-wide concern and those which, while of importance to all, relate to a particular self-regulatory agency. In the first category there is the vital area of selling practices which go to the heart of the relationship between a broker-dealer and his cus-

tomers, the matter of minimum capital requirements, and controls over distributions. Turning to the exchanges we have set as the first order of business the questions involving floor traders, odd lots, specialists and automation; and with respect to the NASD—quotations, retail executions, markup policies, and the organization and structure of the NASD itself.

In addition to responding to the Study's recommendations and establishing priorities, we have initiated discussions with the industry at several levels. We have endeavored to arrive at target dates for responses or action. At the same time our staff is continuing an intensive examination of the Study's recommendations and the best means for carrying them into effect.

The industry in the meantime has not been idle. You have formed your own study groups and, significantly, you have already taken action upon a number of recommendations of the Study and upon a number of questions that it raised. I shall not itemize these here today but we are certainly not unmindful of them.

The industry's reaction to the Report has, with few exceptions, been a responsible one. There is not only your contribution to the legislation but your willingness to review, to study, and to evaluate the recommendations. You have not allowed your thinking to be dominated by what might perhaps be an understandable emotional reaction to criticism and to suggested changes in traditional practices.

Serious Problems Exist

Carrying on from there, I would like to offer a few points of departure for the future. In the first place, we firmly believe that the Study has exposed a wide range of serious problems demanding attention and action. Neither the letters to Congress nor the establishment of a schedule of priorities were intended to detract from the importance of the Study's recommendations or to relegate any of them to the shelf. In the second place, it would be idle for me to urge upon you the immediate adoption of all or most of the Study's recommendations. I know, as you know, that solutions for many of these problems will have to be hammered out through a process of serious discussion and interchange of views. Nevertheless, hammered out they must be. They are important and they are here before us—and before the Congress and

the public. We recognize them, and we must deal with them.

In so doing, there are, I submit, certain principles to be observed and certain pitfalls to avoid. Some recent public statements by industry leaders with respect to implementation have pointed out the need to proceed with caution and to test every proposed change for all of its possible ramifications and repercussions since the securities markets are a delicate and crucial part of our economy. With this one cannot disagree in principle. It is obvious that we must proceed with care, but proceed we must. The issue is one of degree, of emphasis, and of a genuine desire to effect changes which are needed. The fact that a problem is intricate does not mean that it can be ignored. We must be prepared to consider fresh, clear approaches; we cannot afford to think in clichés. If a particular recommendation of the Study strikes you as impracticable or unwise, this does not mean that the problem with which it attempts to deal should be left unresolved. Alternatives must be examined and solutions—perhaps less than perfect from the viewpoint of either of us—may have to be accepted.

Attitude Toward Automation

Let me give you an example of the type of approach and understanding which concerns us. The Study found it necessary to discuss at various points the emerging impact of automation upon the securities markets and the possible regulatory and other uses to which this technology might be put. We observed in some quarters a misunderstanding of these discussions. It was suggested that we were trying to tell businessmen how to run their businesses or implying that the skill and judgment of professionals in the market place could be replaced by a computer. We have no such ideas and the Study did not have them either.

But the Commission has a definite interest in automation insofar as it expands our capacity to understand the markets and to discharge our regulatory responsibilities. There is every reason to believe that the capacity of such equipment to collect data and to reconstruct the market will be an invaluable tool for surveillance and for the collection of essential information. The availability of this equipment—which is now being studied or installed at the two large New York Exchanges—presents both an opportunity and a challenge. It may well obviate certain problems presented by the Study.

Congratulates N. Y. S. E.

Another entirely separate incident of recent days illustrates

the need to face up to underlying problems. Within recent time responsible industry groups have publicly stated in response to the Study's recommendations in Chapter III, that their concern for the financial responsibility of members avoided the need for action with respect to these recommendations. Last week the New York Stock Exchange gave a dramatic, impressive demonstration of its strength and concern for the public interest by taking action, in a specific case, to support the position it had publicly stated.

We were, of course, gratified by this prompt and decisive response to a public need in a particular situation. This, however, should not divert attention from the need for the adoption of rules to prevent recurrence of the sorry situation which gave rise to it. Fresh and imaginative thinking of the type given to the particular case must be devoted to the general problem. We should not wait for crises; but if one

occurs, we should profit from it and move towards a long-range solution.

"Not Pure Private Enterprise"

There is another aspect of implementation which warrants mention. Some may think that all that is asked of you is a response to the suggestion (or if you will, the prodding) of the Commission. I would say that many of the problems described in the Study Report would have to be met by the securities industry whether or not there was a Commission to provide oversight. The industry, through its self-regulatory associations, has taken collective action which has an immediate and important economic impact on the public. For example, an exchange as a body may set minimum commission rates to be charged by its members; it may prohibit its members generally from dealing in listed securities off the exchange; and may not allow non-

Continued on page 48

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The SEC After the Special Study of Securities Markets

Continued from page 47

members to deal on the exchange. I am not here casting doubts on the benefits and necessity of this system or the traditional structure of an exchange. I am only suggesting that these characteristics inevitably raise questions of public policy. We must all recognize this is not pure private enterprise but has ingredients of private government. Certainly if the Commission were not here to focus on these questions, and even with the Commission here, other arms of the government might believe scrutiny was necessary.

Similarly, in the field of retail quotations of over-the-counter securities, even if the SEC had no jurisdiction, there is another factor which might well affect your thinking. As you know, one prominent newspaper has changed the masthead on the retail quotations it publishes and has undertaken its own assessment of that system. Government is not the only force affecting judgment. There are forces active outside the formal government structure which precipitate our thinking.

The Merger Trend in Securities Industry

Although the Study considered many things, not all the problems confronting the financial community are fully described within the covers of its Report. There are, for example, forces moving towards concentration in the securities industry — a trend not unrelated to automation and its costs. Mergers are being announced and local firms are being absorbed by nationwide ones. Upon the basis of our own experience and the examples cited in the Study Report, this trend toward concentration seems to be accompanied by a correlative problem of supervision over

branch offices, a problem of particular difficulty in rapidly expanding firms where growth outruns existing controls. Furthermore, mergers and concentration in the securities business, like any other business, must be viewed with an eye to the antitrust laws. All of these factors—the costs of running a business, the need for supervision, and the principle of competition—must be kept in balance as the industry realigns itself.

B

Investment Company Act

With respect to the Investment Company Act, I can report steady progress and better understanding on the part of the Commission of the underlying problems. From the enactment of the 1940 Act until 1961, there had been inspection of only 30 investment companies. We have activated a broad inspection program of investment companies which is gradually showing important results. Irregularities and violations of the 1940 Act have been found, and even larceny or violation of fiduciary responsibility uncovered in a few situations. Except for the latter, however, the basic problem seems to be one of education, the understanding of an Act which has meritorious objectives but is complex.

In addition, we are in the last stages of developing a new comprehensive annual report form which in our opinion will meet two objectives. First of all, it will help educate or remind investment companies about the basic requirements of the Act. Secondly, it represents a movement towards self-inspection which is consistent with our philosophy that part of the regulatory responsibility should be placed on the industry. We expect to enlist the aid of the independent certified public accountant who would certify not only the financial statements but also compliance with those sections of the Act which he is in a position to check. This report will avoid an inordinate increase in the Commission's staff. At the same time it will help to assure

that the major points are being examined and can be readily reviewed by us. There is no reason why government should expand when others can be induced to fill the vacuum.

Banks Going Into the Fund Business

The second matter with which we have been dealing involves the proposed commingling by commercial banks of managing agency accounts and the expansion of their common trust fund activities far beyond the traditional limits permitted during 25 years of Federal Reserve Board supervision. We have taken the position that here the banks are moving squarely into the mutual fund business and hence this new phase of expansion must be subject to the Investment Company Act of 1940 and the Securities Act. Consistently, we have applied the same rationale to variable annuities, and have prevailed in the courts—at least thus far. To us, all investors in mutual funds should receive the same protections regardless of whether the fund is sponsored by a bank, an insurance company, a broker, an investment counsellor or any other person.

"Front-End Load" Plans

The third subject of concern is the front-end load or the contractual plan. Although the Special Study expressed the view that consideration should be given to abolition (that is, abolition of future contractual plans), the Commission has not yet arrived at any decision. Only the Association of Mutual Fund Plan Sponsors has asked for an opportunity to present evidence. Yet clearly the question is not limited to that group alone, since roughly one-sixth of all mutual fund shares are being sold through contractual plans. The problem of this initial sales cost is therefore one which the whole mutual fund industry should face squarely.

Conceivably this problem may find some resolution without Commission or Congressional action through the operation of developing competitive forces. The entry of banks into the mutual fund field may have an impact, particularly if, as they have indicated, their offerings would be on a no-load basis. This competition

as well as the planned entry of mail order firms and even the stretch-out-front-end load plans presently before us may sow the seeds of change.

Meantime, until definitive Commission or Congressional action has been taken, our processing of filings of conventional front-end load plans will continue, and hopefully with expedition. It would be unconscionable for us to delay the registration process pending implementation of Special Study recommendations or because of individual opinions as to the desirability of continuance of future front-end load plans. To do otherwise would be bureaucracy at its worst.

C

Status of "Hot Issues"

Turning now to registration matters, the Report says: "The Commission's administration of the registration . . . and related exemption provisions of the Securities Act has been one of its most outstanding achievements, and the statute itself has proved generally adequate and workable." Here perhaps we have the least problems—relatively. And yet improvements can be made.

Present controls over new issues—particularly over the "hot issue"—were subjected to criticism, and the Study's proposals are being explored. One very practical point has been brought home to us: that disclosure is not enough unless the facts are widely disseminated. We have taken this problem up with the principal investment services, and expect to make headway with their cooperation.

Independently of the Study Report, we have recently begun a review of our over-all program in the disclosure field. Simplification in the established registration process is not easy to achieve and yet it is a worthy goal. We

are trying — by developing a shorter form for equity securities of established issuers, by publishing a series of releases designed to clarify Commission policies in a number of areas, and by other approaches. Our proxy rules are also presently undergoing thorough reanalysis. These are areas which most of you are not only interested in, but in sympathy with, and we shall undoubtedly be soliciting your views.

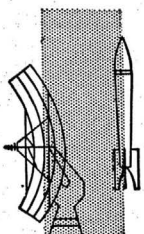
III

Decision and Action Needed

In conclusion, not only the Commission but the times and the needs of your industry and of the investing public call for action upon the Special Study's recommendations and the other matters discussed today. By that I mean not action on some distant tomorrow but in the immediately foreseeable future. I know that the problems are many and often complex. They did not sprout up overnight, and many of them are not likely to be settled overnight. But time is a crucial element in this program to raise the level of investor protection. Some items require further study. But many have already been the subject of a great deal of study. The need now in many cases is for decision and for action.

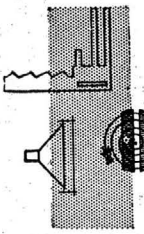
In this connection, let me remind you—if reminder of such a point is needed—that to offset the intricacy of some of the problems is the wealth of able, experienced people who make up this industry. In a word, you have the capacity to meet the challenge, and I am confident that with sincere and conscientious effort the industry can join with the Commission to find answers to these pressing, common questions.

*An address by Mr. Cary before the 52nd Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 2, 1963.



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Report of the Education Committee

As Chairman of the Education Committee, Avery Rockefeller, Jr., Partner, Dominick & Dominick, New York City, presented the following Report:

This release presents excerpts from the December, 1963 IBA Educational Bulletin which serves as the annual report of the Education Committee. The Release also in some measure supplements the report.



Avery Rockefeller, Jr. H. L. Parker

The national IBA Education Committee and its 17 regional Group Education Committees throughout the country have during the past year actively continued and extended their educational, public relations, and promotional programs — both for the public and for members of the securities industry.

1963 Institute of Investment Banking

The Institute of Investment Banking is the major individual project of the Education Committee. It preempts more Committee and staff time and effort than any other single activity.

The eleventh annual Institute of Investment Banking was again, in 1963 (March 10-15), a highly successful operation from the standpoint of the caliber of the program and the aggregate registration. Through expanded facilities and a revised program format last year there was a substantial increase in the number of registrants who could be enrolled and an all-time record attendance of 343 junior officers, partners and other experienced personnel. Despite a less favorable business climate this year, the attendance held up remarkably well with a total of 320 registrants.

All-told, 98 speakers, panelists, discussion leaders and other participants provided a rich program

covering all phases of the investment banking business. Featured speakers included President Amyas Ames and SEC Chairman Cary. Program participants were drawn from the following sources: IBA Members (53); Wharton Faculty (19); Other Financial Institutions, Business and Government (23); and IBA Staff (3).

Registrant responses to the Institute questionnaire reflect enthusiastic approval of program and procedures while at the same time providing suggestions for possible improvement.

The Institute was conducted under the supervision of H. Lawrence Parker and the members of his Planning Committee with the full cooperation of the Dean and members of the faculty at the Wharton School. Chairman Parker on behalf of his Committee expressed gratitude for the cooperation of all who contributed to the success of the 1963 Institute. A comprehensive printed report on the 1963 Institute in text and pictures was made available at the Spring Meeting of the Board and distributed to all member offices.

1964 Institute of Investment Banking

In 1964 the Institute will be held during the week of March 8-13, again at the Wharton School. The program for all three classes will strongly reflect developments in the industry growing out of or portended by the SEC Special Study. For example, one entire afternoon will be devoted to a briefing session on the Special Study and its implications as well as already realized changes in legislation and regulations. IBA leaders who are knowledgeable in specialized fields of the securities business and who have been closely identified with the efforts of the industry responsive to the Study will participate in the program either as speakers, panelists or discussion leaders.

One important change is being made by the Institute Planning Committee. Heretofore both first and second year registrants have been required to submit an essay

as prerequisite to enrollment in the succeeding year of the Institute. Beginning with the entering class of 1964 this requirement is being altered. A registrant will be expected to submit only one essay during his entire three years of attendance at the Institute. Furthermore, each registrant will be permitted to write on a topic of his choice, subject, however, to review and approval. It is expected that this new procedure will result in the production of many creditable manuscripts representing a real contribution to the literature of the industry.

A detailed announcement folder will be mailed early in January to all IBA member offices and prospective registrants.

IBA Correspondence Course

In 1950 the IBA Education Committee announced a correspondence course in Fundamentals of Investment Banking offered in cooperation with the Home-Study Department and the School of Business, the University of Chicago. The course was patterned after a classroom course for investment banking trainees inaugurated in 1946, shortly after World War II.

Both of these courses have successfully served employees of IBA organizations and members of the Association make repeated use of both as an integrated part of their respective indoctrination program. Approximately half of IBA members have taken advantage of the home-study program for their trainees.

When the University of Chicago withdrew from the home-study field earlier this year upon recommendations of its faculties, a substantial portion of the correspondence courses was transferred to the University of Wisconsin at Madison. The latter University is prominently identified with the USAFE program and enjoys an enviable reputation in the home-study field for the quality and the extent of its offerings.

The Education Committee of the IBA also elected to transfer the administration of its course in the Fundamentals of Investment Banking to the University of Wisconsin. Arrangements have been made to have Marshall D. Ketchum, Ph.D., Professor of Finance, Graduate School of Business, University of Chicago, continue responsible for the syllabus of the

course and in charge of the instructors who read and grade the homework papers, submit their comments and correspond with the enrollees. Revision of the syllabus is made as the regulatory authorities change their requirements through altering the subject matter to be covered by the examination to qualify as registered representatives. For purposes of this IBA program, Professor Ketchum and his instructors will be affiliated with the University of Wisconsin in an adjunct capacity. Thus, the course goes on as before with the only change being this — applications for enrollment and the remittance fee of \$60 per registrant should be addressed to:

University Extension Division
The University of Wisconsin
432 North Lake Street
Madison 6, Wisconsin

Upon registration each student will be sent: the course syllabus; book rental forms; and a registration card bearing the name and address of the instructor.

It is recommended that the student submit one lesson a week; an average of about six hours is required to prepare each of the 30 lessons.

Upon satisfactory completion of the program, employees of IBA member organizations will receive a certificate from the Association as well as the certificate from the University.

This course treats all the major subject areas included in the Study Outline for Qualification Examination of the National Association of Securities Dealers, Inc. Coupled with member on-the-job training the program should adequately prepare the registrant for the NASD examination to qualify as a registered representative of an NASD member organization.

1963 Summer Training Program

During the past summer the IBA Education Committee and the NYSE Department of Member Firm Liaison again cooperated in sponsoring a concentrated summer training program of two courses for trainees entering the securities business. Fundamentals of Investment Banking was offered during the four weeks, July 14 through August 9, and Stock Exchange Operations was covered concurrently for three hours during each of these four weeks and full-time

during the fifth week ending Aug. 16.

The two-course offering treats all major subject areas indicated in the Exchange Study Outline for Registration Examination. Satisfactory completion of both courses adequately prepares the registrant for the Exchange's qualifying examination.

The concentrated Fundamentals course alone, as the case of the correspondence course, adequately prepares the candidate for the NASD qualifying examination.

These courses provide comprehensive background information and a sound basis for subsequent more advanced study as the registrant matures through experience.

This two-course concentrated classroom program will be offered
Continued on page 50

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- IBA GROUP ACTIVITIES DURING 1963 — Page 13
- THE JUNIOR ACHIEVEMENT PROGRAM — Page 32

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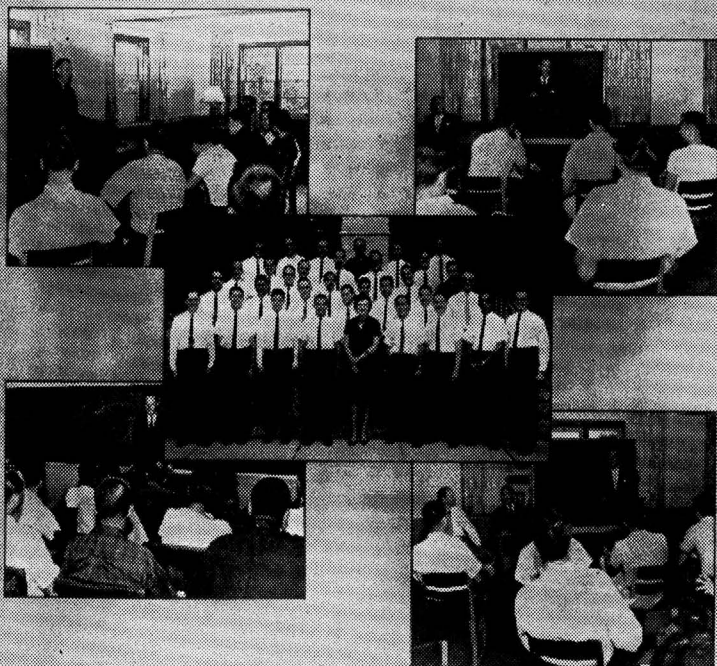
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425 13th STREET, N.W., WASHINGTON, D. C. 20004

Vol. 1, No. 1 OCTOBER, 1963

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- Recent Books of Interest P. 4
- Stock Ownership Survey P. 5
- Hall of Free Enterprise P. 7

1963 Summer Training Program



Upper Left—Andrew J. Corcoran, Floor Specialist from Benton, Corcoran, Lieb & Co., New York, addressing registrants in the Stock Exchange Operations Course. Upper Right—Edward R. Gilleran of the NASD explains its rules and policies. Center—Graduates of the course on Fundamentals of Investment Banking. Lower Left—George Hoffman, Training Director for De Coppet & Doremus, New York, spoke on "Trading in Odd Lots." Lower Right—John F. Brady of the NASD also addresses the registrants on NASD rules and policies.

OTC INFORMATION BUREAU TWO YEARS OLD

For the past two years the National Security Trading Association, in cooperation with its 33 affiliated regional groups throughout the country, has sponsored an Over-the-Counter Market Information Bureau to inform the public, the industry, and the press on the nature and scope of the OTC market. Approximately 300 securities firms and a number of companies whose shares are traded over-the-counter are now participating in this effective educational program.

The Bureau has published a highly successful booklet describing the OTC market and nearly 200,000 copies have been distributed through literature racks, direct mailings, training programs, etc. Copies may be ordered from:

OTC Market Information Bureau
542 Madison Avenue
New York 17, New York

Through its various news releases and feature articles, the Bureau has had considerable success in getting the press to abandon the use of the terms "unlisted market" and "off-board market" in favor of "OTC market". Regular bulletins are issued to encourage broader dissemination of statistical and economic information on this market.

The NSTA has produced a popular color film on the characteristics and operations of the OTC market for public showings and industry training. Annual awards have been given for outstanding shareholder information programs and other educational activities to create greater public knowledge of the market and those companies whose securities are traded OTC.

In both 1962 and 1963 the NSTA Education Committee provided speakers on the OTC market for the IBA Summer Training Program at Northwestern University and also supplied a panel on "Making and Maintaining Markets OTC" for the Institute of Investment Banking at the Wharton School.

Survey of

SALES MANAGEMENT PRACTICES

The New York Group sponsored a five-day course on Sales Management in the Investment Banking Industry from April 21 to 25 at the Westchester Country Club in Pys, New York. H. Lawrence Bogert, Jr., Group Chairman, and Harry Jacobs, Jr., Chairman of the Group Education Committee, and many others in the Group were active in developing the format for this latest in a series of New York Group management courses. The Sales Management course was offered under the direction and guidance of James O. Rice Associates, Inc., specialists in management education.

Firms sending registrants to this course were asked to complete a questionnaire on sales management practices. Their responses to the 32 questions were then tabulated under the direction of Dr. Ernest Walker of James O. Rice Associates. Responses from 45 firms were divided into three groups depending on the type of business involved. Fifteen were classified as "investment banking houses," eight

as "wire houses" and twenty-six were categorized as "smaller securities firms". In our summary of the results of this survey we have combined responses to the same questions except where there was a significant difference in the replies from the three groups of firms.

Recruiting and Testing

Referrals by current employees and walk-ins account for more than half of the applicants for sales positions. Approximately twenty percent of new registered representatives are hired as a result of college recruiting programs. The remaining twenty to twenty-five percent are hired through newspaper and trade press advertising, employment agencies, referrals by others, etc. The vast majority of all firms require sales applicants to have a college education.

Approximately seventy percent of the investment banking firms and smaller securities firms give their

NEW IBA PUBLICATION

This is the first issue of IBA SCANNER, a newsletter designed to present current information of general interest to the securities industry in brief digest form. Issues will be published intermittently during the year.

In addition to covering training, public relations and promotion ideas and activities, the SCANNER will also include a wider variety of information of particular concern to management. It will include mention of IBA activities at the Group and national level as well as activities sponsored by individuals and member organizations. Reports on your significant activities are invited for possible inclusion in a future issue of SCANNER.

If you would like to have yours in your organization placed on the mailing list to receive IBA SCANNER, send your name, title, and address to the Education Department in Washington.

A. Rockefeller, Jr.
Avery Rockefeller, Jr.,
Chairman, Education Committee

Report of the Education Committee

Continued from page 49
again in the summer of 1964 for five weeks beginning about mid-July.

IBA Educational Literature

Each year the IBA office in Washington answers thousands of requests from educators, students and others for information on investment banking and the securities business generally. During 1963 the IBA Education Department revised several of its publications and prepared several new ones.

Two booklets were updated:

IBA: Nature, Purpose, Organization, and major activities.

Available IBA Tools—a memorandum on literature and services available to IBA members.

Two new reference sources were published during the year:

Bibliography of Investment Banking & Related Subjects.

Films on Investments and Finance—information on the nature and source of 74 motion pictures.

A new Association newsletter, IBA Scanner, was inaugurated in

October. This letter was designed to present current information of general interest to persons in the securities business, in brief digest form. The first issue featured a report on a Survey of Sales Management practices (which was conducted in conjunction with a course sponsored by the IBA New York Group). The new publication has been enthusiastically received by members and others. Intermittent publication during the year is planned.

Junior Achievement Participation

Many IBA Groups and members throughout the country are actively participating in their local Junior Achievement programs. They assist organizers of Junior Achievement companies, publicize formation of these enterprises, and give scholarships and other awards to outstanding Junior Achievers.

The JA program is designed to enlighten high school students on the attributes of our free enterprise system by putting them in business on a small scale. Since every JA company sells shares to the public to get its initial capital, it is a natural program for support from the securities industry.

Significant Group Activities

Regional IBA Groups and individual members are sponsoring an increasing number of popular lecture courses to acquaint individuals with the investing process and the advantages of securities ownership. A number of Groups continue to be active in the Invest-in-America program in their major cities.

The California Group has been active in sponsoring training programs for both new and experienced personnel. Plans have been made to conduct a Management Course for the Securities Industry in the spring of 1964.

The Central States Group was a pioneer in the use of commercial as well as educational television

to inform the public about investing and the operations of our business. The 1963 series of "Investors' Forum" was sponsored over a commercial channel in Chicago with an audience of approximately 300,000 persons per program.

Over the past few years the New York Group has concentrated its educational efforts toward improving management in the securities business. Several one-week management courses have been developed in cooperation with James O. Rice Associates, a local firm specializing in management training. In the spring of 1963 the Group offered its first course devoted to "Sales Management in the Investment Banking

Industry" for 78 executives from all parts of the country.

The Northern Ohio Group sponsored its fourteenth annual lecture series on "Investing for Security and Profit" for 300 persons in Cleveland in March and April. For the past three years IBA members in the Cleveland area have actively promoted the local

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Respectfully submitted,
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Avery Rockefeller, Jr., Partner,
Dominick & Dominick, New York,
Chairman.

H. Lawrence Parker, Partner,
Morgan Stanley & Co., New York,
Chairman, Institute Planning
Committee.

Other members of the Educa-
tion Committee are as follows:
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Report of IBA State Legislation Committee

Continued from page 27
lation similar to present provisions
in New York regulating real es-
tate syndication offerings.

VIII

N.A.S.A. Meeting

The Annual Meeting of the
North American Securities Ad-
ministrators (whose members ad-
minister the state securities acts)
met in New Orleans Nov. 4-7.
Several representatives of the
IBA attended the meeting, which
provides an excellent forum for
discussion of problems in state
regulation of securities.

Respectfully submitted,
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APPENDIX A

Summary of Amendments to
State Securities Acts in 1963

ARKANSAS

The Arkansas Securities Act
was amended effective June 14,
1963, as follows:

(1) Subdivisions (a), (b) and
(d) of Section 5 include mortgage


loan companies among those re-
quired to make and keep certain
accounts and records and to file
such financial reports as the Com-
missioner by rule prescribes.

(2) Section 20 now authorizes
the Commissioner summarily to
issue a cease and desist order

Continued on page 52

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when he believes that a person has engaged or is about to engage in practices in violation of the Act.

(3) Section 24(g) now authorizes the Commissioner to require an issuer, broker-dealer or agent to obtain from the purchaser in any initial sale of a security effected by means of a prospectus a written statement signed by the purchaser that he had received a copy of the prospectus prior to his purchase of the security.

(4) Section 26(g) now requires every issuer of securities registered under the Act to file a consent to service of process eliminating the provision previously in the Act restricting such requirement to an issuer "which proposes to offer a security in this state through any person acting on an agency basis in the common-law sense."

(5) Section 14(f) now provides that proof of exemption need not be filed with respect to transactions exempt under Subdivision (12) in offers of a security for which a registration statement has been filed under both the Arkansas Act and the Federal Securities Act of 1933 if no stop order or refusal order is in effect and no public proceeding or ex-

amination looking toward such an order is pending under either Act.

CALIFORNIA

The following amendments to the California Corporate Securities Law became effective Sept. 21, 1963:

(1) A new Section 25157 was added to exempt the sale or offer by the issuer or by an underwriter for the issuer, of any security issued by a company organized outside of California whose principal business properties are located outside of California, to a domestic life insurance company whose total admitted assets at the end of its fiscal year preceding the transaction exceeded \$40 million.

(2) Subdivision (n) was added to Section 25100 to exempt any certificate of interest or participation in an oil or gas title or lease if each person who is a party to the transaction involving such certificate has been engaged primarily or substantially during the preceding two years in the business of drilling for, producing or refining oil or gas.

(3) Section 25500 was amended to change the exceptions from the permit requirement for certain

stock splits and reclassification of shares.

FLORIDA

(1) A new section effective Sept. 1, 1963 makes it unlawful: (a) for any person issuing or selling any security within the state to represent or imply that the security or company has been guaranteed, sponsored, recommended, or proved by the state or by the United States; (b) for any person registered or required to be registered under the Act to represent that his qualifications have been approved by an officer of the state or of the United States; (c) for any person registered or required to be registered under the Act to adopt as part of the name or title of such company or of any security which it issues any word or words which the Commissioner finds and by order declares to be deceptive or misleading.

(2) Section 517.06 of the Florida Securities Act, exempting certain transactions, was amended effective July 10, 1963 to provide that in advance of sales in transactions referred to in Subdivisions (8), (10) and (11) there shall be submitted to the Florida Securities Commission written notice on prescribed forms to show affirmatively that the particular transactions are in fact exempt transactions. No sales shall be made in such transactions by any person not listed in the required notice. Subdivisions (8), (10) and (11) relate to various types of transactions with 25 or fewer persons.

A \$25 filing fee must accompany each notice filed pursuant to the new requirement.

(3) Four sections of the Florida Act were amended to eliminate requirements that registered dealers who intend to offer or sell any registered securities or securities to be registered must file with the Commission a notice of their intention to do so.

(4) Section 517.16 of the Act, authorizing the Commission to revoke the registration of a dealer or salesman under certain conditions, was amended to authorize the Commission also to suspend such registrations.

(5) Section 517.19 of the Act was amended effective June 5, 1963 to authorize a court, upon application of the Commission, to impound and appoint a receiver for the property, assets and business of a defendant.

(6) A new Section 517.33 effective June 11, 1963 authorizes the Commission to reproduce on film and destroy certain records which are over 10 years old.

GEORGIA

The Georgia Securities Act was amended effective April 12, 1963 as follows:

(1) Subdivision (i) was added to Section 3 to provide that each registration statement shall be effective for one year from its effective date, except that registrations which became effective prior to this provision shall expire one year from such registration's effective date or upon the expiration

of 60 days after the effective date of this provision, whichever is later. The new provision also provides for renewal of registrations with a renewal fee of \$10.

(2) A new Subdivision (a) was inserted in Section 3A to provide that no securities required to be registered under the Act shall be sold or offered for sale unless accompanied by an offering circular or prospectus, and the Commissioner shall not register any securities until such prospectus or circular is filed.

(3) Section 5(g), previously exempting commercial paper maturing in not more than 12 months, was amended to exempt negotiable instruments maturing in not more than 12 months.

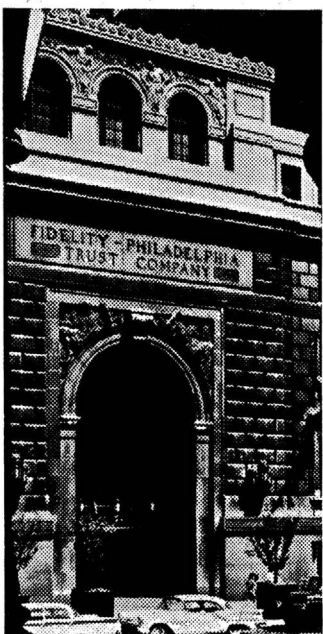
HAWAII

An amendment to Section 199-11(d) of the Hawaii Securities Act, effective May 31, 1963, requires all salesmen to take and pass a written or oral examination in order to be eligible for registration. An examination fee of \$10 is required. An amendment to Section 199-12.5 requires that registered dealers make and keep for a period of three years full and complete records of their business and provides for their inspection by the Commissioner.

ILLINOIS

The following amendments to the Illinois Securities Act became effective this year:

(1) All applicants for registration as dealers, salesmen or in-



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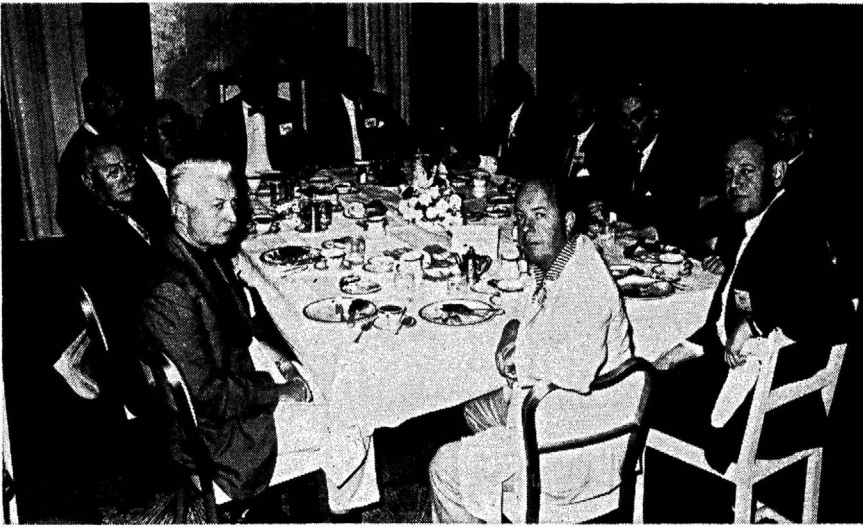
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vestment advisers must take an examination, either oral or written, for the purpose of determining whether an applicant has sufficient knowledge of the securities business and laws to act as a registered dealer, salesman or investment adviser. There is an examination fee of \$25 for the examination of dealers and a fee of \$15 for the examination of salesmen and investment advisers.

(2) Section 13 of the Act (civil remedies) was amended to reduce from 30 days to 15 days the period during which a purchaser may accept an offer to repurchase securities. No purchaser has any right or remedy under this section if he fails within the prescribed time to accept a repurchase offer which meets the requirements of the section.

(3) The liability of beneficial interests in a real estate investment trust is defined by providing that shareholders or beneficiaries of a real estate investment trust shall not be personally liable for any of its obligations if an application for registration as an unincorporated trust or association has been registered by the Secretary of State.

(4) Section 4(F) was amended to exempt transactions by registered dealers at market related prices in the secondary market if the securities, or securities of the same class, are the subject of an existing registration under Section 5 of the Act.

(5) Section 3(G), exempting warrants and rights (expiring

within 60 days after issuance) to purchase securities listed and traded on certain national stock exchanges, was amended to eliminate the 60 day expiration requirement.

(6) Section 5 was amended to require a single application for registration by description or qualification, rather than a duplicate application.

(7) Section 3 was amended to exempt securities listed and traded on the Pacific Coast Stock Exchange and to remove the exemption for those on the Boston Stock Exchange.

IOWA

The Iowa Securities Act was amended effective July 4, 1963 as follows:

(1) Subdivision (4) of Section 502.4 was amended to eliminate the exemption for securities issued by corporations organized for benevolent or charitable purposes.

(2) Subdivision (3) of Section 502.3 was amended to include an attempt to dispose of a security in the definition of a "sale" of a security.

(3) Subdivision (9) of Section 502.5 was revised to exempt the sale of subscriptions for all securities of a corporation prior to incorporation thereof under the laws of the United States or any state, territory or possession thereof, if no commission is received on account of such sale

and the number of subscribers do not exceed 25.

(4) A new paragraph is added to Section 502.5 exempting the sale of securities, other than fractional undivided interests in oil, gas or other mineral lease, right or royalties, by the issuer within 12 consecutive months to not more than 20 persons.

(5) A paragraph was inserted in Section 502.11 to authorize the Commissioner to provide for an examination of dealers and salesmen, which may be written or oral or both, to be taken by first-time applicants who apply for registration in order to determine the skill, competency and training of such applicants.

KANSAS

Section 17-1252 of the Kansas Securities Act was amended effective April 11, 1963 to repeal the definitions of "investment company" and "investment certificate."

MARYLAND

The Maryland Securities Act was amended effective July 1, 1963 as follows:

(1) Section 16 now provides that the filing fee for a partner, officer or director of a broker-dealer registered as an agent shall be \$2.

(2) Section 23(f) was amended to provide that every registration is effective only for any period during which the security is being offered or distributed in a non-exempted transaction by or for the account of the issuer or other person on whose behalf the offering is being made or by any underwriter or broker-dealer who is still offering part of an unsold allotment or subscription taken by him as a participant in the distribution, except during the time a stop order is in effect under Section 24.

(3) Section 26(b)(3) was amended to eliminate the exemption for non-issuer transactions in securities previously registered

under the Act; but a new Subdivision (13) was added to Section 26(b) to exempt any offer or sale of a security by or through a registered broker-dealer in the secondary market if specified conditions are met.

MASSACHUSETTS

Amendments to the Massachusetts Securities Act effective Jan. 1, 1964 (a) increase the registration fee under Section 10 for brokers from \$50 to \$100 and for salesmen from \$5 to \$10 and impose a \$10 fee for the recording of a transfer of a registered salesman from the employment of one broker to another and (b) require under Section 5 a filing fee of \$25 to accompany the notice of intent to sell a non-exempt security.

MINNESOTA

The Minnesota Securities Act was amended as follows:

(1) Subdivision (6) of Section 80.05 was amended (i) to exempt

Continued on page 54

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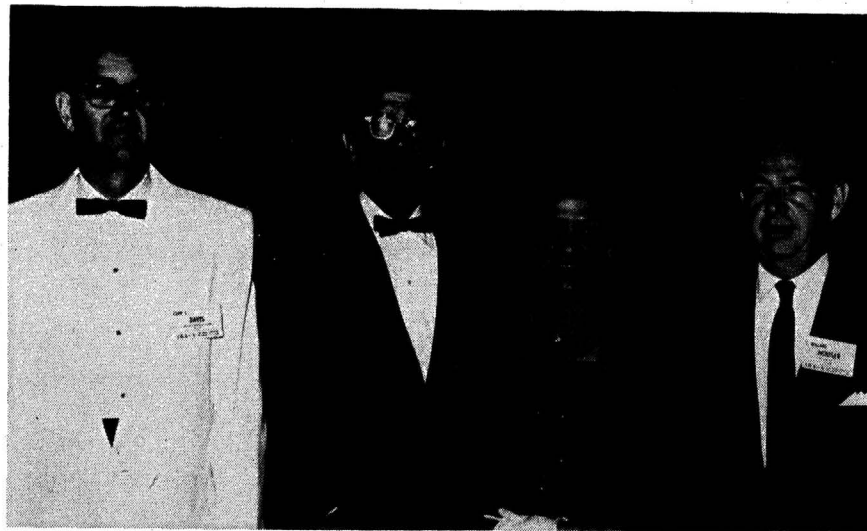
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Report of IBA State Legislation Committee

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securities issued by a person organized for athletic, Chamber of Commerce, trade, or professional association purposes and (ii) to extend from six months to nine months from date of issuance the permissible maturity for commercial paper or negotiable instruments which are exempt. Subdivision (12) was added to exempt any securities issued or carried by any common carrier subject to regulation or supervision as to the issuance of its own securities by a public commission,

board or officer of the government of the United States.

(2) Subdivision (14) was added to Section 80.06 to exempt the issuance and delivery of any securities of one corporation to the security holders of another corporation in exchange for all or substantially all of the assets of such other corporation, or in connection with a consolidation or merger of such corporations.

(3) Section 80.08 was amended by adding a provision that applications for registration by application shall contain such information and representations as the

Commissioner may determine necessary or appropriate in the public interest or for the protection of investors.

(4) Section 80.10, providing for the termination of restricted registration upon the sale of the number of units therein designated, was amended by adding a provision that at such time the registrant shall notify the Commissioner of that fact and request cancellation of the registration.

(5) Section 80.12 was amended by inserting a provision that: "A licensed dealer or broker shall at all times keep securities and funds of his customers in trust for such customers and segregated from his own securities and funds; however, this provision shall not apply to dealers or brokers who are members of the New York, American or Midwest Stock Exchanges, and who are governed by rules of their respective exchanges."

istered under the Act; but Section 5, defining "broker-dealer," provides that the term does not include, among others, a broker or dealer registered under the Securities and Exchange Act of 1934; a person who is a member of the NASD; a bank, savings institution or trust company; or a person who has no place of business in the state if he effects transactions exclusively with issuers of the securities involved in the transactions, other broker-dealers or specified institutions. Section 15 of the Act makes it unlawful for any person to offer or sell any security in the state by means of a public intrastate offering unless he has filed a statement containing prescribed information with the Administrator with a filing fee of \$500 and the Administrator has approved such statement.

NEW MEXICO

The New Mexico Securities Act was amended effective June 7, 1963 by (1) adding a new Section 48-18-35 providing that the securities act shall not apply to securities presently or previously licensed by the Superintendent of Insurance and (2) amending Section 48-18-20.3 (requiring dealers to post a surety bond in an amount fixed by the Commissioner of not less than \$10,000 nor more than \$100,000) by adding a provision that a registered dealer who is a member of the New York Stock Exchange meets the requirements of this section if such

member carries a fidelity bond acceptable to the New York Stock Exchange in an amount of at least \$100,000 and copies of the fidelity bond are filed with the Commissioner.

NEW YORK

The New York Securities Law was amended this year as follows:

(1) By increasing from \$2.00 to \$20.00 the fee for filing state notices and further state notices. By increasing from \$25.00 to \$40.00 the fee for filing a broker-dealer's statement and from \$5.00 to \$10.00 the fee for filing a salesman's statement (both fees for four years).

(2) To authorize the Attorney General under Section 352-e to adopt rules and regulations relating to information furnished to investors as to sources of any distributions made by any issuer in connection with real estate syndicate offerings after Jan. 1, 1961.

(3) By adding Section 359-g(4) providing a method whereby an application may be made to vacate and modify the terms of an injunction permanently restraining a defendant from engaging in the securities business in New York after the expiration of five years from the date of entry thereof. Provision is made for 60 days' notice to the Attorney General and for the posting of a bond in the sum of \$1,000 to cover the cost of investigation. It also provides that no application may be made in certain specified instances, such as where the in-

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Section 11(3) of the Montana Securities Act was amended effective Feb. 26, 1963 to provide that the registration of securities shall automatically be suspended upon a stop order or suspension proceeding being instituted by the SEC relative to said securities and shall continue suspended so long as such proceedings are pending and until the registration or filing with the SEC is effective.

The Act was further amended effective March 1, 1963 to change Section 15, previously requiring a consent to service of process by every issuer which proposes to offer a security in the state, so that the consent to service now is required only from an issuer which proposes to register and offer a security in the state through any person acting on an agency basis in the common-law sense.

NEBRASKA

Section 81-319 of the Nebraska Securities Act was repealed. This Section prohibited an applicant authorized to issue securities from declaring a dividend until the dividend had been actually earned and received by the applicant through net profits.

NEVADA

In Nevada, which previously had no state securities act, the new Act (effective July 1, 1963) is unique in several basic requirements. Section 13 makes it unlawful for any person to transact business in the state as a broker-dealer or agent unless he is reg-

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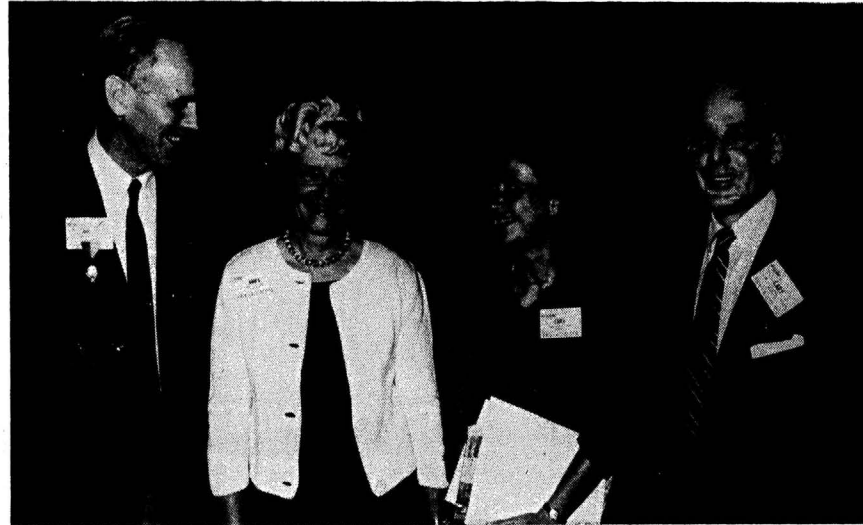
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junction was granted as an incident to a crime for which the applicant had been or later was convicted or where the applicant had been convicted of a felony or any crime involving securities under the New York Securities Law.

(4) By adding Section 352-k.1 (effective Sept. 1, 1963) requiring every broker-dealer required to be registered in the State to have and maintain a net capital of not less than \$5,000. Net capital is deemed to mean net worth (the excess of total assets over total liabilities) adjusted by:

(a) adding unrealized profits (or deducting unrealized losses) in

the accounts of the broker or dealer and, if such broker or dealer is a partnership, adding equities (or deducting deficits) in accounts of partners;

(b) deducting fixed assets and assets which cannot be readily converted into cash (less any indebtedness secured thereby) including, among other things, real estate; furniture and fixtures; exchange memberships; prepaid rent, insurance and expenses; good will; organization expenses; all unsecured advances and loans; customers' unsecured notes and accounts; and deficits in customers' accounts, except in bona fide

cash accounts within the meaning of section 4(c) of regulation T of the board of governors of the Federal Reserve System;

(c) deducting the percentages specified below of the market value of all securities, long and short (except exempted securi-

ties) in the capital, proprietary and other accounts of the broker or dealer, including securities loaned to the broker or dealer pursuant to a satisfactory subordination agreement, as herein-after defined, and if such broker or dealer is a partnership, in the

accounts of partners, as herein-after defined:

- (1) in the case of non-convertible debt securities having a fixed interest rate and a fixed maturity date which

Continued on page 56

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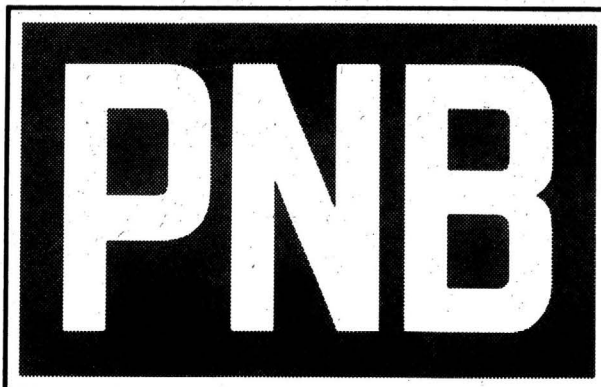
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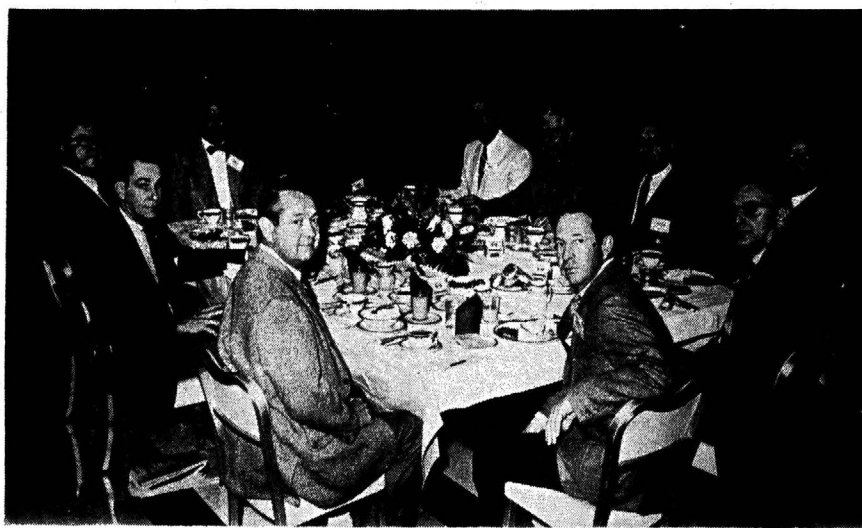
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Report of IBA State Legislation Committee

Continued from page 55

are not in default, if the market value is not more than 5% below the face value, the deduction shall be 5% of such market value; if the market value is more than 5% but not more than 30% below the face value, the deduction shall be a percentage of market value, equal to the percentage by which the market value is below the face value; and if the market value is 30% or more below the face value, such deduction shall be 30%;

(2) in the case of cumulative, non-convertible preferred stock ranking prior to all other classes of stock of the same issuer, which is not in arrears as to dividends, the deduction shall be 20%;

(3) on all other securities, the deduction shall be 30%; provided, however, that such deduction need not be made in the case of (1) a security which is convertible into or exchangeable for other securities within a period of 30 days, subject to no conditions other than the payment of money, and the other securities into which such security is convertible, or for which it is exchangeable, are short in the accounts of such broker or dealer or partner, or (2) a security which has been called for redemption and which is redeemable within 90 days.

(d) deducting 30% of the market value of all "long" and all "short" future commodity contracts (other than those contracts representing

spreads or straddles in the same commodity and those contracts offsetting or hedging any "spot" commodity positions) carried in the capital, proprietary or other accounts of the broker or dealer and, if such broker or dealer is a partnership, in the accounts of partners as hereinafter defined;

(e) deducting, in the case of a broker or dealer who has open contractual commitments, the respective percentages specified in subparagraph (c) above of the value (which shall be the market value whenever there is a market) of each net long and each net short position contemplated by any existing contractual commitment in the capital, proprietary and other accounts of the broker or dealer and, if such broker or dealer is a partnership, in accounts of partners, as hereinafter defined; provided, however, that this deduction shall not apply to exempted securities, and that the deduction with respect to any individual commitment shall be reduced by the unrealized profit, in an amount not greater than the percentage deduction provided for in subparagraph (c), (or increased by the unrealized loss) in such commitment; and that in no event shall an unrealized profit on any closed transactions operate to increase net capital;

(f) excluding liabilities of the broker or dealer which are subordinated to the claims of general creditors pursuant to a satisfactory subordination agreement as herein defined; and

(g) deducting, in the case of a broker or dealer who is a sole proprietor, the excess of (1) liabilities which have not been incurred in the course of business as a broker or dealer over (2) assets not used in the business.

NORTH DAKOTA

The North Dakota Securities Act was amended effective July 1, 1963 as follows:

(1) Section 10-04-06(5), which previously exempted a sale to any "corporation, dealer, or any organization or association a principal part of whose business consists of the buying of securities" was amended to exempt sales to "registered dealers, or any corporation, organization or association a principal part of whose business consist of the buying of securities."

(2) Section 10-04-18, prescribing penalties for willful violations, which previously authorized imprisonment for not less than three

months nor more than five years, was amended to authorize imprisonment in the penitentiary for not less than one year nor more than five years or in the county jail for not less than three months nor more than one year.

OHIO

(1) Subdivision (M)(3) of Section 1707.03 of the Ohio Securities Act was amended effective Sept. 24, 1963 to exempt sales by licensed dealers in the secondary market of securities about which specified information is available in a recognized securities manual (the names of the issuers' officers and directors, a balance sheet of the issuer as of a date within 18 months, and a profit and loss statement for either the fiscal year preceding that date or the most recent year of operations).

(2) Subdivision (D) of Section 1707.3, which previously exempted a sale to an issuer or to a dealer, corporation, bank or insurance company only if prescribed conditions were met, was amended to exempt unconditionally a sale to the issuer, to a dealer, or to an institutional investor. Institutional investor is defined to include any corporation, bank, insurance company, pension fund or pension trust, employees' profit-sharing trust or any association engaged in purchasing or holding securities, or any trust in respect of which a bank is trustee or co-trustee.

(3) Fees under the Ohio Securities Act were increased effective Oct. 10, 1963 as follows:

(a) a new filing fee of \$20 must accompany the statement regarding governmental, state or municipal securities which are not payable out of the proceeds of a general tax.

(b) increased from \$5 to \$10 the filing fee for notices for securities sold to a limited number of persons.

(c) increased from \$25 to \$50 the filing fee for the proposed issuance of shares during a recapitalization or reorganization.

(d) increased from \$10 to \$25 the minimum fee and from \$75 to \$300 the maximum fee for registration of securities by description. Also increased from \$10 to \$20 the registration fee for securities in certain transactions.

(e) increased from \$10 to \$25 the filing fee for registration by qualification and from \$100 to \$500 the maximum amount to be paid by an applicant for qualification to cover the expenses of examination.

(f) increased the annual license fee for dealers from \$50 to \$75 for those employing not over five salesmen, from \$75 to \$125 for those employing from six to 10 salesmen, and from \$100 to \$150 the fee for

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those employing over 10 salesmen. The filing fee for an application to transfer a license was increased from \$10 to \$20.

(g) increased from \$25 to \$150 the filing fee for an application to deal in out-of-state real estate.

OKLAHOMA

An amendment to Section 204(b)(6) of the Oklahoma Securities Act effective June 18, 1963 authorizes the Administrator to require the payment of a reasonable fee in connection with any written or oral examination for investment advisers, such fee not to exceed \$25 per person.

OREGON

The following amendments to the Oregon Securities Act were adopted effective May 6, 1963:

(1) Subdivision 4 of Section 59.110 was amended to exempt securities approved for listing upon notice of issuance on authorized exchanges, as well as securities called for by subscription rights or warrants so listed or approved.

(2) Subdivision 12(c) of Section 59.120, exempting transactions by registered dealers in the secondary market in securities about which specified information is available in specified manuals, was amended to remove the Fitch Manual.

(3) A new section was added, replacing Section 59.210 which was repealed, to require that a non-resident applicant for registration shall file an irrevocable consent that service of process in any action arising out of a violation of the Oregon Securities Law in connection with the registration for which application is

made, may be made on the applicant by service on the Corporation Commissioner.

(4) A provision in Subdivision 7 of Section 59.310, voiding obligation of a dealer under a surety bond when the principal or his agents and employees have honestly and faithfully complied with provisions of the Act and paid all damages suffered by reason of violation of the Act, was amended to apply to agents and employees "acting within the course and scope or apparent course and scope of their authority."

(5) Subdivision 2 of Section 59.340 was amended to provide that whenever the Commissioner believes from said evidence that fraudulent practices are taking place, he may petition for an injunction against such practices and a receiver or conservator may be appointed for the defendant or the defendant's assets.

SOUTH DAKOTA

The South Dakota Securities Act was amended effective July 1, 1963 (1) to exempt under Section 55.1903(3) securities issued by and representing an interest in or a direct obligation of a state bank and (2) to provide that all fees and charges collected by the Commissioner shall be paid into the State Treasury and credited to the State Bank Fund.

TENNESSEE

The Tennessee Securities Act was amended effective March 21, 1963 as follows:

(1) Subdivision (c) of Section 48-1602, defining dealer, was amended to exclude persons who engage in the business of advising others as to the value of securities or as to the advisability of invest-

ing in, purchasing or selling securities.

(2) Subdivision (g) was added to Section 48-1608(1) to require that a notice of intent to sell include any and all other information which, in the opinion of the Commissioner, is pertinent to the

determination of the qualifications of the issuer.

(3) Subdivision (b) of Section 48-1608(3) was amended to require an examination fee of \$25 in connection with the registration of securities and to increase from \$300 to \$1,000 the maximum

fee for registration of securities.

(4) Section 48-1608(5), requiring a printed prospectus to be used in connection with all sales of registered securities unless waived by the Commissioner, was amended by adding a provision

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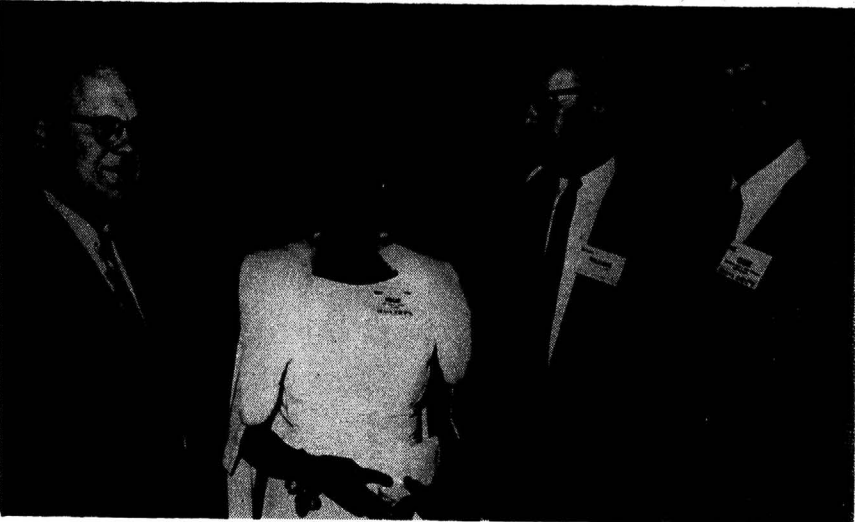
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Report of IBA State Legislation Committee

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that a copy of the prospectus cleared for use by the Commissioner must precede or accompany each offer to sell any securities required to be registered under this section.

(5) Section 48-1619 (c) was amended to exempt securities issued by and representing an interest in or a direct obligation of any Federal Savings and Loan Association, any savings and loan association incorporated under laws of any state of such association is a member or stockholder of the Federal Savings and Loan Insurance Corporation, and any credit union approved and supervised by the Superintendent of Banks of Tennessee.

(6) Section 48-1624 was amended to require the registration of investment advisors; to require dealers to post a surety bond of not less than \$10,000, provided that no such bond shall be filed as a prerequisite by a dealer whose net worth exceeds \$25,000; and to provide that the Commissioner shall by rule or regulation require as a condition of registration that a dealer or investment advisor have a minimum net

worth, but he shall not require a net worth in excess of \$25,000.

(7) Section 48-1628 was amended to provide a \$50 fee for registration of an investment advisor.

(8) Section 48-1632 was amended to add Subdivision (H) exempting isolated transactions by an issuer where specified conditions are met; Subdivision (I) to exempt the sale of beneficial interests by an investment club if specified conditions are met; and Subdivision (J) to exempt the issuance and delivery of securities of a corporation to another corporation or to the security holders thereof in connection with a consolidation or merger of the corporations.

(9) Section 48-1648, providing penalties, was amended to reduce the minimum fine for misdemeanors from \$500 to \$50; to reduce the minimum fine for felonies from \$1,000 to \$50; to reduce the maximum fine for felonies from \$10,000 to \$5,000; and to reduce the maximum term of imprisonment in the state penitentiary from 10 years to 5 years.

(10) Section 48-1645, making voidable sales or contract for sale in violation of the Act, was

amended to provide that no such action shall be brought under this section for the recovery of the purchase price after one year from the date of such sale or contract.

(11) Section 45-1602(J), defining security, was amended to exclude any variable or fixed annuity offered or sold by any insurance company regulated by the Commissioner of Insurance and banking under the insurance laws of Tennessee.

TEXAS

Amendments to the Texas Securities Act effective Aug. 23, 1963 included the following:

(1) Section 13, providing for registration of dealers, agents and salesmen, was amended by inserting a provision that the Commissioner shall require as a condition of registration for all registrations granted after the effective date of the provision that the applicant (and, in the case of a corporation or partnership, the officers, directors or partners to be licensed by the applicant) pass successfully a written examination to determine the applicant's qualifications and competency to engage in the business of dealing in and selling securities as a dealer or as a salesman, or rendering services as an investment adviser. This condition may be waived as to any applicant or class of applicants by action of the State Securities Board.

(2) Section 7 was amended by adding a new Subsection D providing that if the fiscal year of the issuer terminates more than 90 days prior to the date of the filing of required financial statements, the filed statements need not be certified by a public accountant if they are accompanied by certified statements as of the end of the preceding fiscal year of the issuer.

(3) Subsection B of Section 9, providing that the total expenses for marketing securities shall not in the aggregate exceed 20% of the price at which the securities are sold to the public, was amended to omit organization expenses.

(4) Section 33, prescribing civil liabilities, was completely revised.

(5) Subsection G of Section 29, prescribing fine or imprisonment for knowingly participating in declaring a cash dividend out of any fund other than actual earnings, was repealed.

(6) Section 5 (exempt transactions) was amended by revising Subdivisions E (transactions by issuers with security holders), G (transactions in connection with certain mergers, consolidations or sale of corporate assets), H (sales to institutional buyers) and O (sales by registered dealers of outstanding securities if prescribed conditions are met). New provisions were added in Subdivision I (exempting certain sales by an issuer to a limited number of persons). A new Subdivision R was added to exempt the sale by the issuer of any securities which would be exempt if sold by a registered dealer under Section 6 (other than Subsection 6-E).

UTAH

The new Utah Act (effective May 14, 1963), based on the Uniform Act with a few modifications, includes antifraud provisions, requirements for the licensing of broker-dealers, agents and invest-

ment advisers, and requirements for the registration of securities.

WEST VIRGINIA

The West Virginia Securities Act was amended effective July 1, 1963 as follows:

(1) Section 6 was amended to increase from \$25 to \$50 the minimum fee for original and renewal registration of securities (except for oil and gas well registrations). The maximum fee of \$300 for registration of securities was eliminated, and a provision was added that where an application is denied the Commissioner may retain the fee.

(2) Section 8, authorizing the Commissioner to limit the price at which registered securities may be sold, was amended by adding a provision that in no instance shall commissions be paid on the aggregate subscription or sales price, except to the extent of payments actually made thereon, provided, however, that this provision shall not apply to any security registered with the Securities and Exchange Commission under the Investment Company Act of 1940.

(3) Section 12 was amended by adding a provision that the Com-

missioner may require every applicant for registration as a salesman to pass a written examination as a requirement for issuance of a license. Also, every applicant for registration as a salesman shall have reached the age of 21 and shall not, at the time of examination, be employed by any securities dealer other than the one by whom he was employed at the time of making application. The fee for dealer registration and renewal was increased from \$25 to \$100; the fee for registration of salesmen was increased from \$5 to \$20 and for renewal of registration of salesmen from \$5 to \$10.

(4) A new Section 28 was added, providing that any security which has been previously but is not now registered by qualification may, in the discretion of the Commissioner, be offered and sold by registered dealers in over-the-counter transactions. The Commissioner shall regulate the offering and sale of all such securities and shall register dealers to buy, sell, trade or otherwise deal in such securities.

WISCONSIN

The Wisconsin Securities Act was amended effective Aug. 15, 1963. Continued on page 60

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Report of IBA State Legislation Committee

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1963 to increase from \$25 to \$50 the filing fee for each application for a dealer's or investment adviser's license; from \$5 to \$10 the fee for each application for an agent's license; from \$160 to \$200 the maximum filing fee for each application for registration of securities; from \$2.50 to \$5 the fee for each notice for the sale of securities by a licensed dealer. A fee of \$5 is now charged for each examination for an agent's license.

APPENDIX B

Memorandum Regarding Tax on Distribution of General Motors Stock to Du Pont Shareholders.

Pursuant to Court Order Under the Antitrust Laws.

I Federal Income Tax

Public Law 87-403, approved Feb. 2, 1962 amended the Internal Revenue Code to add a new Section 1111 which provides, in general, that where stock is received by an individual shareholder (or any shareholder not entitled to the corporate dividends received deduction) in an antitrust distribution, the distribution will be treated as a return of capital and its full fair market value will reduce the basis of the stock with respect to which it is made. (Under prior federal tax law the fair market value of the distributed GM stock would have been taxed to the Du Pont shareholders as ordinary income). If the fair market value of the stock distributed (GM) exceeds the basis of the stock with respect to which the distribution is made (Du Pont), the gain is recognized to the extent of the excess and is taxable. The following example of the application of this provision was given in the report of the Senate Finance Committee, using assumed values for Du Pont and GM stock:

"An individual owns a single share of the stock of Du Pont which has a basis to him of \$100. In a distribution pursuant to the terms of an antitrust order he receives from that corporation 1 1/2 shares of the General Motors stock. Because of the distribution his basis for the Du Pont stock (\$100) is reduced by the fair market value of the 1 1/2 shares of General Motors stock received (\$60), so that after the distribution his basis for the Du Pont stock is \$40 (\$100 minus \$60). Thus, no income or gain is recognized to this shareholder because of the distribution."

II

State Individual Income Tax

The following conclusions, regarding state income tax on distribution of GM stock to Du Pont shareholders pursuant to a court order under the antitrust laws, are based on an examination of state individual income tax laws and, in a few cases, specific administra-

tive rulings. The conclusions regarding some of the states in group (5) may be changed by administrative rulings.

(1) No state income tax on individuals (14 states):

Connecticut; Florida; Illinois; Maine; Michigan; Nebraska; Nevada; Ohio; Pennsylvania; Rhode Island; South Dakota; Texas; Washington; and Wyoming.

(2) State income tax on individuals does not treat as taxable dividend the distribution of stock to stockholders of another company pursuant to orders enforcing the antitrust laws (22 states):

Alabama: Return of capital, adjusting basis of Du Pont stock.

Arkansas: Return of capital, adjusting basis of Du Pont stock.

Colorado: May elect to treat GM stock as dividend or as return of capital, adjusting basis of Du Pont stock.

Delaware: Return of capital, adjusting basis of Du Pont stock.

Georgia: Return of capital, adjusting basis of Du Pont stock.

Idaho: Return of capital, adjusting basis of Du Pont stock.

Iowa: Return of capital, adjusting basis of Du Pont stock.

Kansas: Return of capital, adjusting basis of Du Pont stock.

Kentucky: Return of capital, adjusting basis of Du Pont stock.

Louisiana: May elect to treat GM stock as dividend or as return of capital, adjusting basis of Du Pont stock.

Maryland; Massachusetts; Mississippi:

Not taxable but must allocate basis of Du Pont and GM stock under formula.

New Hampshire; New Jersey; North Carolina:

Not taxable but must allocate basis of Du Pont and GM stock under formula.

North Dakota: Return of capital, adjusting basis of Du Pont stock.

Oregon: Return of capital, adjusting basis of Du Pont stock.

South Carolina: Not taxable but must allocate basis of Du Pont and GM stock under formula.

Tennessee; Utah; Wisconsin: Return of capital, adjusting basis of Du Pont stock.

(3) State income tax on individuals bases state tax on federal tax or federal determination of adjusted gross income under Internal Revenue Code as currently amended, thereby adopting federal tax provisions summarized above (9 states):

Alaska; Hawaii; Minnesota; Montana; Indiana (new act July 1, 1963); New Mexico; New York; Vermont; and West Virginia.

(4) State income tax on individuals would probably treat as taxable dividends the stock distributed to shareholders of another company pursuant to orders enforcing the antitrust laws (5 states):

Arizona; California; Missouri; Oklahoma; and Virginia.

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\$5,815,000
CITY OF HOUMA
LOUISIANA
Utilities Revenue Refunding Bonds

\$4,100,000
TRUSTEES OF INDIANA UNIVERSITY
Dormitory Bonds, Series 1961

\$11,060,000
THE REGENTS OF NEW MEXICO STATE UNIVERSITY
Refunding Bonds, Series 1963

\$6,000,000
CITY OF ST. LOUIS
MISSOURI
Water Revenue Bonds, 1963 Issue

\$3,900,000
JOINT SCHOOL DISTRICT NO. 3
OF THE CITY OF OCONOMOWOC
School Building Bonds of 1963

\$9,800,000
PURDUE UNIVERSITY
INDIANA
Dormitory Facilities Revenue Bonds, Series G

\$5,000,000
CITY OF ANCHORAGE
ALASKA
Telephone Revenue Bonds, 1963

\$6,750,000
ILLINOIS STATE NORMAL UNIVERSITY
NORMAL, ILLINOIS
Residence Halls Revenue Bonds, Series S

\$4,500,000
CITY OF POMPANO BEACH
FLORIDA
Sewer Revenue Bonds

\$7,500,000
CHICAGO TRANSIT AUTHORITY
Equipment Trust Certificates, Series 10

\$10,615,000
CITY OF LAKELAND
POLK COUNTY, FLORIDA
1 1/2%, 2.60% and 3.70% Sewer Revenue Bonds Series of 1963

\$2,650,000
THE MARSHALL COUNTY GAS DISTRICT
ALABAMA
5.80%, 4% and 3 1/2% First Mortgage Natural Gas Refunding Bonds Series 1963

\$2,600,000
CITY SEWER DISTRICT
INGO COUNTY, WASHINGTON
Sewer Revenue Refunding Bonds, Series 1962

\$4,000,000
WAYNE TOWNSHIP, MARION COUNTY
SCHOOL BUILDING CORPORATION

\$3,100,000
CITY OF WAUWATOSA
WISCONSIN
Waterworks Mortgage Revenue Bonds

\$10,000,000
THE TRUSTEES OF THE OKLAHOMA CITY MUNICIPAL IMPROVEMENT AUTHORITY
3.30% Water System Bonds, Series B

\$197,000,000
PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY
Washington
Wanapum Hydroelectric Refunding Revenue Bonds, Series of 1963

\$2,997,000
UNIVERSITY OF LOUISVILLE
LOUISVILLE, KENTUCKY
Student Housing Bonds of 1961

\$3,695,000
CITY OF GREAT FALLS
MONTANA

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COLDWATER CREEK TRUNK SUBDISTRICT
OF
ST. LOUIS SEWER DISTRICT
MISSOURI

\$2,400,000
(ELGIN) SCHOOL DISTRICT NO. 46
KANE, COOK AND DU PAGE COUNTIES, ILLINOIS

\$3,980,000
HOUSING AUTHORITY
of the
CITY OF MINNEAPOLIS, MINNESOTA
3 1/4% New Housing Authority Bonds

\$4,000,000
FOREST PRESERVE DISTRICT OF COOK COUNTY
ILLINOIS
2.90% Corporate Bonds, Series "O"

\$26,500,000
BI-STATE DEVELOPMENT AGENCY
(MISSOURI-ILLINOIS METROPOLITAN DISTRICT)
St. Louis Metropolitan Area
Transit Revenue Bonds, Series of 1963

\$3,145,000
WATER DISTRICT No. 1
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Because competition is so keen among the many outstanding firms in our expanding industry, the improvement of Nuveen's position in its field is gratifying to all in this organization.

World Bank's Role as Borrower and Lender

Continued from page 12

a first objective to be a big operator. We are much more interested in being an effective one. We have therefore confined our loans to projects that we thought would achieve a constructive result in the economy of the borrowing country.

Sound Lending Principles Followed

We take great care in assessing the capacity of the prospective borrower to use foreign resources and to repay his debt. We look broadly at the entire economy of the country concerned, since investment in even the best designed project can be lost if the over-all economy founders. We make a complete study, both in Washington and on the spot, of what physical, financial and human resources are available and how well they are being used. When we find that a country is following economic or fiscal policies that will seriously detract from the effectiveness with which capital can be employed, we do not make new loans in that country.

A second hallmark of our lending is that it is used for activities which will increase essential production and increase the capacity of the borrower to repay. We have concentrated on projects that are basic to economic growth, especially the development of electric power systems, roads, railways and ports. We expect the operation of these facilities to lead to greater production of useful goods, a growth of savings, and a strengthening of the international trade position that ultimately will help to lift living standards in the borrowing country. If export consultation or foreign staffing is required, we see that the prospective borrower obtains it and we sometimes help pay for it. Once a loan is made, the Bank not only follows the progress of the project during the construction period, but also watches it thereafter to see that the best possible results are obtained in actual operation.

Wherever and whenever we can, we try to make a loan proposal the occasion to create or improve institutions working at key points in the economy—whether they be planning bodies, public authorities or private companies. We have helped governments to improve their machinery for budgeting development expenditures and pulling together the development effort. For instance, we are now supplying economic and financial advisers to 14 of the underdeveloped countries.

Policy Toward Latin America

Like any bank, we prefer to lend to good enterprises, and where good enterprises do not already exist, we are willing to pitch in and help create them. In Latin America, for example, we often have been asked to make electric power loans where no proper electricity authority or company existed. In these cases, the power business not uncommonly was run out of city hall as an activity of the municipality, there was no planning for future needs, revenue from sales simply went into gross receipts, and no-

body knew whether the business was paying its way or not. In case after case of this kind, the Bank has insisted on the creation of a proper power entity, adequately staffed with managerial and technical personnel, and charged not only with the day-to-day administration of power supply, but also with the planning of an investment program to cover expansion.

These and other institutions which understand how to employ capital are vital to economic growth, and their existence can enable the Bank and other investors to build from strength instead of struggling to shore up weakness. To go back to Latin America for a minute, the Bank counts among its clients in that region 32 organizations created to provide electric power, to develop and operate ports or railways, or to perform some other particular economic function. Of these 32 entities, 28 were organized or brought into operation with the help of the Bank, and together, they have received some \$900 million of Bank loans — almost half of all our lending in Latin America.

Equity Investment Encouraged

We are especially interested in the creation of private, shareholder-owned companies to help finance private industrial development. The Bank has been working at this for a dozen years, and has now given the lead in this field to its affiliate, the International Finance Corporation, which has the responsibility for exploring all proposals for financial or technical assistance to these industrial finance companies. So far, our money and advice have helped to create or reorganize 14 of these companies, and they, in turn, are helping to widen the areas where private ownership can flourish and the profit motive can awaken dormant energies.

The Bank not only likes to lend to good enterprises, but to the more promising countries as well. While the Bank's loans have been spread over more than 40 of the less developed nations, they nevertheless tend to cluster in countries which have been showing the most satisfactory economic performance. For instance, in Latin America, more than half our commitments have been made in four countries: Colombia, Mexico, Peru and Venezuela. In the Far East, we have concentrated almost all of our lending on Japan, Malaya (now a part of Malaysia), the Philippines and Thailand. In South Asia and the Middle East, an area saturated with difficulties of many different kinds, most of our lending has been done in the two most populous countries: India and Pakistan.

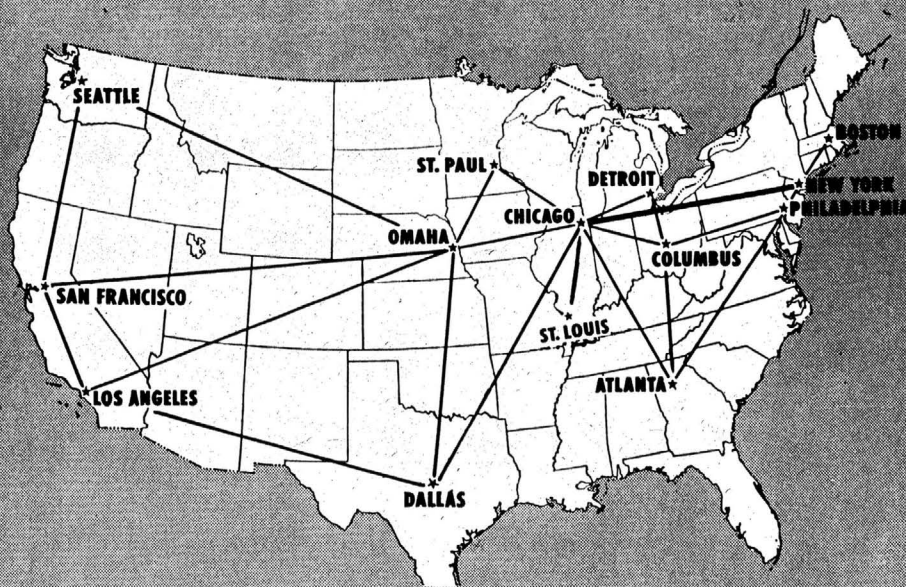
Finally, let me note that the fact that the Bank is an international organization has been an element of great strength in its operations. Unlike nationally-administered aid programs, World Bank loans have not been concerned with political objectives, with short-term commercial factors, or with military considera-

Continued on page 63

NATIONAL DISTRIBUTION

Growing even faster than the tax-exempt securities industry as a whole, JN&Co. has established new regional offices in Dallas, San Francisco and St. Louis during the last 12 months for the purpose of rounding out Nuveen's concept of national distribution and national service for tax-exempt securities.

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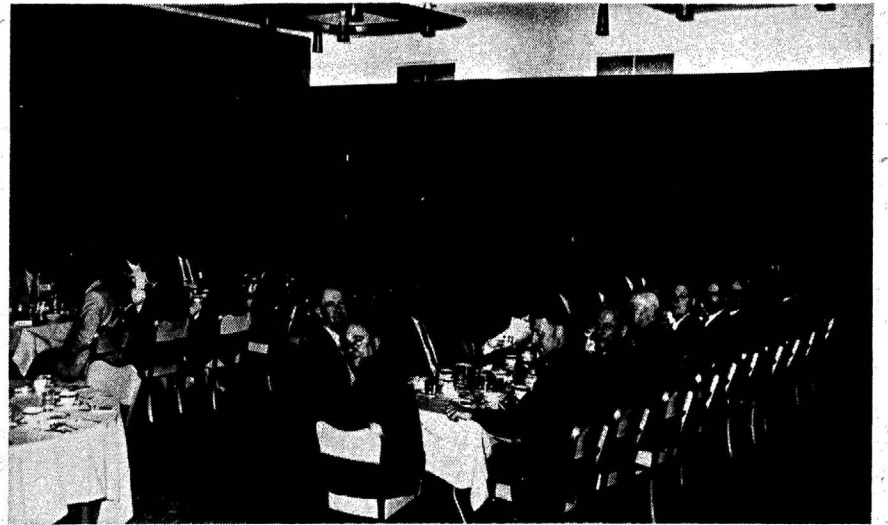
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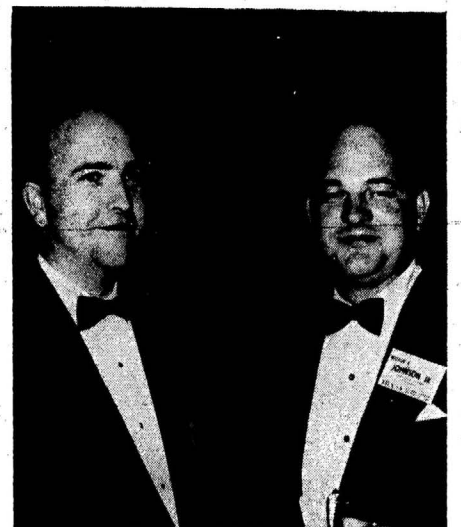


Municipal Securities Committee, Breakfast Meeting—George B. Wendt, *First National Bank of Chicago*, Chairman



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World Bank's Role as Borrower and Lender

Continued from page 61

tions. We have been able to call the shots as we saw them, from a strictly economic and financial point of view. We have been concerned solely with assuring the best economic performance by the developing countries. Because we have no objective to serve but economic development, we have been able to be hard-headed in our adherence to economic criteria, in a manner and to an extent not open to national aid programs. Our record stands proof that such hard-headedness pays off in development results.

Current Lending Operations

In the fiscal year ended last June 30, the Bank made loans totaling \$449 million, and in the five months since then, we have lent \$479 million more. I think our prospects for an active future are good. We ourselves, to be sure, have pointed repeatedly to the fact that in some countries, the burden of debt is rising toward a point where they will become doubtful risks. In these countries, for the time being at least, the Bank will be limited in its ability to operate. These clients will have to turn increasingly to sources able to offer capital on more lenient terms, including the Bank's own affiliate, the International Development Association, which financially is quite separate from the Bank and therefore not part of my story here today.

But as some of the Bank's customers turn elsewhere, others arrive. Among important new arrivals, for instance, are Spain and New Zealand. We made our first loan in Spain two months ago and our first loan in New Zealand last month; and we expect to be quite active in these countries for the next several years at least. Another new arrival is Portugal, where we recently lent money for power development.

In many other places, we will continue to do our normal business and in some, the pace is likely to be more than normal. In Nigeria, for instance, we are looking at a proposal to finance the development of a large hydro-electric site on the Niger River. In Venezuela, to cite another example, we have already lent \$130 million for highway development and for the Guri hydro-electric power project; but our operations in that developing country are just beginning and, politics permitting, should become more important in years to come. Moreover, I think that from time to time we will be lending to some of the more developed countries which need our financing as a supplement to their borrowings in the private markets of the world. In recent weeks, for example, we have made \$100 million of loans to Japan and Norway, and I would expect this kind of activity to continue.

Would Broaden Scope of Bank's Assistance

While we intend to press ahead with the big and basic public utility projects that have constituted most of our business in the past—and doubtless will constitute most of our business in the future—I have recommended to the Bank's Executive Directors that

we widen our efforts on other fronts. We ought to be prepared, I believe, to give more technical advice and assistance to help in the formulation of projects in those countries which are inexperienced in administration and technology. Even in countries where the development process has been well begun, it may be advisable to follow development into its more advanced stages and to finance enterprises of a more varied and complex sort than the large power plants and transportation projects that have been our specialty up to now.

I have proposed that we do more to help agriculture, extending our assistance beyond loans for large-scale irrigation and flood control to such activities as helping to finance comprehensive agricultural improvement programs and strengthening organizations that extend credit and technical help to the farmer.

In the industrial field, we have in mind becoming more concerned with the financing of individual industrial projects, and helping, through technical assistance as well as finance, to develop industries of kinds new in the developing countries. In addition, we are exploring the desirability of long-term financing, in appropriate cases, for the import of pieces of equipment, components and spare parts, where the shortage of foreign exchange with which to buy such equipment from abroad has prevented full use of existing industrial capacity. It makes little or no sense to finance spectacular new capacity when production facilities already in place are only partially in operation because of the lack of maintenance parts.

I have also recommended to the Bank's Executive Directors that we enter the field of education, by lending for technical and vocational education and training projects and for general secondary school facilities.

Favors Modification of Terms

We are also considering the modification, in suitable cases, of the terms of our lending. In particular instances, it may be desirable to lengthen the grace period, to allow the project being financed to be brought into full earning power or to give a longer breathing spell to a borrower whose repayment capacity may take some years to build up. It may also sometimes be appropriate to lend at somewhat longer term than our maximum, up to now, of 25 years.

I have already said, and let me repeat, that these new kinds of lending would supplement, not supplant, the kinds of lending the Bank already does. Let me add one other thing: in new fields, as in the old ones, the Bank is not going to try to supply all the capital needed—that would be far beyond our resources in any case. What we are going to do, as we already have done in other instances, is to develop techniques of organization and finance that will encourage others to follow the way. We want to finance pilot projects, not to try to do it all.

No "Soft Terms"

Having set out some of the things which the Bank may do in

the future, let me mention a few things the Bank certainly will not do. We will not finance projects, of whatever kind, unless we think they are of high priority, have been well studied and will be efficiently carried out. We will not lend more money in any country than we feel it reasonable to expect can ultimately be repaid. We do not intend to make loans on so-called soft terms. On the contrary, we will continue to relate our interest charges to the cost of money to us—not only to assure

our own financial strength but also to facilitate the ultimate transfer of the business of financing our clients to the established money markets of the world.

II

The Bank's experience in dealing with problems of economic development covers the span of all the years since the end of the war. In these years, there has been increasing impatience, both in the United States and in some countries of Europe, with the re-

sults of bilateral programs of development aid. More than once, we have been told by the critics that these programs are money down the drain, that the less developed countries are sieves and sponges, politically and economically unstable.

"Flashy Headlines" Are Misleading

It is perfectly true that there are many things amiss in the less developed world. That world is

Continued on page 64



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World Bank's Role as Borrower and Lender

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in the course of a dramatic revolution and revolutionary change is by definition neither smooth nor easy. In many countries, dangerous political currents are running strong, sometimes with disastrous economic consequences. And, even here this not the case, inexperience, incompetence and,

sometimes, impatience have hobbled the pace of progress. At best, economic development is a slow process and development assistance is a frustrating and irritating business, which requires the employment of great patience, some diplomacy and, as with many things in life, a certain amount of luck.

But having said all that, I suggest that the errors, the irritations and the setbacks—the things that make the flashy headlines—are only one part of the picture and that it is peculiarly our responsibility, as bankers, to see the picture whole and in perspective. So viewed, the record tells a different story—a story of development proceeding despite great obstacles, a story of overall advance, uneven, to be sure, but significant and, in fact, historically without parallel.

One statistic alone will help to show what I mean. Within the years from 1948 to 1961, the gross domestic product of a representative sample of more than 60 developing countries rose by about 70%. This over-all rate of growth is higher than that achieved by the industrialized countries during the same years. Moreover, despite the population explosion—which presents an exceedingly difficult problem, the seriousness of which cannot possibly be exaggerated—despite the population explosion, the per capita growth in the GNP of the developing countries over the 1948-61 period was also encouraging; it amounted to somewhat more than 2% per year. On this basis, the per capita income of the developing coun-

tries as a group would nearly double in a single generation.

The Latin American Picture

But let's go a bit behind these over-all figures. Let me take Latin America first, since the Alliance for Progress is so much in the news and is of such particular importance to the United States. Using the perspective of the whole postwar period—a period first of booming export prices for Latin America's products and then of steadily deteriorating terms of trade—Latin America's growth in gross national product has been at an average annual rate of almost 4½%. This high rate reflects largely a rapid advance in industrial production. During the decade 1948-58, for instance, Latin American heavy industry increased its output by a striking 7½% per year. And programs underway envisage continued expansion at the same rapid rate.

Per capita rates of growth in Latin America, of course, have been much lower than the overall increase in GNP because of the large expansion in population, but the postwar average is still in the neighborhood of almost 2% per year. At the moment, regional figures show a halt in this record of growth because of the economic crises in Argentina and

Brazil. But balanced against this is the rather remarkable fact that, in 1962, the growth in per capita income in 10 of the 19 countries participating in the Alliance for Progress exceeded the 2.5% goal set by the Alliance.

India and Pakistan Making Real Economic Progress

Or let's take a look at the Indian sub-continent on the other side of the world—an area comprising two countries whose population is considerably greater than the aggregate population of all 20 Latin American republics plus the 34 countries of Africa. The problems of India and Pakistan are often shrugged off as well nigh hopeless because of the grinding poverty of their peoples, the terrible pressure of population upon available resources, and the magnitude of the investment required for even a modest advance. In fact, we are much concerned that economic production in India, for the time being, is growing no faster than population, probably due in large part to unfavorable weather and a poor harvest. Yet the longer record shows that despite staggering handicaps, India's per capita income rose by some 1½% a year between 1955 and 1962. In Pakistan, after near stagnation during most of the 1950s due largely to

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governmental incompetence, a new, more rigorous administration took hold and, with extensive financial aid from abroad, has started to make significant progress. The growth rate during Pakistan's Second Development Plan is expected to average about 5% a year over the five years of the Plan period, achieving a per capita rate of growth comparable to that of India.

I shall not go on quoting statistics, although similar or more favorable figures are available for many nations in many parts of the world. The point is simple enough: despite political upheavals, despite inflation, despite outmoded social structures, despite unparalleled population growth, despite inadequate savings and investment, the underdeveloped world is moving forward and the whole process of development is acquiring an encouraging momentum. Success is not assured and it will not come quickly or easily, but I am convinced that the prospects are good if we of the West stand firm in our resolve to give effective financial and technical help, within our means, to those nations whose own efforts and economic performance justify that help.

Toynbee's Perspective

The historian and philosopher, Arnold Toynbee, from the pinnacle provided by his studies and philosophical thinking, had the perspective to see—and years ago

to predict—that assistance to developing countries would become the economic problem of the 20th Century. In recent years, the 1960s have been officially proclaimed to be the Decade of development. Toynbee's judgment is being confirmed and reconfirmed with every passing year. But the proclamation will only come true if the bankers, the industrialists, the diplomats, the politicians, of the world, take a little advice from the men of the universities and of the church and, generally speaking, of the trained news observers and interpreters, and treat the problem of the economics of the less developed world with the consideration given to other serious problems. The solution of this problem should be approached as an end objective. Economic aid is not an infirmity which we must learn to live with and which we render tolerable by making it a by-product of programs created and implemented essentially with the view of furthering the diplomatic, political or export objectives of the industrialized countries. Economic assistance to developing countries should be the central objective — not the peripheral one—of the aid programs. The other considerations I have mentioned, which will always be in the background of the activities in any well run country, should themselves be only the pleasant by-products.

Lauds AID's Accomplishments

Whatever the shortcomings of the U. S. aid program over the years, the important fact is that the over-all progress of development would today be substantially less—and our political insecurity therefore substantially greater—if the United States had been less generous in extending development assistance. The encouraging news on this front is that, under its energetic new administrator, Mr. David Bell, the Agency for International Development is improving its performance significantly in ways that promise to yield a better developmental return than ever before for each AID dollar spent. The time has come, I am convinced, when we should concentrate on cheering the gains which are being made in aid programs instead of grousing at their inadequacies.

In saying what I have about the U. S. aid program, I do not mean to disparage the development efforts of the other industrialized nations. The aid programs of these other nations are of large and growing importance; indeed, they have now reached a size which belies the popular notion that the United States is bearing

a highly unfair share of the development assistance burden. In recent years, in fact, the United States has contributed a smaller percentage of its gross national product to development assistance than Britain, France, Germany and the Netherlands—again excluding the cost of military aid, although the terms on which these other countries provide assistance still leaves something to be desired, particularly in comparison with the terms of United States aid.

What the present state of affairs demands, it seems to me, is that we devote our best efforts to helping the developing countries to maintain and increase the momentum that has been so painfully achieved since the war. I think that it would be the part of wisdom for the governments and organizations concerned with assistance to the underdeveloped world to build vigorously on the gains already made — rather than lose those gains by slackening their efforts or yielding to the counsels of defeatism.

"Unreal Distinction"

This is the course that I intend we shall follow in the Bank. Peo-

ple sometimes talk as if there were a choice between running the World Bank as a bank and running it as a development institution. This is surely an unreal distinction. It is in the nature of any bank that it should be interested in promoting the production and trade of its clients. The World Bank has always had this as its primary objective in the area, almost unlimited in terms of geography, of its operations. Wisely deployed, our resources of finance, experience and influence can make a significant contribution to raising standards of living in underdeveloped countries which contain most of the population of the world. The future of the Bank depends on its continuing to play an active and constructive role in these countries. It is our firm intention to play this role in a manner that will continue to command your confidence and support.

*An address by Mr. Woods before the 52nd Annual Convention of the Investment Bankers Association of America, Hollywood, Florida, Dec. 5, 1963.

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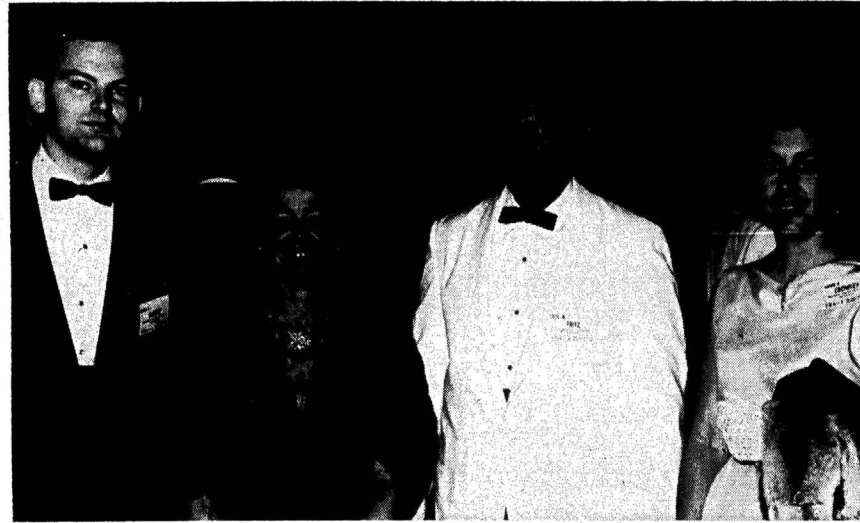
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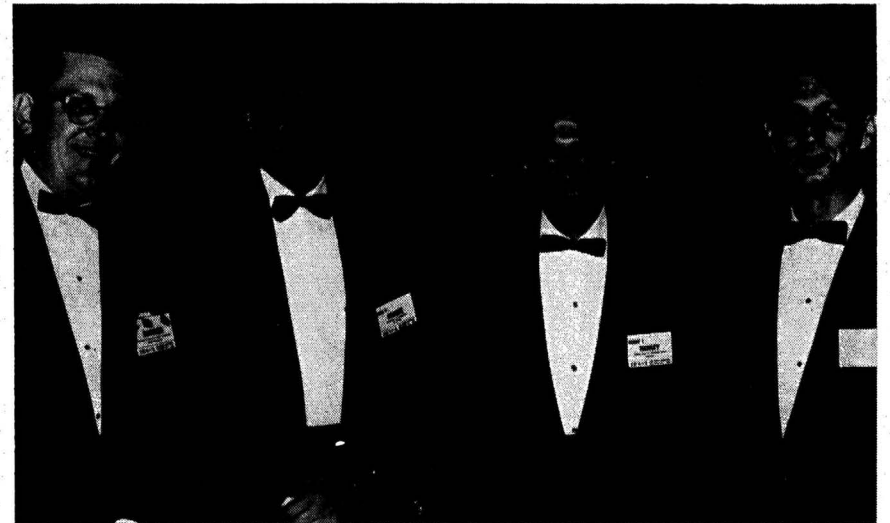
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Report of IBA Municipal Securities Committee

Continued from page 21

mittee for consideration again in the House.

(e) Public Works Acceleration Act

The Public Works Acceleration Act (approved September, 1962) authorized the appropriation of \$900 million to be allocated by the President to initiate and accelerate in eligible areas (a) Federal public works projects which have been authorized by Congress and (b) public works projects of state and local governments for which Federal financial

assistance is authorized under other provisions of law. The primary purpose of the Act was to provide immediate useful work for the unemployed and to help communities to become more conducive to industrial development and better places in which to live and work. Grants under the Act for local public works projects of states and local governments are generally limited to 50% of the cost of the project (or in some cases up to 75% of the cost of the project). In October the House Committee on Public Works held

hearings on H. R. 7351 and several similar bills before the Committee which would amend the Act to increase by \$900 million (to an aggregate of \$1.8 billion) the funds authorized for appropriation under the Act. The IBA submitted a statement to the Committee opposing authorization of the additional funds on the following grounds:

(i) The proposed tax reduction to stimulate the economy is accompanied by a pledge against Federal spending to stimulate the economy.

(ii) States and municipalities are financing new public facilities at record levels.

(iii) Existing Federal financial assistance programs provide billions of dollars to accelerate capital expenditure programs of the Federal government and local governments.

(iv) Funds under the Act have been used for non-essential purposes at the expense of the taxpayers.

No action has been taken by the Committee on the bills to authorize additional funds under the Act.

(f) Health Professions Educational Assistance Act

This Act, approved Sept. 24, 1963, authorizes over a period of three fiscal years an aggregate of:

(i) \$105 Million for grants for construction of new teaching facilities for the training of physicians, nurses and professional public health personnel.

(ii) \$35 million for grants for construction of new teaching facilities for the training of dentists.

(iii) \$35 million for grants for the replacement or rehabilitation of existing teaching facilities for the training of physicians, dentists, nurses or professional public health personnel.

Such grants may not exceed 50% of the necessary cost of construction except that (1) in the case of a project for a new school or for new facilities for an existing school where such facilities are of particular importance in providing a major expansion of training capacity the Federal grant may be for two-thirds of the cost of construction and (2) for a project with respect to a school of public health the Federal grant may be for 75% of the cost of construction. The Act also authorizes a program of student loans for schools of medicine, osteopathy or dentistry.

(g) Mental Retardation Facilities and Community Mental

Health Centers Construction Act of 1963

This Act approved Oct. 31, 1963 authorizes an aggregate of:

(i) \$24 million over the next four fiscal years for grants for up to 75% of the cost of construction of facilities for research on mental retardation and related aspects of human development.

(ii) \$32.5 million in Federal grants over the next four fiscal years for up to 75% of the cost of construction of university af-

filiated clinical facilities for the mentally retarded or for clinical training of physicians and other specialized personnel.

(iii) An aggregate of \$67.5 million over four fiscal years beginning with the fiscal years ending June 30, 1965 for up to two-thirds of the cost of construction of public and other non-profit facilities for the mentally retarded.

(iv) An aggregate of \$150 million over the three fiscal years

Continued on page 68

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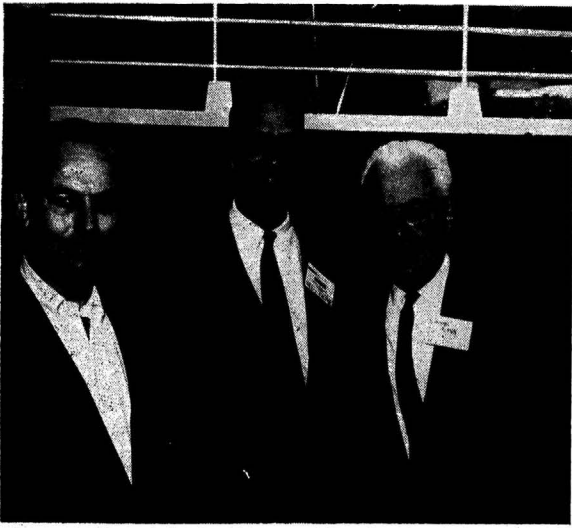
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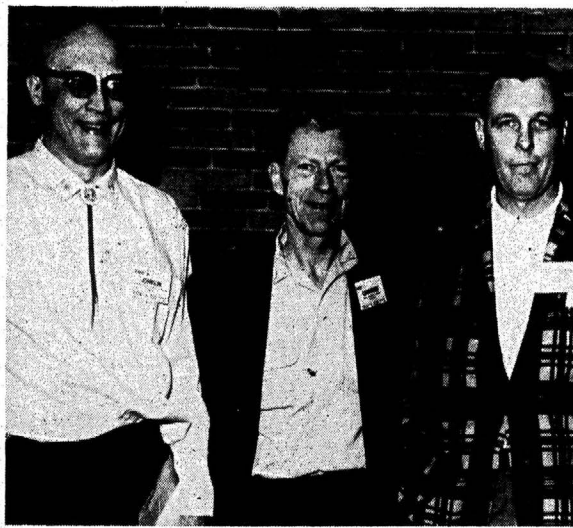
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Report of IBA Municipal Securities Committee

Continued from page 67

beginning with the fiscal year ending June 30, 1965 for up to two-thirds of the cost of construction of public and other non-profit community mental health centers.

(v) An aggregate of \$45.5 million over the next three fiscal years for training of teachers of mentally retarded and other handicapped children.

Respectfully submitted,
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1945	1,403,443	\$ 381,200	28c
1950	2,084,242	\$1,944,344	96c
1955	2,263,849	\$2,583,301	\$1.15
1960	2,575,141	\$3,853,154	\$1.51
1961	2,733,109	\$4,021,450	\$1.52
1962	2,783,817	\$5,020,863	\$1.82
1963	2,998,316	\$5,486,126	\$1.85

(1) Includes data of Southern Colorado Power Company for all periods prior to May, 1961, date of merger into Company.

(2) Restated to reflect 6 for 5 stock split effective April, 1961.

(3) On average-shares basis.



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APPENDIX A

Summary of Proposed "National Education Improvement Act of 1963"—H.R. 3000 in the House—S. 580 in the Senate. (References to Years are to Fiscal Years Ended June 30 of the Indicated Year)

1(A) Student Loans for Higher Education. Would expand and liberalize student loan provisions of Section 201 of the National Defense Education Act of 1958 (presently authorizing \$90 million for each year, 1962, 1963 and 1964) to authorize \$135 million for 1964 and such sums as Congress may

determine for the following six years for college student loans.

1(B) Student Loan Insurance for Higher Education. Would authorize a new program of Federal insurance for commercial loans made by banks and other institutions to college students for educational purposes, the total principal amount of new loans covered by such insurance not to exceed \$25 million for 1964, \$50 million for 1965 and \$75 million for 1966.

1(C) Work-Study Programs for College Students. Would establish a new program to promote the part-time employment of needy college students by institutions of higher education, authorizing \$22.5 million for 1964 for such payments to students and such sums as Congress may determine for each of the next two fiscal years.

1(D) Graduate Fellowships. Increase the number of Defense Education Act fellowships from 1,500 to 12,000 for 1964 and each of the two following fiscal years.

2(A) Higher Education Facilities. would authorize loans for academic facilities to public and non-profit private institutions of higher education (with maturities up to 50 years) requiring that (1) at least 1/4 of the cost of the construction be financed from non-Federal sources and (2) the applicant is unable to obtain the amount of such loan "from other sources upon terms and conditions equally as favorable" as the terms and conditions applicable to loans under this program. The interest charged on such loans would be not less than 1/4 of 1% above the average annual interest rate on all interest bearing obligations of the United States forming a part of the public debt as computed at the end of the fiscal year next preceding the approval of the application for such loan, adjusted to the nearest 1/8 of 1%. For this program there would be authorized an aggregate of \$1 billion for the three fiscal years 1964, 1965 and 1966.

2(B) Grants to Community Junior Colleges for Academic Facilities. Would authorize grants of \$50 million in 1964 and such sums as Congress may determine for each of the next two fiscal years for grants to community junior colleges for academic facilities, requiring that the Federal funds be matched by state or local funds.

2(C) Grants for College Level Technical Education Programs. Would authorize grants to public and private non-profit institutions

for the establishment or expansion of a college-level program of technical education, designed to prepare the student for immediate employment at the semi-professional level in engineering, scientific or other technological fields. Would authorize \$20 million in such grants for 1964 and such sums as Congress may determine for the following six years.

2(D) College and University Libraries. Would authorize grants of \$15 million for 1964 and such sums as Congress may determine for the next two years to institutions of higher education to acquire books for library purposes. A grant could not exceed 25% of the amount expended by an institution during 1963 for library purposes (with specified exceptions). The institution must furnish proof that it will expend during the fiscal year for which the grant is requested for all library purposes (exclusive of construction) an amount not less than the amount it expended for such purposes during 1963, and that it will expend for all library purposes (exclusive of construction) during the fiscal year for which the grant is requested an additional amount not less than the amount of such grant and that at least 50% of such expenditure will be for books, periodicals and other related materials.

Would also authorize \$25 million of grants for 1964 and such sums as Congress may determine for the next two fiscal years for the construction of college library facilities, provided that a Federal grant may not exceed 50% of the cost of construction of the project.

2(E) Graduate Schools. Would amend Title IV of the National Defense Education Act to expand the National Science Foundation matching grant program for graduate and undergraduate science facilities, authorizing \$40 million for 1964 and such sums as Congress may determine for the next six fiscal years for grants to institutions of higher learning for the establishment or improvement of graduate schools, including projects for construction or equipment of institutional and related facilities, such Federal grant not to exceed 50% of the cost of the project.

2(F) Foreign Language Training and Research. Would amend the National Defense Education Act to authorize grants of \$13 million for 1964 and such sums as Congress may determine for the next two years for modern foreign language training and research.

3(A) Institutes for Advanced Study for Teachers. Would authorize \$37.5 million for 1964 and such amounts as Congress may determine for the two following years for grants or construction to colleges and universities for the operation by them of institutes for advanced study to improve the qualifications of teachers.

3(B) Teacher Preparation Programs. Would authorize \$7.5 million for 1964 and such amounts as Congress may determine for the two following years for grants to colleges and universities which have programs for preparation of individuals to teach in elementary and secondary schools to pay part of the cost of specific projects designed to strengthen such programs.

3(C) Specialized Training for Teachers and Related Educational Personnel. Would authorize \$7.5 million for 1964 and such amounts as Congress may determine for

the two following years for grants and contracts with colleges and universities for training persons preparing for teaching gifted children, teaching English, counseling and guidance or school libraries.

4(A) Public Elementary and Secondary Education. Would authorize:

- \$400 million for 1964
- \$500 million for 1965
- \$400 million for 1966
- \$200 million for 1967

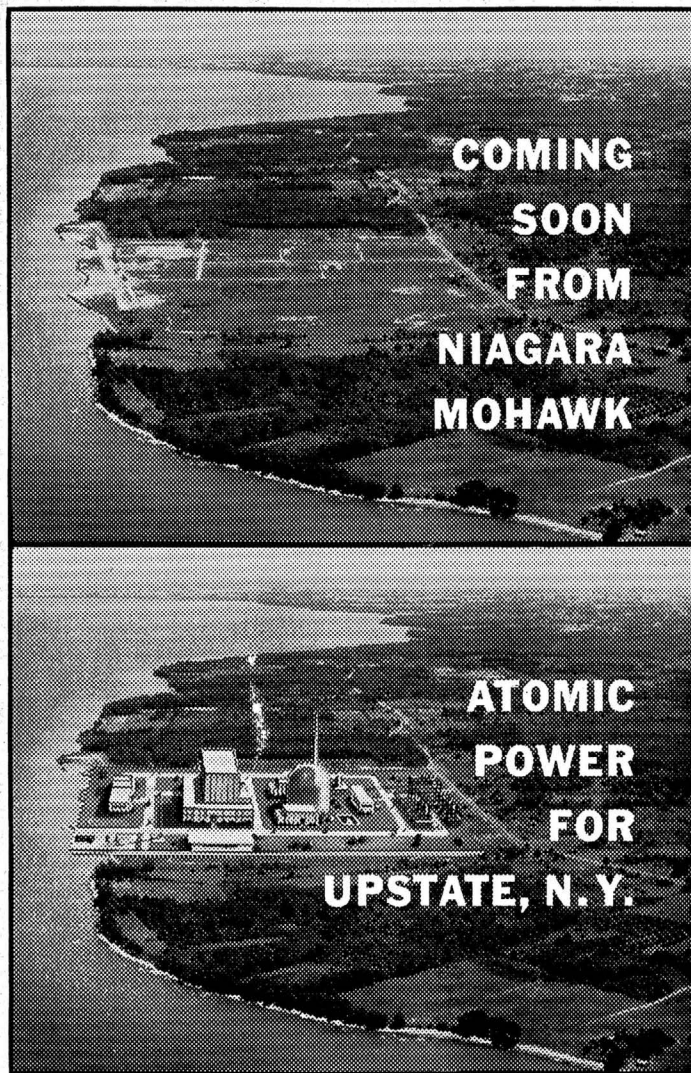
for Federal grants to states to assist their local educational agencies to make salary increases necessary for the recruitment and retention of qualified career elementary and secondary school classroom teachers, to construct

urgently needed elementary and secondary school facilities, and to undertake special projects and programs directed toward improving educational quality and opportunity.

Funds would be allotted among the states under a formula based on population and per capita income in each state. A state educational agency would be permitted to use the amounts allotted to it, pursuant to an approved state plan, for any or all of the following purposes:

(a) To pay to a local educational agency a percentage of an increase in salaries of certified

Continued on page 70



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Preparations are already under way at the 1,500-acre site and construction is scheduled to start in 1964. Completion of the 500,000 kw. nuclear plant is scheduled for 1968, to meet the ever increasing demand for power.

The new plant will be of the proven "water reactor" type. It is designed to produce electricity at costs at least as low as a coal burning plant at the same site.

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Report of IBA Municipal Securities Committee

Continued from page 69

classroom teachers having 10 or more years of service.

(b) To pay to a local educational agency a percentage of an increase in salaries of classroom teachers who have at least a Bachelor's Degree from an institution of higher education and whose salaries are substantially below the average entrance salaries in the state for such teachers.

(c) To pay a local educational agency a percentage of an increase in the salaries of teachers if the average salary paid by the local educational agency for all such teachers in its employ is substantially below the average salary paid in the state for such teachers and the ability of such agency to finance an increase is substantially below the average ability of local educational agencies in the state to finance an increase in the salaries of such teachers.

(d) To pay not more than 50% of the cost of construction of an elementary and secondary school facility which is urgently needed to relieve or prevent double-shifts, serious overcrowding, or school housing conditions which

are unsafe or otherwise seriously harmful to health.

(e) To pay part of the cost of pilot, demonstration, or experimental projects or programs, to be conducted by local educational agencies or by public or non-profit private agencies, designed to improve educational quality or opportunity in public elementary and secondary education.

(f) To pay part of the cost of developing a state plan which will entitle it to receive an allotment of federal funds under the program.

4(B) **Science, Mathematics and Foreign Language Instruction Equipment.** Would extend Section 301 of the National Defense Education Act Program (scheduled to expire in 1964) for two years, providing assistance for science, mathematics and foreign language instruction equipment.

4(C) **Guidance, Counseling and Testing.** Would amend Section 501 of the National Defense Education Act (due to expire in 1964) to extend the program for two years increasing from \$15 million per year to \$17.5 million per year for 1964 and each of the two following years the payments for guidance, counseling and testing.

4(D) **Federally Affected Areas.** Would authorize a four-year ex-

tension to 1967 of the program of Federal financial assistance to elementary and secondary schools in federally affected areas.

5(A) **Vocational Education.** Would authorize grants of \$73 million in 1964 and such sums as Congress determines for the four following years for grants to states to extend and improve programs of vocational education.

5(B) **Education of Handicapped Children.** Would authorize \$11.5 million of grants for 1964 and such amounts as Congress may determine for the two following years for training teachers of handicapped children. Would authorize \$2 million of federal grants for 1964 and such amounts as Congress may determine for the two following years for research and demonstration projects in the education of handicapped children.

6(A) **General University Extension Education.** Would authorize \$9.04 million for 1964 and for each of the two succeeding fiscal years for grants for the development of general university extension education programs.

6(B) **Adults Basic Education.** Would authorize \$5 million in grants for 1964 and such amounts as Congress determines for the two following years for grants to initiate programs of instruction for adults who are unable to read and write English or adults who have not completed the eighth grade of school or achieved an equivalent level of education.

6(C) **Public Community Li-**

braries. Would amend the Library Service Act to authorize \$25 million in grants for 1964 and such sums as Congress may determine for the two following years for the operation of public community libraries; and would authorize \$20 million in grants for 1964 and such amounts as Congress may determine for the two following years for construction of public libraries.

APPENDIX B

Summary of Statement Submitted to the House Committee on Education and Labor by the Investment Bankers Association of America Feb. 21, 1963. Re: Proposed "National Education Improvement Act."

(A) **\$1.5 billion in Federal grants over four years for teachers' salaries or 50% of cost of construction of elementary and secondary school facilities.**

This proposed \$1.5 billion in grants from the Federal Government would be divided among all of the states so that every state would receive some of the funds regardless of their actual needs. Thus, five of the large wealthy states would receive over \$113 million (over 28%) of the \$400 million proposed for the first year. Similarly, Federal funds allocated to a state under the proposal could be used to increase teachers' salaries in wealthy states, regardless of the fact that the lowest teachers' salaries in that state were much higher than teachers' salaries in other states.

I

Classroom Construction

The number of new elementary and secondary school classrooms completed during each of the last five school years was as follows:

1957-58	72,070
1958-59	69,543
1959-60	69,400
1960-61	72,214
1961-62	71,987

Total..... 355,214

It is estimated that close to 70,000 additional classrooms will be completed in the school year 1962-63, and this is supported by a continuing high level of sales of new issues of municipal bonds to finance such construction.

The amount of new issues of school bonds sold for public elementary and secondary schools in 1961 reached a record high aggregating over \$2.5 billion. The amount of such sales in 1962 was a close second to the 1961 record, aggregating over \$2.44 billion.

In view of this record of classroom construction without the proposed Federal financial assistance and the continuing financing for such construction, we believe that the proposed program of Federal financial assistance for classroom construction is unnecessary and undesirable.

II

Teachers' Salaries

In general, average teachers' salaries in 1960-61 were up 72% from 1950-51 as compared with an increase of only 57% for all workers.

The striking gains which have been made in classroom teachers' salaries is evidenced by figures from "Estimates of School Sta-

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tistics, 1962-1963," published by the National Education Association showing that the estimated average annual salaries of all elementary and secondary school classroom teachers in the four states with the lowest averages in 1960-61 had increased in 1962-63 by the following amounts:

Mississippi -----	\$380
Kentucky -----	\$801
Arkansas -----	\$276
South Carolina ---	\$443

Thus, it is apparent that even in the states where the average salary of teachers is the lowest, substantial improvements are being made in salaries without the proposed Federal financial assistance.

(B) \$1 billion in low interest rate Federal loans over three years for academic facilities for higher education (colleges and universities), requiring that at least 1/4 of the cost of the construction be financed from non-Federal sources.

Loans would be made under this program with maturities up to 50 years if the applicant is unable to obtain the amount of such loan "from other sources upon terms and conditions equally as favorable" as the terms and conditions applicable to loans under this program. The interest rate under the formula in the bill would be 3 1/2%, so that if a college or university could not obtain financing for an academic facility from other resources at 3 1/2% the Federal Government would loan the money at that rate.

The interest rate for long-term loans to colleges and universities under the formula in the proposed act is much lower than the interest rate which the Federal Government has to pay to borrow money for such maturities.

When such a program of low-interest rate Federal loans is authorized (just as with the Federal College Housing Program), the Federal Government takes over almost completely an area of financing which theretofore had been handled satisfactorily in the private market and the beneficiary institutions rely on the Federal Government for such financial support.

The proposed program would be directly contrary to recommendations regarding government credit programs in the Report to the President by the Committee on Federal Credit Programs:

"They should not be established

or continued unless they are clearly needed."

* * *

"When both public and private funds are involved, it is especially important that the terms and conditions prevailing in competitive private markets should, as far as consistent with program objectives, determine the basis on which the government funds are advanced. If borrowers can obtain adequate funds at reasonable interest rates from private lenders (with or without guarantees), they should not be given special incentives in the form of substantially lower costs to borrow from the government agencies."

There are four ways to provide needed academic facilities without the proposed Federal assistance:

(a) Surveys have shown that there are many fine institutions which have vacancies and can accommodate substantial numbers of additional students.

(b) There are organized efforts to obtain private contributions for college facilities. It is reported that private donations to colleges and universities are now running at a rate well over \$1 billion a year.

(c) Most college classrooms and laboratories are utilized only a small percentage of the day and it has been recommended that under well-planned scheduling, existing academic facilities in colleges and universities could be utilized to accommodate substantially increased numbers of students each day.

(d) Colleges and universities can obtain financing through the sale of bonds in the regular market at reasonable rates (as they have done in the past) and many publicly controlled institutions receive state support. For example, it was reported in the press on Feb. 13 that the four state colleges and universities in Indiana have announced a \$55.5 million program for additional classrooms, \$3.15 million to be financed by revenue bonds and \$24 million by proposed state appropriations.

Consequently, we believe that the needed academic facilities for increased college enrollment in the coming decade can and should be provided without the proposed Federal financial assistance by utilization of present vacancies, financing in the private market, increased private donations, and more efficient utilization of existing classroom and laboratory facilities.

The Investment Potential Of an Educated America

Continued from page 13

responsibility of the state, delegated by the state in turn for administration to local governments. State control of education is a fact in this country. Let us remember we have no ministry of education in America. We have a Commissioner of Education—Mr. Francis Keppel at present—who heads the United States Office of Education, but he has no line control. In the numerous established instances of Federal aid to education, the money is given to the states and is utilized by the states according to state plan within the authority of the national legislation.

Base of Operation

American Public educational systems operate on the basis of both free and universal education for at least the 12 years of elementary and high school in every community in America. In addition all states provide for some tuition free college and university opportunities and a growing number of communities are providing locally available tuition free junior colleges.

Second, our basis of operation is decentralized. Education is the

earliest school leaving age, and in many the age is higher. Great Britain's earliest school leaving age is 15; Belgium is preparing to extend the age to 16; Quebec has recently gone from 14 to 15 years of age as a minimum school leaving age. Turkey hopes to have education for all pupils age 7 to 14 by 1970. Last year, Brazil introduced a minimum of four years of compulsory schooling; Cambodia, six. Denmark reports favorably a movement to introduce a 10th year of schooling as compulsory. Poland has moved to eight years of compulsory education; Sweden, to nine. One could expand the list.

The contrast is more decisive when the fact is remembered that in many countries secondary education beyond the compulsory limitations must be privately financed. Whatever vocal and prominent critics of American education say, it is true that we have tried something unique in this country and that the institution of

earliest school leaving age, and

with four exceptions, 16 is the earliest school leaving age, and


Continued on page 72

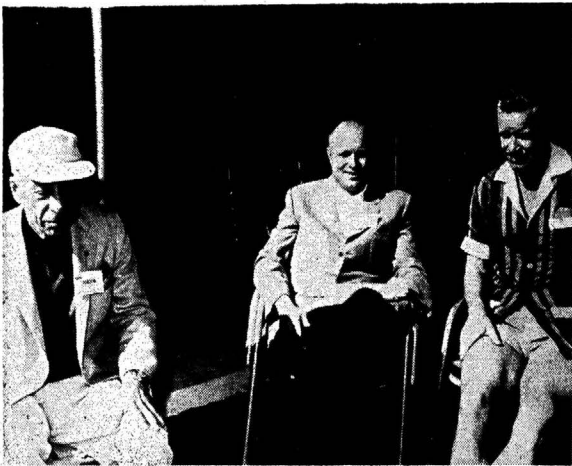
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The Investment Potential Of an Educated America

Continued from page 71

the American public high school with its diversified structure and opportunity is an American contribution to international education.

But this uniqueness is only indirectly connected to an inevitable conclusion with two values, given the facts of state control and a prolonged period of universally

compulsory education. The conclusion is that variation in output, character, and attainment of the educational product is inevitable. The educational opportunity will vary from state to state in relation to its financial investment and other discreet factors. Second, the standard of attainment at any grade level or at any school leaving age will vary

as long as attendance is unrelated to intelligence levels. I need only remind you, not expand upon the statistical fact of life, that by definition half the population, however grouped, is below average, no matter what is being measured—annual income or reading grade levels. I need only remind you that slow growing organisms—plants or children—require longer not shorter time to mature. Awareness of the facts causes us to be aware of the results we may reasonably expect. Such awareness should also provide us with knowledge of the price we would pay in democratic concept were we to take seriously the ill-conceived pleas for national standards.

Among persons statistically literate, the choice resolves itself into acceptance of variation or the reduction of minimum achievements so low that all could attain it. Thus we would arrive close to a vanishing zero. Of course a deplorable alternative does present itself in a new concept for American education and a new base of operation that would create a mandatory class of educationally outcast individuals. It is my hope that as persons become aware of the inevitable results of the futile arguments for national standards, we may reject them and utilize our energies in positive assaults upon the citadels of our own high concepts of the worth and dignity of every man and our concept of education as liberation of the human spirit.

The New Society

No institution is more quickly affected by certain types of social change than is the school. None must be more instantly responsive to these changes. I refer to the population boom, to the mobility of people, to the swift urbanization of our country, and to the technological reordering of society.

You are as familiar as I am with the growth in the birth rate during the late 1940s and 1950s. The Chicago birth rate doubled in that period, as an example. The fact that the rate has leveled off somewhat gives the nation's elementary schools a temporary respite while the onslaught reaches the high schools; but the absolute number of school age children will rise again shortly when the present school age population marries and has children.

You are equally familiar with the migration of our population to urban centers. Of our 180 million population, the *World Almanac* for 1963 places 125 million in

urban communities of 2,500 or more, 112 million in cities of 10,000 or more. Only 47 million people continue to live in places under 1,000 population, while 58 million live in central cities. This movement of persons to large urban centers has been accompanied by a counter movement from central cities to the suburbs.

The combination of higher birth rate and movement to urban centers has resulted in Chicago in an increase in total school population of nearly 193,000 between 1953 and 1963. Other major cities have been similarly affected. The strains of such growth upon building facilities personnel, and other necessities are obvious, and many people are aware of it.

But this is not all. There has been another effect, particularly of the twin movements to the cities and from the cities to the suburbs. The population of the country at large has been increasing faster than its wealth, but in the major cities there has been a concentrated loss of wealth aggravated by the movement out of the affluent and the movement in of the economically marginal families. In Chicago our taxable base behind each pupil has been declining for several years, while our school needs have increased, so that this year we have \$30 less per pupil than we had a few years ago using the same rate. Pupils increase faster than property values do.

Thirty dollars a pupil less may not sound like a great deal until it is translated into rooms of children. For 30 children this is \$900

or the equivalent, approximately, of the annual cost of educating two of the pupils in that room. The conclusions are ominous. To run in the same place we will have to run faster. Improving the situation through more classrooms, better materials and equipment, or more teachers becomes increasingly remote.

Yet it is essentially through the reduction of class size—more rooms and more teachers—that our hopes to urbanize our new city children must come. No major city that I know about is staffed per 1,000 pupils as are our fine suburban areas. The Educational Policies Commission proposes a staffing ratio of 50 to every 1,000 pupils. Chicago's ratio, after supreme efforts along this line, is now approximately 33 per 1,000 while some of our nearby suburbs are staffed at 70 per 1,000.

Each September as many as 23% of our first graders are not ready to read, thus demanding more, not less, teaching time and teaching skill. Over the last few years we have experimented in summer schools in culturally deprived areas with special work for first through sixth grade pupils. We have held class size to 25; grade levels to 100; and schools to 600. We have provided extra staff. We have the evidence that these culturally deprived children, half of whom have been selected because they were below grade in reading, can be taught and can learn, some making extraordinary gains which they hold, if their learning situations

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approximate those of our advanced suburban school systems.

It is of prime importance that persons became aware of what is happening in and to our major cities in cultural background of the population, traditional urban experience, economic sufficiency, and financial capability as to public education. The justifiable demands are increasing as the resources diminish. Whereas even 23 years ago, Chicago's level of educational attainment of the adult population surpassed the national average, today it is below the national and the state average. I cite Chicago because I know Chicago. It is a typical large urban center in all respects—trends, problems, and importance to the nation. If as wealth and intellectual achievement move out, economic and educational need move in — problems and prospects require not only awareness but action.

Action and Commitments

Because I have already implied certain necessary actions, I shall not dwell long on what I conceive to be required of us all everywhere in America if education is to be in a position to serve its purpose and if our country is to move ahead as we all believe it can and should.

First, I believe, certain commitments are required of us. Do we really want a high standard—ex-

cellence in our education—and do we want it available to all who can and wish to pursue it? Do we want the migrant, the indigent, the culturally deprived child to have as good an educational opportunity as we want our own children to have? Not only is the migrant, the indigent, the culturally deprived an American—he, too, is America. His image is as clear as our own. Unless his future is bright, the futures of our own children will be dim indeed. Lincoln said that a nation cannot exist half slave and half free. The bondages of ignorance are no less shackling today than were the bonds of servitude a hundred years ago. If willingness and ability are to be the impetus of the upward thrust, artificial barriers must disappear. They will not go away unless our commitment is translated into dollars for schools. They will not go away until educational opportunity has somehow been equalized from state to state, for the free way and the Ford readily convey ignorance and ineptitude from state to state.

A certain amount of social patience is also required.

In an article, "Education: The Long View," Toynbee wrote this two years ago:

"Man inherits a culture which the members of the rising generation acquire, not as an automatic birthright, but through

being inducted into it by their elders. . . .

Our minds are like handles to which alternative systems of culture can be fitted. . . ."

Later in the article he says:

"It takes more than one generation for a family that has made its way out of a less privileged into a more privileged social class to acquire the full cultural heritage of the class to which it has won admission."

This quotation may serve to remind us that technology, which is largely responsible for the mobility and economic displacement of many of our less affluent and able citizens, has some catapult effects upon us also.

Second, we must, I believe, look forward and not backward when we debate and plan the content and course of our public school programs. The stereotype of the school is the isolated red school house, where addition is done in columns, sentences are diagrammed to learn grammar, Latin is taught for mental discipline, and everyone reads Shakespeare in Ninth Grade and understands the footnotes. School is not like that any more; indeed it never was, but it differs markedly from what it was when we were in school, just as automobiles differ, and scientific concepts differ, and investment differs. Progress

and change in education must be accepted, anticipated, and demanded just as progress and change in business are accepted, anticipated, and demanded.

It is education's historic purpose to prepare young people for the economic and civic responsibilities of adulthood in the real life of their own day. Our children will not live in our generation, for they will be unable to do so just as we were unable to live in our parents' generation. While once the school taught a limited curriculum because the home had a broad curriculum and the corridor

of life was narrow, today the school must teach a diversified curriculum as the home is unable to encompass the range of skills required on the broad plateau of the twentieth—and for our children—the twenty-first centuries. The child once learned his vocational skills from his father; today he has probably never even visited the place where his father works. Let us strive to act in accordance with the grandeur of life around us; let us assure that the exciting opportunities confronting all youth today may be

Continued on page 74

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The Investment Potential Of an Educated America

Continued from page 73

obtained by the greatest number of them, and tantalize, warp and frustrate the fewest.

We, therefore, must pay attention to the development of awareness, among the public at large and among our educational colleagues, of the broad meaning of education and of the wide variety of skills which must be developed. As John Gardner said in his an-

nual report to the Carnegie Corporation of New York for 1960: "Most parents, teachers, and counselors have given little or no thought to the ways of learning and growing that do not involve college. . . . When the populace as a whole comes to recognize that education should be an enduring thing in their lives and can take place in a variety of settings, then the artificial emphasis on

certain types of education will recede. Emphasis will be on individual fulfillment and personal growth, however, they may best be furthered. And they will be sought for all."

Finally, as to action, we must make more attractive and increasingly honorable the profession of teaching. We give the best hopes we have when we give our children to the teacher in school. We want the best the teacher has to offer from a fund of wisdom, a skill in teaching, a joy in living, and a generosity of heart. Our teaching force must be drawn from the most able and promising of our young college graduates; once drawn they must be encouraged to remain and honored for professional and personal growth. Money is an important factor, but respect and an integrity of attitude toward teachers on the part of the public, which cannot be purchased, need also to be paid.

Conclusion

In President Johnson's message on the State of the Union he said in part: "I profoundly hope that the tragedy and torment of these terrible days will bind us together in new fellowship, making us one people in our sorrow." After a few more sentences he quoted the following stanza from the song familiar to every school child in America:

*"America, America,
God shed His grace on thee,
And crown thy good
With brotherhood
From sea to shining sea."*

There are those who say we have never really tried brotherhood. If this is the case perhaps it is because we have never really fulfilled our obligations in the family of man, where the first responsibility of the elders is for the young. We must decide in this country and decide now whether the world we have made and its successor glimpses of which we catch, the glory of which we can only imagine—is to belong to the children of the whole family of man or it to a few and the many to it.

Knowledge enlightens. Skill creates. Humanity enables. Wisdom enriches. Education—excellent and available—is the means. On our awareness and our action regarding educational opportunity for all our children depend the prospects of America and for brotherhood in the family of man. We must be aware and we must act.

*An address by Mr. Willis before the 52nd Annual Convention of the Investment Bankers' Association of America, Hollywood, Fla., Dec. 3, 1963.

Winners of 1963 Essay Competition

HOLLYWOOD, Fla. — Bernadotte P. Lester, Jr. of Lester, Ryons & Co., Los Angeles, was named the winner of the 1963 All-Institute



B. P. Lester, Jr. Guy R. Taylor

Essay Competition sponsored by the Investment Bankers Association as part of its annual Institute of Investment Banking. Guy R. Taylor of Mercantile-Safe Deposit and Trust Company, Baltimore, was named as winner of the First Year Class Essay Competition. Both winners were announced at the Association's recent 52nd Annual Convention here by the Chairman of the IBA Education Committee, Avery Rockefeller, Jr., of Dominick & Dominick, New York.

The Institute of Investment Banking is a three-year executive development program sponsored by the Association for partners, officers, and other experienced personnel from IBA member firms. Registrants meet for a week

each Spring at the Wharton School of Finance and Commerce on the University of Pennsylvania campus in Philadelphia. Members of the first and second year classes are required to submit essays in order to continue in the three-year program.

Mr. Lester was introduced to the Convention delegates and received a \$500 award for his winning paper on "Qualification of Persons in the Securities Business."

A native Californian, Mr. Lester attended Stanford University as an undergraduate and in 1954 received his M.B.A. degree from the Graduate School of Business. He joined the trading department at Lester, Ryons & Co. in Los Angeles in 1955 and has been a General Partner since 1962 with responsibilities in both the sales and syndicate departments. Active in IBA affairs, he is a member of the California Group Education Committee. He is also a member of the Stock Exchange Club, University Club, The Bond Club and The Spring Street Forum, all in Los Angeles.

Mr. Taylor is a native of Baltimore where he received most of his education, including attendance at Johns Hopkins University's McCoy College and a degree from Baltimore Institute. He is an Investment Officer of Mercantile-Safe Deposit and Trust Company, Baltimore, having over 40 years association with that Bank. Mr. Taylor is a member of the Cashier's Association of Investment and Brokerage Houses in Baltimore, is married and has three children.

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Primary Issues Pertaining To the Securities Industry

Continued from page 10

complete, has led to one inescapable conclusion. Many, if not most, of the abuses and undesirable practices described in the Report could be eliminated to a very great extent by the imposition and enforcement of higher standards of conduct, experience, competency, integrity and financial responsibility which must be met by persons engaged in the securities business. It is necessary to provide for effective and flexible disciplinary powers which may be used by the Commission and the self-regulatory bodies to bar from the industry those who have failed to demonstrate their ability or willingness to meet the established standards.

The enactment of the proposed legislation will not in itself guarantee the achievement of these objectives, but it will provide the statutory authority which the SEC and the self-regulators need in order to put into effect the necessary reforms in cooperation with responsible leaders of the industry. I would point out to you here as I will later that we in the IBA are not regulators, nor are we self-regulators, but we are regulated. We have had experience in being regulated. In the last 30 years we have become the most extensively and intensively regulated industry known. This is not a new experience. We strive to work under State Blue Sky laws, all the Federal laws administered by the SEC, the Rules for Fair Practice and other dictates of the National Association of Securities Dealers, Inc., and the Constitution and regulations of The New York Stock Exchange, The American Stock Exchange, and the various regional exchanges. As to whether there should be additional regulation and, if so, what kind, we are experts and in a position to contribute constructively. Therefore, I propose this afternoon to fly back to Washington with Murray Hanson in order to be able to testify before the House Committee in endorsing the passage of this legislation. We believe it is most important that we back constructively an effort to raise the entire securities industry to the best standards which the industry itself proclaims and it is our judgment that this legis-

lation is necessary if this is to be accomplished.

Working With Government

Perhaps the most important subject for the IBA and for the security firm today is that of working effectively with government. Many of us remember well the prediction of perhaps the majority in the early and middle 1930's that we could not operate under the legislation passed in those years. But we have learned to live and to operate under our Federal regulatory system and I need not tell you that our industry has prospered, that our customers have been well served. We have \$1.4 billion of capital, a 260% increase since 1950. We have 85,000 men in the sales forces of our firms, a 300% increase since 1950. We have 2,000 offices across this country and the organization to serve an expanding economy. One of the important contributing factors to the high level of employment in this country is the thousands of projects started each year—giving job opportunities to Americans—with the capital raised by the Investment Banking Industry. Our independent and separate American Investment Banking System is the envy of other countries of the free Western World.

But just because our industry has developed well under a watchful government we must place a high premium on working effectively with government toward constructive ends. Consultation between a regulated industry and the governmental departments and Congress itself does not in any way compromise the independence which Government should have.

Collaboration Essential

The SEC's approach to the legislative program recognized that Federal legislation in the securities field, if it is to be effective, must have the benefit of government and industry collaboration. The problems are complex and they cannot be solved from ivory towers. Practicality is an essential ingredient and that can be supplied only with the help and advice of businessmen. Recently, and from an unlikely quarter, there was heard a voice complaining of the SEC's turning to in-

dustry for consultation and warning of dangers of SEC captivity and of cooperation becoming appeasement. That man overlooks the lessons of the past and what is far worse seems to question the integrity of the conscientious individuals in government and industry who last spring moulded a program which merits the approbation of all concerned. It is obviously a dangerous concept that business and government should be divided by distrust. Government needs the facts, the experience, the expert knowledge that only the top corporate executives can provide. This is a distinctive feature of the relationship between Government and business in this country and important to the maintenance of the high standard of living for our people.

Danger of Over-Regulation

We in the securities industry have a very special problem because of the importance of government regulations and because of a growing danger of over-regulation, in part by our own self-regulatory bodies. It is difficult for me to say exactly what I mean without appearing to criticize the Board of Governors and the Presidents of our own self-regulatory bodies, so let me preface what I say by an expression of my profound admiration for what they have done and are doing. I have served six years as a Governor of The New York Stock Exchange and I know how fine is the performance of that body of able and distinguished men. I have worked with Keith Funston over many years as he has given truly fine leadership to The New York Stock Exchange, and I believe that he, the other exchange presidents and our new president of the NASD, William Haack, should be solidly backed by the industry.

My real criticism goes to the industry itself and not to the self-regulatory bodies. I believe that serious question must be raised as to whether the industry has so organized itself as to tap the primary source of its policy wisdom. I believe that the owners and managers of our industry have allowed too much of the vital negotiation with government to be handled by third parties. I think we must face the fact that the regulatory and the self-regulatory bodies themselves can and will become subject to the faults of bureaucracy if we do not take the trouble to tend our own business.

The danger of over-regulation is clearly present. Our business has been closely regulated and watched by Federal, by State and by self-regulatory bodies for many years. We work in a goldfish bowl—and that is as it should be. Many problems have been solved. But in spite of this the Special Report of the SEC clearly shows that more must be done. We must tackle these remaining problems one-by-one. But great care must be taken to avoid maiming the healthy body in the effort to cure the remaining sickness. The Special Report quite rightly analyzes the troubles that remain in great detail but if we permit rules and regulations to be made in great detail and concerning matters that properly belong to the responsible managers, we will maim the well managed security firm. This is against the public interest. This would be particularly unfortunate in the light of the fine record of

the industry over the last generation. Let us not forget as we strain to perfect our operation that we have served our customers well, that we have financed this country and in part the Western World during the remarkable period of reconstruction and expansion since the war.

The tough, practical operating problems of successful business enterprise are handled by the senior owners and managers of the securities firms. It is the securities firm that hires and trains personnel, that brings in the customers, that pays the bills that support the NASD and the Stock Exchanges. The most fundamental source of wise policy judgement must be found among these managers.

(A Two-Part Plea)

So I have a plea. It is in two related parts and I make it first directly to the owners and the managers of security firms. It is that senior managers must insist on their right to participate in the negotiations which will lead to new rules of both the self-regulatory bodies and of the SEC. They must organize their time or the time of their firms so that their sharpest attention is brought to bear on the full scope of the problem before it becomes too crystallized in third party negotiation.

The other part of the plea is addressed to the self-regulatory bodies—the Stock Exchanges and the NASD and in turn the SEC

itself. It is that no rules or regulations that concern security firm operations should be crystallized or finally negotiated before consultation with the security firms themselves. I am fully aware that government procedure calls for the submission of all rules to those effected for comment, and that NASD procedure also requires submission of new rules to the membership for a vote; that the constitutions of the Exchanges rightly place strong authority in their governing boards. But I also am aware of the hollowness of "consultation" when in human reality it relates to accomplished fact. We know how valuable it is in reaching a wise conclusion to harness the wisdom of practical men's minds to the solution of the problem in its early stages. The security industry is too large and too diverse to let a few men decide important issues for us. It is not enough to have a board of directors or a staff of an Exchange, or the NASD; a Harding Committee or an ad hoc committee, valuable though such may be. It is not satisfactory to say that business managers have been so busy or so inattentive that the decisions have to be made for them. The procedure I make my plea for may be difficult but it is the democratic process and I believe our firms, the real economic units of the industry, should insist on it.

*An address by Mr. Ames before the 52nd Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 2, 1963.

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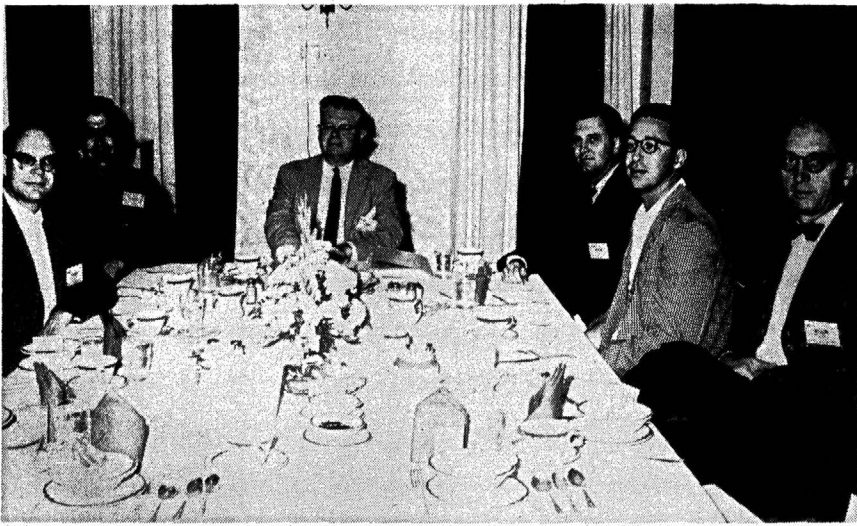
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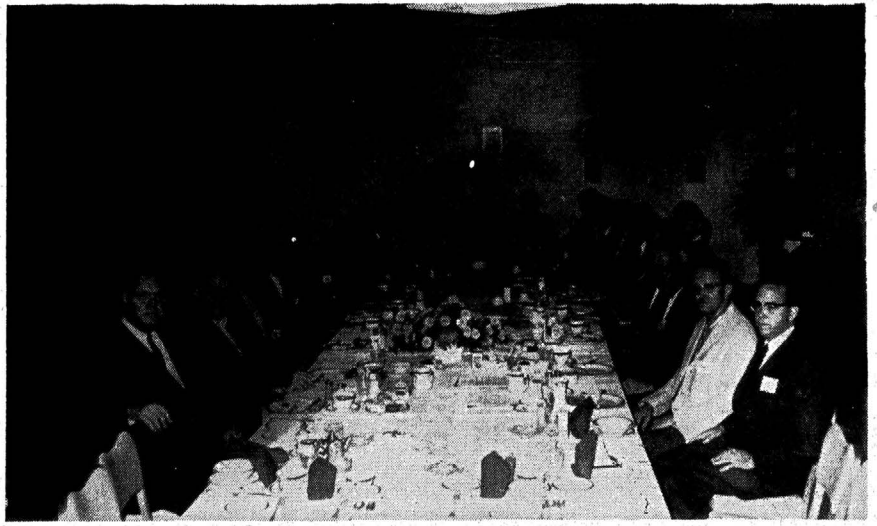
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The New President's Inaugural Address

Continued from page 9

cert and present a united front. I will bend every effort toward this goal.

Industry Endangered

Many of these 176 changes lose some of their glitter when a veteran in the industry begins to ask blunt questions and points to obvious facts that are carefully ignored by the idealists. One of our first considerations is the total cost of implementation and what it may do to our industry as a whole. For example, since the first of the year there have been at least 42 mergers in the securities business. Since the end of 1962 IBA membership has declined from 792 to 765. I believe that this is a most unfortunate occurrence, since it eliminates from our ranks many fine old-line houses carrying names that have been represented in the business for decades. These firms had a variety of reasons for merging, but when you get right down to it, all of these reasons are based on the question of profit. In my years in the business, I have never seen any firm being absorbed where its profit outlook was good.

I want to make it perfectly clear that in no way am I inferring that the current SEC investigation forced these mergers. They were brought about almost 100% because of the very apparent reasons of increased costs and tighter profit margins. The pressures of rising operating costs, costs of new SEC supervisory requirements, and even the threatened inroads by our good friends the banks—all these are important factors affecting the decisions of smaller and medium sized dealers on whether or not they will continue to stay in business.

Profit Squeeze

Now, I don't believe that the SEC is too aware of this profit squeeze, mainly because the study period over which they had no control was based on 1961 brokerage results. In that year our business hit an all-time high in both volume and profits, particularly in underwriting and distribution where the majority of profits are realized. If there is any doubt on this score, the point was driven home by the NYSE's

analysis of profits in the commission business which in the year of 1962 amounted to an average of less than 4/10ths of 1% for the largest 25 member firms.

The last 10 years has been a period of growth for the securities business and the returns were far better than in the previous 20 years. Nevertheless, the amount carried to net in relation to sales was probably among the very lowest of the major industries. Except for the NYSE's study of commissions, no overall profit and loss survey has been made of our business. I have seen the results of the spot check which indicates that in the last decade few, if any, investment firms were able to report a return on capital of as much as 5% after taxes. By way of comparison, let me call your attention to the commercial banks which, although conservative from the standpoint of capital investment, did far better. As an example, the report of the banks in the 7th Federal Reserve District showed average earnings after taxes of over 10%.

I earnestly submit that an average of less than 5% after taxes does not leave enough profit to build reserves for difficult times, provide sufficient funds to develop automation and new services and definitely not enough to attract or adequately increase the

equity of junior partners and officers who must eventually run our firms.

Must Weigh Each Recommendation

So that I will not be misunderstood, let me repeat again that the study and many of the 176 proposed changes have exceptional merit, and we are willing and anxious to adopt those, which after study, prove to be sound. The unanimous endorsement by the entire investment industry of the proposed legislation is a potent illustration.

But let me stress just as carefully, that each recommendation must be weighed from the standpoint of total cost and practical results. If this is not done, it is my judgment that our country's system of providing working capital for industry will be sharply impaired. Substantially increased government regulation will not only raise costs to an impossible level for most firms; it can only lead to more mergers and a shrinkage in the number of people in our business. The securities industry today is composed of several thousand firms—most of them small—and the vast majority are solid, well-established and reputable. They are small because they wish to be small since their principals consider this to be essentially a personal service and they prefer to have close contact with all of their customers. I think this is a necessary and healthy thing. Our industry must have as many soundly set up dealers as possible in order to supply

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the growing public need for service, in order to supply funds to small growing businesses, and in order to merchandise, and properly distribute to diversified markets, underwritings of the large securities houses and banking institutions. In connection with the latter, it is my opinion that the banks should examine more thoroughly the detrimental effect they would have on their good customers in our industry by further inroads into the securities business.

"Two Main Tasks"

With these highlights in mind, let me say to you as your new President that I expect to devote myself in the coming year to two main tasks:

(1) to work closely with the SEC and other regulatory bodies to improve our services and protection to investors; and

(2) to prevent, if I can, the adoption of impractical regimentation and above all to do my best to see to it that our business remains sufficiently profitable to be able to give investors the service to which they are entitled.

The effectiveness of industry unity through the Liaison Committee has been eloquently demonstrated by the results of its cooperation with the SEC in the development of the fair and workable legislative program now before Congress. This united front must be maintained.

I am honored to accept this office and I will need and know I will have your wholehearted support.

*Acceptance speech of Mr. Harris on assuming office of President of the IBA, Hollywood, Fla., Dec. 5, 1963.

In Attendance at Convention

Continued from page 15

- BRADFORD, Jr., JAMES C.
J. C. Bradford & Co., Nashville
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Eaton & Howard, Boston
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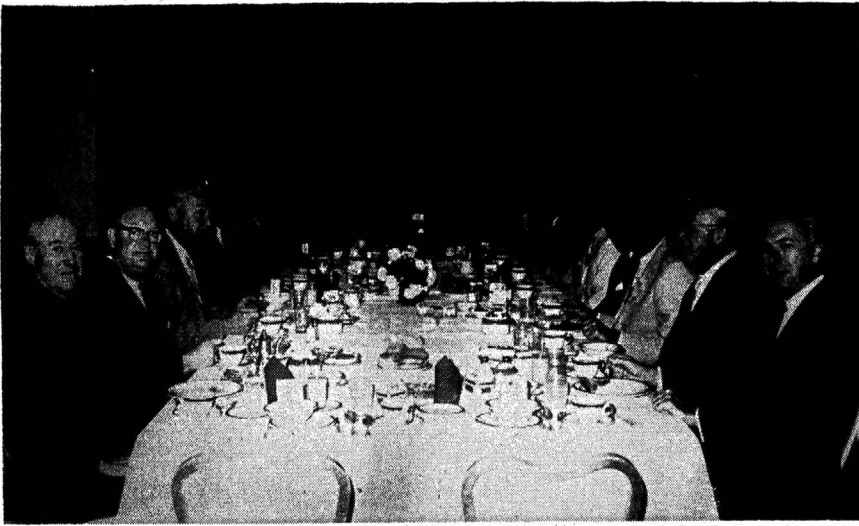
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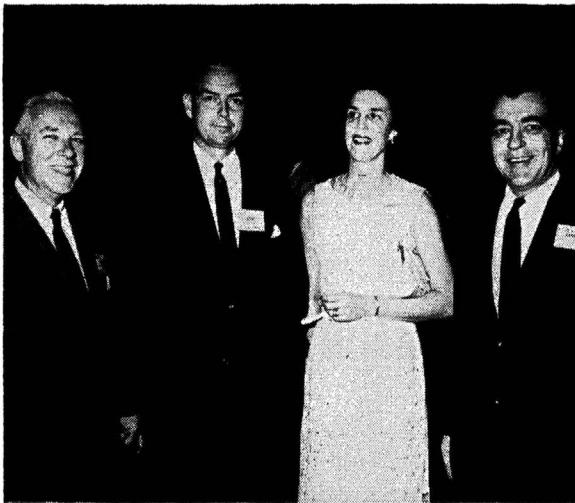
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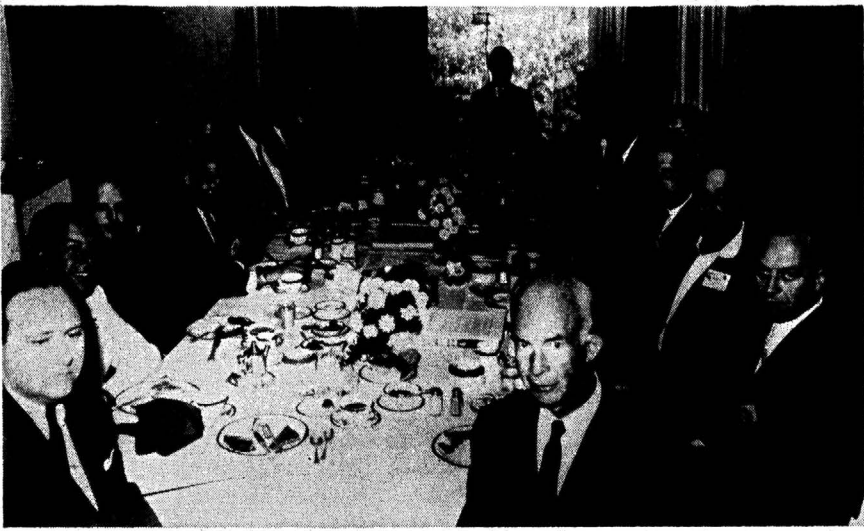
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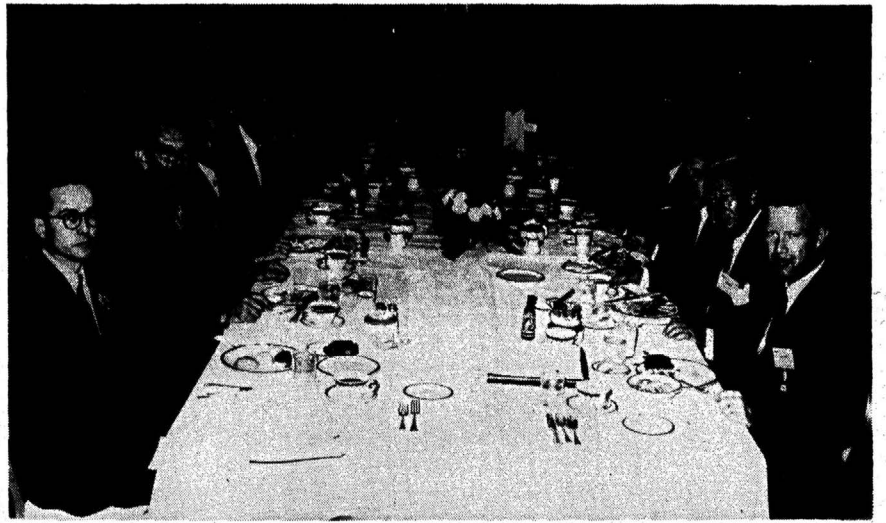
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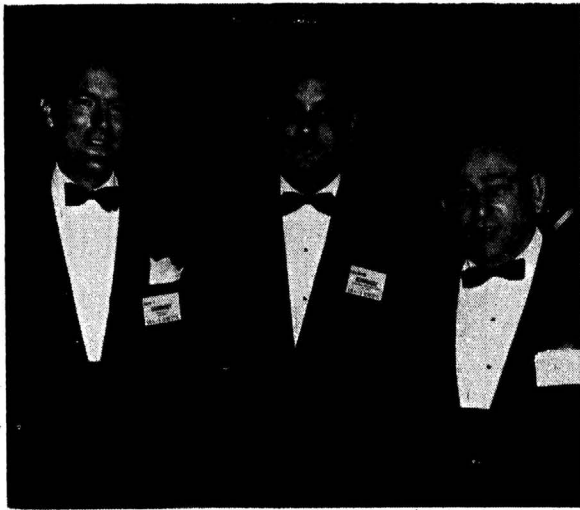
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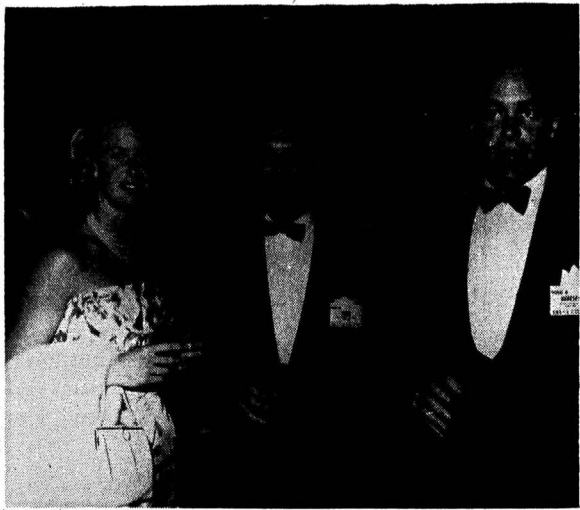
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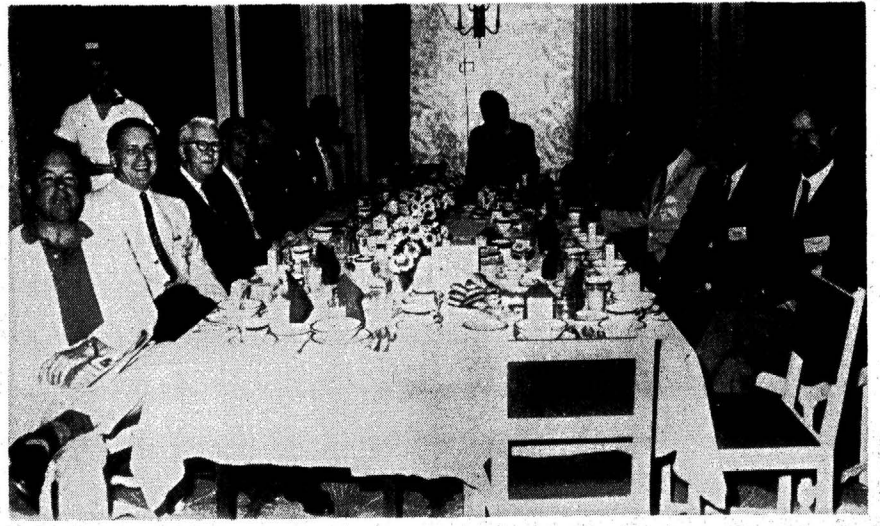
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Report of Subcommittee On Municipal Industrial Financing

Continued from page 24

City in connection with its acquisition of land and buildings, machinery, equipment, and facilities constituting an aluminum rolling mill and related facilities from Harvey Aluminum Incorporated. The price which will be paid to Harvey Aluminum by the City will include the cost of the acquisition of 1,000 acres of land, construction of buildings with 785,000 square feet of floor space, facilities for a minimum annual capacity of 60,000 tons of aluminum sheet and plate, cost of start-up operations and also if the Company so desires, all or part of rental payments made by the Company under the Lease (with the City) prior to September 1, 1966, and the expenses of the City in connection with the issue and sale of the bonds which are paid by the Company. The total payment by the City is not to exceed the amount from time to time in the Escrow Fund created under the bond ordinance into which Bond proceeds were paid after certain deductions. Under a lease agreement, the facility will be leased by the City to Harvey Aluminum. The lease payments will be equal to principal and interest requirements plus certain payments into a Reserve Fund. All such rental payments are required to be paid directly to a Trustee for deposit in the Sinking Fund to be used solely for debt service payments. The obligation of the Company to make payment required under the lease is absolute and unconditional and the Company may not suspend such payment for any cause.

Other Developments

The most comprehensive study of municipal industrial financing to date, "Industrial Development Bond Financing," was published this year by the Advisory Commission on Intergovernmental Relations. Of particular interest was the basic conclusion of the report as follows:

"We conclude that the industrial development bond tends to impair tax equities, competitive business relationships and conventional financing institutions

out of proportion to its contribution to economic development and employment. It is therefore a device which the Commission does not endorse or recommend. However, the Commission recognizes the widespread and growing nature of this practice and the unlikelihood of its early cessation. Therefore, we conclude that if the practice is to continue, a number of safeguards are absolutely essential."

New York State Comptroller Arthur Levitt has organized a committee of the principal state finance officers from about 20 states to study this problem and a meeting of this committee is scheduled in Washington in December.

Fundamental Considerations


Analysis of municipal industrial bond issues makes it quite apparent that the issuing municipal body involved acts only as a conduit in the financing and that such issues are essentially corporate bond issues except for the fact

that the interest thereon is exempt from Federal income taxes.

This Subcommittee emphasizes that, in its opinion, there is a possibility that further use of this type of financing may bring pressure for S.E.C. supervision over such issues. S.E.C. supervision over one type of municipal bond most probably would lead to supervision over other types. Such S.E.C. control might hamper the efforts of the States and their subdivisions to finance improvements essentially public purpose in character.

IBA members continue to view municipal industrial financing as an abuse of the right of the states and their subdivisions to issue bonds exempt from Federal taxation, since these bonds are issued primarily for private benefit. This abuse will most certainly be used by those who attack tax-exemption. Rapid deterioration of Federal-State power balances would naturally follow successful prosecution of such an attack.

IBA members are seriously concerned with the implications of the problem of permitting the use of tax-exempt public credit to finance government ownership of private industrial facilities — a practice which is certainly contrary to the basic concepts of our private enterprise economic sys-



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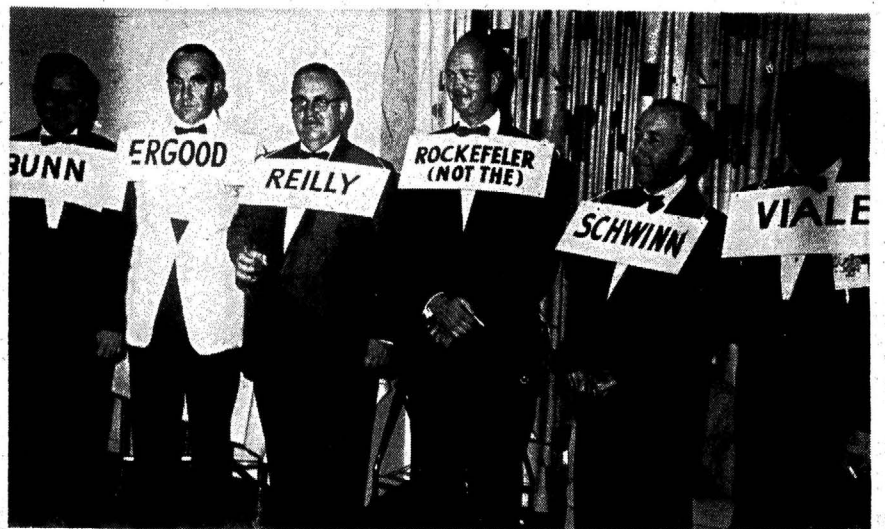
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tem and the principles of the Association.

IBA Members Urged to Support Legislation

A copy of H.R. 6772 which was introduced in the form approved by the Association is attached as Appendix A. A memorandum stating in brief the objections to municipal industrial financing and outlining the stands of organizations on record as being opposed to municipal industrial financing and a copy of the brochure *Do You and Your Company Support Private Ownership or Government Ownership of American Industrial Plants?* are attached as Appendix B and C.

Members of the Association are urged to oppose the passage of new state legislation which would authorize municipal industrial financing and to support efforts to repeal existing state laws which permit this practice.

Members are also urged to ask their Congressmen to support H.R. 6772 and to introduce similar legislation.

Respectfully submitted,
SUBCOMMITTEE ON
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APPENDIX A

88th Congress: First Session
H. R. 6772
IN THE HOUSE OF
REPRESENTATIVES
June 4, 1963

Mr. Griffin introduced the following bill; which was referred to the Committee on Ways and Means.

A BILL

To amend the Internal Revenue Code of 1954 to deny deductions for certain payments for the use of, or interest payments on mortgages on, industrial plants financed by tax-exempt obligations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) part IX of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to items not deductible) is amended by adding at the end thereof the following new section:

"Sec. 275. *Certain Payments for the use of, or interest payments on mortgages on, industrial plants financed by tax-exempt obligations.*

"(a) If the proceeds of a tax-exempt obligation issued after July 1, 1963, by any State or possession of the United States, or by any political subdivision thereof, or by any public agency or instrumentality of any of the foregoing, or by the District of Columbia (hereafter referred to singly or collectively as a governmental unit) are used to acquire, construct, or improve (in whole or in part) an industrial plant, or as a loan to a corporation, authority, or other entity to acquire, construct, or improve (in whole or in part) an industrial plant, no deduction shall be allowed for any amount paid or accrued to a governmental unit,

corporation, authority, or other entity by any nonpublic occupant of such industrial plant for the use or occupancy thereof or by any nonpublic mortgagor of such industrial plant for interest payments on mortgages thereon.

"(b) Definitions—For purposes of subsection (a)—

"(1) Industrial plant—The term 'industrial plant' means any building or equipment which is used for manufacturing, assembling, fabricating, or processing articles or commodi-

ties (including any building or equipment the use of which is incidental to such manufacturing, assembling, fabricating, or processing), unless such manufacturing, assembling, fabricating, or processing is merely an appurtenance to, or incidental to the development or operation of, a public facility open to use by the public.

"(2) Tax-exempt obligation—The term 'tax-exempt obligation' means any obligation is-

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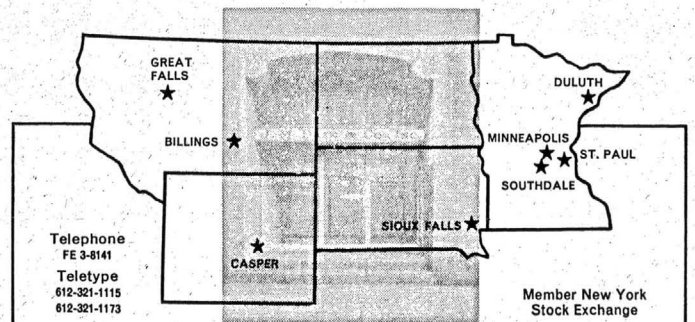
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Report of Subcommittee On Municipal Industrial Financing

Continued from page 81

posed by any governmental unit and the interest on which is wholly exempt from the taxes imposed by this subtitle."

APPENDIX B

Memorandum Regarding Municipal Industrial Financing

State and municipal bonds, the interest on which is exempt from present Federal income tax,

normally are issued only to provide public facilities. However, in some states, state and municipal bonds (generally referred to as "municipal industrial bonds") are now issued to finance acquisition or construction of industrial plants which are leased to private companies or sold to private companies under a mortgage arrangement.

The Objections

Tax-exempt state and local bonds should be issued only to provide public facilities, and it is an abuse of the use of tax-exempt credit to use such bonds for the benefit of private companies.

Government ownership of industrial plants is contrary to the free enterprise system and provides government sponsorship for companies in competition with companies occupying privately owned plants.

Historically, the record shows that the principal periods of default in municipal bonds have been marked by similar use of public credit to aid private companies.

The Opposition

The Investment Bankers Association of America, after a study of municipal industrial financing, concluded that it is poor policy to use public credit (either general obligation or revenue bonds) for private industrial facilities. Investment bankers can profit by underwriting municipal industrial bonds; but a large majority of investment bankers have passed up opportunities to participate in such financing and the accompanying profits, because they believe in and support the principle of private ownership of industrial plants and hold that such financing may undermine our American system.

AFL-CIO, in its Policy Resolutions on Economic Issues in Dec. 1961, stated:

"In scores of communities, revenue from tax-free state and local bonds is now being improperly used to build new low-cost plants in order to entice industrial run-aways. Long ago the Federal Government decided that interest received by the owners of state and local bonds should be tax-free to help these governments raise funds for critically needed public purposes. Today, more and more of the revenue from these bonds is being used instead to build factories for private use—generally on a lease-purchase arrangement.

"Finally, we call upon the Congress and the Administration to end the improper use of the revenue raised from the tax-free state and local bonds to entice run-away employers. No Federal law or practice should tolerate this vicious use of public funds for private purposes."

The Municipal Finance Officers Association by resolution opposes

the issuance of municipal debt obligation to acquire property of type and kind for purposes other than generally recognized governmental functions.

The Local Government Law Section of the American Bar Association by resolution concluded that it is contrary to the interests of local governmental units and to sound public policy for such local governmental units to issue their obligations to provide industrial plants or factory facilities for the direct benefit of private industry.

Other Comments

The Supreme Court of Idaho in 1960, in declaring unconstitutional an Idaho Act authorizing municipal industrial bonds, stated:

"It is obvious that private enterprise, not so favored, could not compete with industries operating thereunder. If the state-favored industries were successfully managed, private enterprise would of necessity be forced out, and the state, through its municipalities, would increasingly become involved in promoting, sponsoring, regulating and controlling private business, and our free private enterprise economy would be replaced by socialism."

Barron's Magazine on Nov. 26, 1962, in an article headed, "Capitalism Cannot Function in a Moral Vacuum" commented regarding municipal industrial bonds that:

"Underwriters and investors are

interested in making money. Only the shortsighted among them, however, will seek to profit by striking a bargain with socialism. . . ."

"For despite specious pleas to the contrary, industrial revenue bonds do violate the rules of free enterprise. They displace private capital with public funds, obtained on terms which, thanks to tax-exemption, come artificially cheap."

What to Do

It is recommended that the best solution to the problem would be an amendment to the Internal Revenue Code to deny deductions for rental payments for the use of, or interest payments on mortgages on, industrial plants financed by tax-exempt obligations. A bill to effect that amendment is attached and was introduced in the House of Representatives on June 4, 1963 as H.R. 6772. It would be helpful to have many additional Congressmen introduce the same bill.

An acceptable solution would not be provided by denying tax-exemption to the interest on state and municipal bonds used to finance industrial plants because (i) as a practical matter there would be vigorous opposition to any proposal to deny tax immunity to interest on any type of state or municipal bond by many local government organizations and (ii) any attempt to deny such

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tax exemption by statutory amendment would raise constitutional questions under the doctrine of reciprocal immunity. These problems are avoided by the proposed bill which would simply deny certain tax deductions to the private corporations which take advantage of the tax-exempt bonds of local governments.

APPENDIX C

Do You and Your Company Support Ownership or Government Ownership of American Industrial Plants?

Most citizens loyally support our American free enterprise system based on private ownership of industrial plants and they regret government ownership of industrial plants as being a form of State Socialism.

Yet some companies accept government ownership of industrial plants by leasing needed plants from local governments. Such government owned plants usually are financed by the sale of municipal bonds (the interest on which is exempt from all present Federal tax) which normally are issued only to provide public facilities. Municipal bonds issued to finance industrial plants are known as municipal industrial bonds. Such an arrangement may appear quite attractive in immediate benefits to the lessee company, BUT:

The Supreme Court of Idaho in 1960, in declaring unconstitutional an Idaho Act authorizing municipal industrial bonds, stated:

"It is obvious that private enterprise, not so favored, could not compete with industries operating thereunder. If the state-favored industries were successfully managed, private enterprise would of necessity be forced out, and the state, through its municipalities, would increasingly become involved in promoting, sponsoring, regulating and controlling private business, and our free private enterprise economy would be replaced by socialism."

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trial bonds; but a large majority of investment bankers have passed up opportunities to participate in such financing and the accompanying profits, because they believe in and support the principle of private ownership of industrial plants and hold that such financing may undermine our American system.

The Investment Bankers Association of America, after a study of municipal industrial financing, concluded that it is poor policy to use public credit (either general obligation or revenue bonds) for private industrial facilities.

The lease of a municipally owned plant, exempt from real estate tax, to a private company is unfair to other taxpayers in the area (particularly competing companies) because they must pay higher taxes to provide the additional public facilities (such as streets, sewers and schools) required by the municipally owned plant and its employees. Each company which leases a government owned plant financed by municipal industrial bonds increases the competitive pressure on other companies and other local governments to utilize such an arrangement, thereby accelerating a shift from private ownership to government ownership of industrial facilities.

The company leasing a government owned plant financed by tax-exempt bonds will have exercised poor business judgment if Congress adopts a proposal to deny a tax deduction for the rental payment by a non-public lessee to a state or municipality for an industrial plant financed by tax-exempt bonds (H.R. 6368 before the 87th Congress contained such a proposal applicable to rentals on a plant financed out of the proceeds of tax-exempt bonds issued on or after April 17, 1961).

You and your company are urged to reject proposals for constructing government owned industrial plants for lease to private companies and to support private ownership of industrial facilities, reserving the use of tax-exempt public credit for financing public facilities. You are also urged to help prevent the spread of municipal industrial financing by opposing the adoption of state laws which would authorize such financing.



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Report of Public Utility Securities Committee

Continued from page 31

avoidance of the Quoddy project, an average power cost of under seven mills would become five mills per kilowatt hour, or about one third of the Quoddy cost.

In Vermont, electricity produced at the St. Lawrence River plant of the power authority of the state of New York is delivered to distributing companies at approximately one-half the cost of Quoddy energy as forecast by the Secretary of the Interior.

We oppose this project, for we see no justifiable reason why the nation should be asked to invest in a billion-dollar project which is not economically feasible.

Refunds By Natural Gas Transmitters

The Federal Power Commission is undertaking a nationwide survey of power supply for the entire country.

We caution you that one of the real time bombs of electric power is the steadily approaching period of expiration of FPC hydro licenses, generally starting in 1970, when the Federal Government may either "recapture" or require businesses to hold over as year-to-year tenants by suf-

ference on their own properties. We note this in the National Power Survey—in certain decisions expanding FPC jurisdiction to hydro and other marginal operations previously contracted.

There is a lot at stake. As of last summer, there were FPC licenses, normally issued for 50 years, covering some 275 major projects with a total cost of \$5.7 billion and total installed capacity of nearly 16.5 million kilowatts. While these include state and municipal projects that are exempt from recapture, a number of major private undertakings are on the list.

In both our 1961 and 1962 reports, we expressed our concern about the natural gas transmission companies. Refunds are still being made to the distributing companies. In October, Tennessee Gas Transmission Company told the Federal Power Commission it had refunded \$1,529,770 during the second quarter of 1963 complying with an FPC settlement of last Dec. 21.

Tennessee Gas has refunded some \$149,000,000 to date and has lowered its wholesale natural gas rates by an annual \$35,500,000 under terms of the settlement,

which was the largest of its kind ever to come before the FPC.

The new refunds reflect rate cuts and refunds received by Tennessee Gas from its producer-suppliers.

El Paso Natural Gas had proposed to refund \$155 million in gas bills collected in the past nine years from customers in California, Arizona and New Mexico. The total includes \$35 million already refunded by El Paso.

Gas Industry in Strong Position

The refund results from an FPC order last October scaling down four date increases posted by El Paso between 1955 and 1960. Gas customers were served under the higher rates pending the FPC ruling.

As late as Oct. 14, in a speech before the American Gas Association, FPC Chairman Swindler stated that only about 60% of Federal Power Commission ordered natural gas refunds are reaching the ultimate consumer. He said the FPC will question disposition of the other 40%. Mr. Swindler told the convention that the commission had already ordered \$500,000,000 of refunds. He said the Commission had initiated a survey in December 1962 to trace the refunds by the pipeline companies and the producers to their ultimate destination.

Again we call your attention to the bright future of the gas distribution companies. The industry is now in its strongest competitive position.

One reason for the bright future of this segment of the gas industry is the development of what engineers call "the total energy system" for apartment houses, of-

ice buildings and industrial plants. Conventional "unintegrated" buildings use gas for heating and electricity for light, power and air conditioning. The new integrated system uses gas for everything. The gas is burned in a turbine, which powers an electric generator to produce electricity. The hot exhaust gases from the turbine are then diverted into a boiler, which makes steam either for heating, or after a trip through an absorption cooler, for air conditioning.

In our report of 1962, we quoted the specific savings of the Rush Fair Shopping Center at El Paso, Texas, which uses this integrated system.

Brooklyn Union Gas Co.'s Projects

Now, in New York City, Rochdale Village will be using natural gas for its total energy requirements. Gas will do the heating and cooling, the cooking and clothes drying, incineration and will generate electric power as well. This is the largest cooperative housing project in the world. It consists of twenty 14-story buildings that will house 5,840 families—an estimated 20,000 people.

In October, the American Gas Association Journal stated that "Brooklyn Union Gas Company—a straight gas distribution utility with not one electric customer on its books—will be indirectly supplying more than 65,000,000 kilowatt hours of electricity annually by the beginning of 1964 . . . an increase in new power service that won't be matched this year by most of the nation's electric utilities.

"Brooklyn Union isn't going

into the electric business. This sizable 'electric load' will be the result of gas sales to two king-size customers for on-site power generation.

"Newest of the two all-gas customers is Warbasse House in Coney Island. This project consists of five 24-story apartment buildings containing 2,580 cooperative dwelling units and a shopping center of approximately 20,000 square feet. The other is Rochdale Village in Jamaica.

"The special importance of Warbasse House, according to Brooklyn Union officials, is that it proves a project need not rank in the 'world's largest' category to make on-site power generation by gas equipment practical. Large as Warbasse is, it is about half the size of Rochdale—yet it will benefit from the same economic advantages derived by generating all power with gas.

"Total operating costs with gas are computed as \$736,283 a year compared to \$853,995 if purchased power were used. The net savings of \$117,512 a year make a totally gas operated plant a highly attractive choice.

"Taken together, Brooklyn Union's first two total energy customers will mean nearly three quarters of a million dollars a year in increased revenues."

Other "Gas Generated" Power Facilities

At the Burns Brick Co., Macon, Georgia, a gas turbine generates electricity, and exhaust gases furnish heat for drying. Savings in utility costs are estimated at \$44,000 a year.

A gas engine installation at the J. M. Field store in Chelmsford,

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Massachusetts, expects to save \$18,450 annually by generating its own electricity with natural gas engine-driven generator sets rather than by using purchased power. In addition, there is an estimated saving of \$5,197 for heating one-third of the store. This is a total saving of \$23,647. These figures are based on the first six months of operation with a gast cost of 55 cents per mcf against purchased power costs of 1.76 cents per kilowatt hour. Today both the gas and elec-

tric industries are in a competitive struggle. This is because the gas companies are no longer limited to a specific need. Nearly 1,500,000 homes are expected to install gas heating this year, bringing the total to 24,700,000. In 1949 there were 7,443,000 house heating customers; by the end of 1962 this figure had tripled. According to the AGA, an economic profile anticipates that revenues of the natural gas industry will increase about 9% this year

to some \$7 billion from the \$6.4 billion of 1962. The unit volume of natural gas sales is expected to be up about 5.4% to 107.2 billion therms from the 101.7 billion therms sold in 1962. These gains and continuing prospects reflect an anticipated increase of 1.1 million customers in 1963 and the increasing utilization of gas air conditioning, gas lights, gas signs and the gas turbine. Total gas utility and pipeline expenditures amounted to \$1,673 million in 1962. For 1963, \$1,680 million has been estimated. The electric utility industry has met this competitiveness of gas heating. They have reduced rates to stimulate this type of service in many areas of the country. Providing a service that is practically indispensable, the investor-owned utilities should record continued growth in revenues and earnings. Residential sales continue at a promising rate. The growing acceptance of electrical heating is constructive in the overall outlook. An average all-electric home will use more than 20,000 kwh a year as against an average of 4,300 kwh without heating. The investor-owned utilities will continue to spend large sums for property additions and improvements. For 1963 aggregate expenditures are budgeted at \$3.5 billion. With the use of accelerated depreciation charges, the new Federal depreciation guidelines, and the 3% investment credit, the

cash flow of electric utilities is accelerating. These factors have allowed the investor-owned utility companies to market a much lesser amount of securities than a few years ago. The first half of 1963, new money financing totaled \$580,977,000 versus \$897,614,000 for the same period of a year ago. This trend is expected to continue. This industry has been spending about \$3.4 billion each year for new construction, and its net capital investment currently repre-

sents about 12% of all the capital invested in U. S. business. The industry expects to more than triple its investment in electric plant by 1980. To further provide dependable electric service, utilities have interconnected their systems to form large power pools that will assure maximum savings for customers plus continued benefits for local utility management. The cooperation among power suppliers has increased steadily

Continued on page 86



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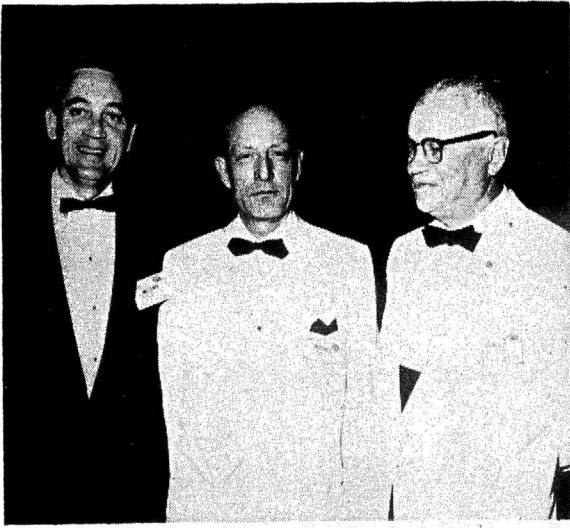
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Report of Public Utility Securities Committee

Continued from page 85

over the years. The number of interconnections, or electric power ties between utility systems, has increased rapidly.

We are encouraged by the aggressiveness of the investor-owned utility companies in re-

ducing their rates for space heating. On Oct. 12, Commonwealth Edison reduced its space heating rate from 1.5 cents to 1.25 cents per kilowatt hour. This is the

fourth time in five years that this company has reduced this rate. Other companies that have re-

cently reduced their heating rates are American Electric Power, Public Service of New Hampshire, Central Maine Power Company, Connecticut Light & Power, and many others.

In the past year, the market for electric utility companies has reflected to a considerable degree the attitude of many market students that (a) the electric utility industry will no longer continue to expand at a rate comparable with its past growth in the post-war period; (b) the electric utility industry is faced with increased threats from government regulation and government-owned public power; (c) electric companies are nearing the maximum rate of return allowable by state commissions and with the slower rate of growth, expressed in (a) above, will be required to reduce rates to their customers; (d) that the electric utility industry faces increased and more aggressive competition from the gas industry, particularly as to space heating and as to on-site generation from gas-fueled generators; and (e) as a result of these factors, share owners of the common stock of the electric companies can no longer expect increases in per share earnings of former magnitudes, and therefore the price earnings ratios of electric utility commons are too high.

While the Committee does not fully subscribe to any of the conclusions set forth in (a) to (d), we are commenting solely on item (d)—the increased and more aggressive competition from the gas industry.

The gas industry, having had the

benefit, we believe temporarily, of fairly stable prices in the past few years, has now recognized the inroads that certain electric utilities have been making in their once-exclusive market for space heating. Accordingly, the gas industry has launched vigorous advertising campaigns and sales efforts to combat the increasing use of electric energy to heat and cool homes, apartments and office buildings. This increased competition is good, for in turn, it will stimulate the electric industry to greater and more effective promotion.

As an example of what the gas industry has tried to do, the Institute of Gas Technology proudly set forth in its bulletin of June, 1963, an evaluation of the economic advantage that gas had over electricity in the residential field. Here is the table it published:

Costs of Residential Gas & Elec. (according to Institute of Gas Technology)

	Natural Gas	Electricity
As Produced	0.13	1.61
At City Gate	0.34	—
At Point of Use	—	—
Average Residential	0.59	3.47
	0.97	1.17

This table indicates, per the bulletin that "One of the great advantages of gas over electricity is the much lower distribution cost, about one-eighth, for residential service."

But, when examined critically, from the standpoint of what an efficient electric system can do, with only relatively little further technical progress and cost reduc-

tion—the cost relationship can be completely turned against gas in the home.

Assuming a rate of 1 cent per kwh for an all-electric home and the installation of a heat pump with a coefficient of performance of 2.5 as against the gas combustion heating efficiency of only 60%, the figures properly corrected for efficiency of translation, become:

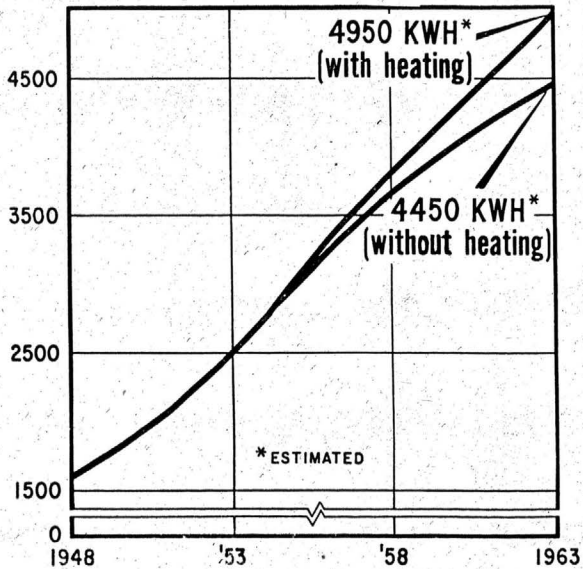
	Natural Gas	Electricity
As Produced	0.13	1.61
At City Gate	0.34	—
At Point of Use	—	—
Average Residential	0.59	3.47
	1.60	1.17

Thus, under these assumptions which are entirely within achievement by the electric industry as a whole and certainly within achievement by the more efficient companies in the electric industry, competitive heating costs for electricity can be reduced to \$1.17 per million BTU or 27% below the \$1.60 figure for gas.

As evidence of what can be done by an efficient, progressive electric company, the attached Chart "Total Residential Electric Heating Customers" indicates that starting in 1955 the company secured by the end of 1963 41,000 electric residential heating customers and further estimates that by approximately 1975, it will have 500,000 such customers. The revenue added by these 41,000 customers amounted to \$8,000,000 in 1963 and by 1975 should approximate \$100,000,000. This is shown in the Chart "Revenue Added by Residential Heating 1955-1975."

The effect on the average residential usage is indicated on the

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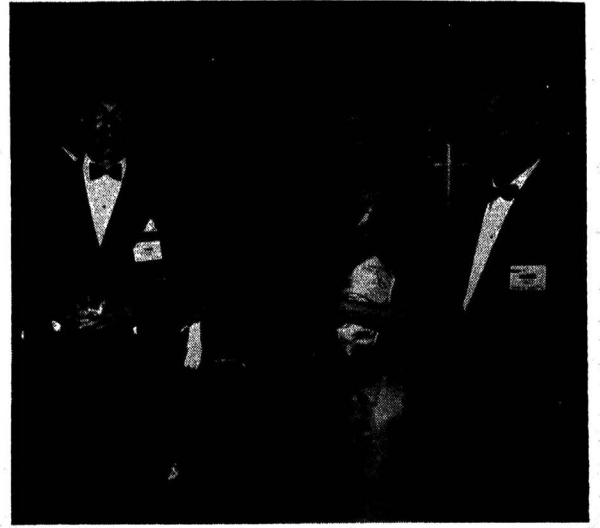
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Chart "Average Residential Usage."

Annual usage by residential customers without electric heating totaled 4,450 kwh. Thus, only 41,000 electric heating customers, representing only about 3% of that company's total residential customers, increased the average annual residential usage by more than 10%.

Another promotion by this same aggressive company has been that of dusk-to-dawn lights. Starting in 1960 when there was installed only 7,500 of these lights, this figure has grown to 73,000 by the end of 1963. The lights produce an average of \$43 of revenue per year per customer or a total for the year 1963 of over \$3,100,000.

These results can only be achieved by electric companies fully recognizing the aggressive competition and sales promotions

of the gas industry and taking vigorous steps to meet and surpass such competition. All-Electric living, with its advantages of comfort, cleanliness and flameless safety, can be and will increasingly become recognized and accepted as fully competitive with gas space heating.

In 1963 the Mid-Continental Area Power Planners organization was planned. The present MAP members include 22 local power suppliers operating in 10 states. These suppliers include seven generation and transmission rural electric operatives, 14 investor-owned electric companies and the Omaha Public Power District. The states in which they operate are Minnesota, Iowa, Wisconsin, Illinois, Missouri, South Dakota, North Dakota, Montana, Wyoming and Nebraska. These area-wide power pools afford

better service and greater economies through cooperation. It is just another means to become more competitive and widen its markets.

We still see many danger signals at the Federal level in many areas: the changing of the scope of REA, the introduction again of the feasibility of the Passamaquoddy project, the threat of government in business, the nature of regulatory control at the Federal level, and the recent decisions concerning the refunds of transmission companies by the Federal Power Commission.

We are concerned about what impact these developments can have upon our economy. It should be of utmost concern to every taxpayer, citizen and investor.

Respectfully submitted,
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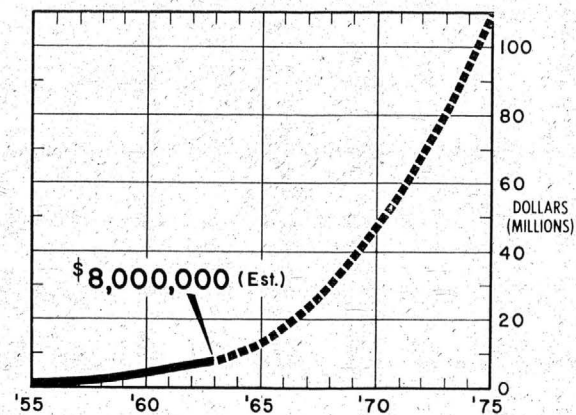
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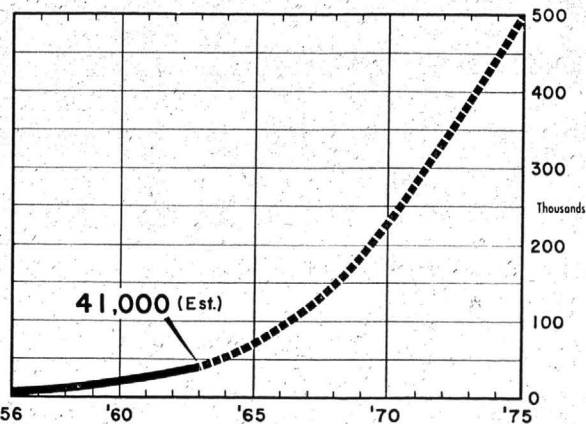
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Report of Oil, Natural Gas Securities Committee

Continued from page 39

that this would reduce producing profits in the Middle East and Libya about five cents per barrel or approximately 10%.

This is further evidence that contracts with sovereign governments may be altered when economic and political realities become different from original circumstances under which the contracts were written. The plain fact is that profits on invested capital by producing companies in prolific producing areas outside the United States are large, and it is to be expected that as production continues to increase rapidly, payments to the host countries are likely to expand more rapidly than profits to the producing companies.

Russian Oil

Geologically there is no question that the Russians can produce substantial amounts of oil. Politically it is apparent that Russia will sell much of its surplus in the Western World in amounts that appear likely to be nominal compared with over-all Free World demand but which will provide badly needed foreign exchange. Russian exports to the Free World have increased from about 100,000 b/d in 1955 to 670,000 b/d in 1962 and are estimated at about 740,000 b/d this year, an increase of approximately 10%.

Russian crude oil has often had quality shortcomings and seldom lived up to the specifications of the buyer. Furthermore, it has upon occasion damaged refineries and delivery dates seem to be meaningless. Many nations have

voluntarily set maximum limits on the percentage of internal energy requirements allowed to be satisfied by Russian crude, and Western oil companies have been more aggressive in competing on a price basis for oil supply contracts to consuming countries. It is expected that Russian exports to the Western World will continue to increase at a rate of 50-75,000 barrels per day each year, but the total would still constitute less than 3% of Free World demand each year. This should allow private international companies to provide the remaining 1,125,000 b/d of additional yearly supplies at a reasonable profit.

Financial

Capital expenditures for petroleum facilities in the Free World approximated \$11.1 billion in 1962, 7% above the estimated outlay of \$10.4 billion in 1961. Capital expenditures outside the United States amounted to \$5.4 billion in 1962, or nearly half the Free World total. Gross fixed as-

sets at the end of 1962 amounted to \$119.2 billion, of which some \$64.3 billion, or 54%, was located in the United States, and the remaining 46%, or \$54.9 billion in Free Foreign areas. And American oil companies account for about 40% of all United States corporate spending abroad. A recent study by the Standard Oil Co. (New Jersey) on the net impact of international oil operations on the United States balance of payments demonstrates that the industry has provided a steady inflow of funds into the United States in recent years. Table V outlines the impact of United States oil company foreign operations on the balance of payments since 1958.

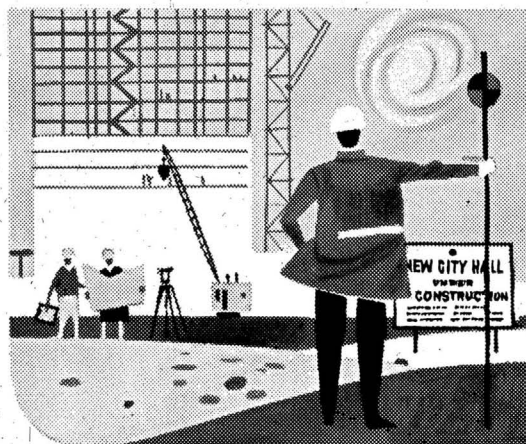
The seven major international oil enterprises had total indicated cash earnings of about \$5.2 billion in 1962. Their aggregate capital expenditures approximated \$4.1 billion. Dividends totalled approximately \$1.5 billion so that payments for capital expenditures and dividends exceeded the cash earnings of the seven international companies by some \$400 million. This deficit in the cash flow was accounted for, in large part, by the sizable offshore lease sale in the Gulf of Mexico which occurred in March of 1962, at which \$480 million was expended. It is believed the seven major international oil companies can provide funds for necessary capital expenditures over the next few years and still pay increasing dividends excluding, however, financing needed for large acquisitions of property or stock.

Gains in oil use have been substantial in recent years and the indications are that they will continue to be so in the foreseeable future. Yet the appearance of new companies on the international scene with an abundance of oil for the Free World market have contributed to competitive price practices which have pre-

vented net income from growing in line with increases in consumption. All of the companies have reported increased income through such measures as cost reduction programs, increased efficiency and reduced capital expenditures, despite the deterioration of prices. It is likely, however, that the growth of earnings over the next few years for most companies engaged in international oil will come largely from volumetric growth and increased efficiency—not improved prices for products or crude oil. Thus, all of the major international oil enterprises should continue to report increased earnings over the next few years. Many of the formerly domestic oil enterprises which have found oil abroad in significant quantities and provided marketing facilities should also be able to post gains in net income during this period. With the international petroleum industry generating large amounts of cash income, it appears reasonable to anticipate greater dividends in the foreseeable future and little in the way of public financing.

Natural Gas Industry

The dominant factor affecting natural gas securities during the past year has been the increasing tendency of the Federal Power Commission to reach for more power and control over the natural gas industry. The present five commissioners, all appointed by President Kennedy, seem to be dedicated to the philosophy of "bringing regulatory order out of chaos" within the industry. This determined effort has had its salutary effects on such things as the rate case backlog and a more rapid and efficient operation of the regulatory process, but the side effects of many FPC decisions and actions have been a less



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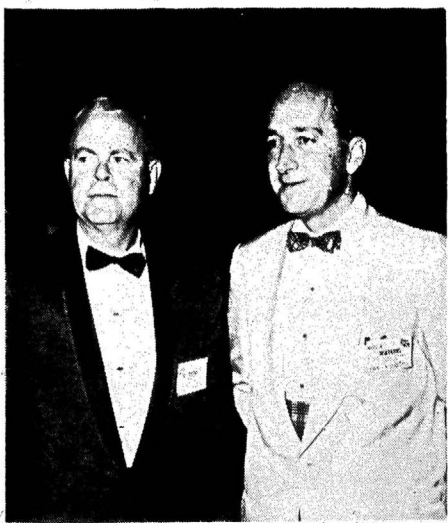
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TABLE V

International Flow of Funds - U. S. Petroleum Industry

	1958	1959	1960	1961	1962
----- Millions of Dollars -----					
Remitted Profits	1,169	1,100	1,143	1,303	1,578
Capital Equipment and Other Exports	743	727	752	815	923
Funds Received	<u>1,912</u>	<u>1,827</u>	<u>1,895</u>	<u>2,118</u>	<u>2,501</u>
Net Oil Imports	1,078	1,055	1,064	1,198	1,325
Investments, Etc.	649	511	455	747	538
Funds Disbursed	<u>1,727</u>	<u>1,566</u>	<u>1,519</u>	<u>1,945</u>	<u>1,863</u>
Net Inflow	<u>185</u>	<u>261</u>	<u>376</u>	<u>173</u>	<u>638</u>



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attractive investment outlook for the gas industry.

Rate Case Backlog

Since announcing the area pricing policy in 1960, the FPC has moved ahead gradually in changing over from regulating producers on an individual utility-type, return-on-rate-base approach to an overall basis by geological areas. After complicated and lengthy hearings, the first of the area rate proceedings, the Permian Basin, was concluded last summer and a final order is expected in mid-1964. Testimony in the second area rate proceeding, Southern Louisiana, is to be filed by Dec. 3, 1963 with actual hearings to start on March 17, 1964.

In May of this year, the Supreme Court in a 5-to-4 decision, gave its blessing to the FPC's efforts to establish area prices. Although the questions before the Court for review in the Phillips Petroleum Company rate case did not involve the legality of the area pricing concept as such, the Court indicated its approval of the FPC's attempt to find a workable solution to producer pricing and stated that they "share the Commission's hopes that the area rate approach may prove to be the ultimate solution."

The Commission has instituted various procedural changes to streamline its administrative processes and reduce the backlog of pipeline and producer rate cases. Voluntary negotiated settlements have been encouraged by the Commission and many have contained moratoriums of up to 10 years on future increases. As of July 1, 1963, the pipeline rate case backlog was \$138 million, down from \$277 million in July, 1962, and the lowest backlog in seven years. Independent producer rate applications pending decision were still high (2,246) although down about 10% from last year.

The Reach for More Authority

Chairman Swidler of the FPC has been criticized in recent months by both government and industry officials for his attempts to extend the Commission's regulatory controls into new areas. Mr. Swidler stated in his initial testimony before Congress that he intended to make the FPC a more active and vigorous agency and his efforts in this direction will doubtless continue. The FPC has drafted and sent to Congress four bills which will broaden its regu-

latory authority in the following ways: (1) empower the Commission to investigate natural gas operations with the same authority it has in the electric power field; (2) grant control over the issuance of securities in the natural gas industry; (3) grant control over direct industrial sales by pipelines; and (4) grant control over imports and exports of natural gas.

In attempting to enlarge its sphere of influence, the Commission has caused jurisdictional squabbles with other government agencies and departments. The Justice Department is opposed to the FPC's interest in amending the Natural Gas Act to exempt natural gas pipelines from the Clayton Antitrust Act and to grant the Commission authority to rule on stock acquisitions of companies under its control. Furthermore, the FPC is seeking to wrest control over holding company systems from the SEC. It has asked the present Administration to switch from the SEC to the FPC the power to administer the broad regulatory controls over electric and gas utilities under the jurisdiction of the Public Utility Holding Company Act of 1935.

These FPC efforts, if successful, will place even more stringent controls on an already overburdened pipeline industry. This, in turn, will lower the investment attractiveness of these companies and tend to hamper their future growth prospects. Although the commission's policies may impede the pipelines in their efforts to expand, there is one growth situation that has developed over the past few years and is actively seeking new expansion—the FPC itself. The Commission's expenditures have increased from \$8,851,000 in fiscal 1962 to a budget of \$12,742,000 in fiscal 1964, a 44% increase in two years. We are sure it would be more satisfying to investors if this growth record were more evident in the pipeline companies themselves rather than in the administrative agency regulating them.

Additional uncertainties have been cast over pipeline equities by the FPC's notification to eleven companies that their rates are to be investigated under Section 5A of the Natural Gas Act for the purpose of determining whether they are earning excessive rates of return. Section 5A proceedings have actually been started against two companies. In view of the fact that pipeline stocks have had a rather lackluster record in recent

years, these FPC actions throw an additional cloud over the investment outlook and certainly do not tend to encourage new commitments in pipeline equities.

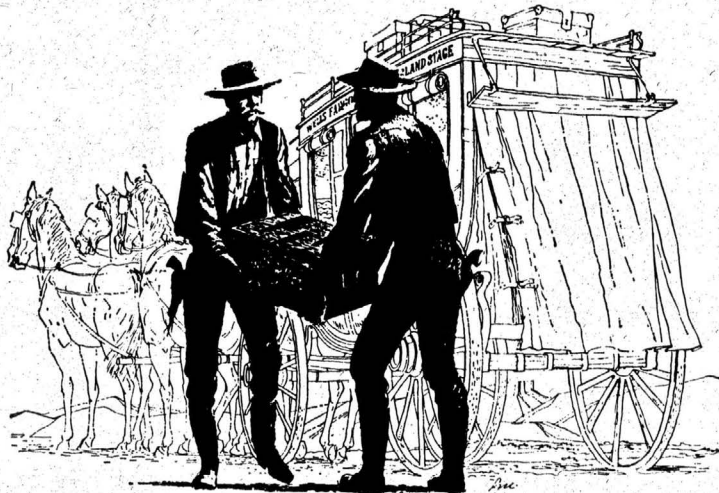
Other Regulatory Questions

A number of important regulatory questions remain unre-

solved. Two of the more important of these are: (1) whether pipeline-owned gas production will be regulated under the area price concept or subject to the utility-type, return-on-rate-base approach, and (2) the rate treatment to be accorded the tax bene-

fits associated with liberalized depreciation. These questions, when settled, will help clear the air by removing some of the uncertainties associated with pipeline stocks.

The Commission has denied the
Continued on page 90



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Report of Oil, Natural Gas Securities Committee

Continued from page 89

attempts of pipeline companies to purchase gas reserves in-place on a bulk basis rather than on a year-by-year basis through the traditional gas purchase contract. The rulings handed down on this subject have charged that in-place purchases were efforts to circumvent FPC control and were not in the public interest as methods of acquiring gas supplies. However, some of the contracts denied would have guaranteed the pipelines stipulated quantities of gas at fixed prices for periods of up to 30 years.

Economic Conditions in the Industry

In last year's report we discussed the excess supplies of gas in the field trying to find long-term markets. This oversupply situation still prevails and is likely to continue for at least the next four or five years. The average wellhead price has leveled off at about 15.5 cents/MCF and should register little or no increase over the next few years. The result has been a decline in exploratory and development drilling activity. The total supply picture remains about the same as last year, with proved U. S. reserves of 274 trillion cubic feet

as of Jan. 1, 1963, a 20-year supply based on 1962 production. Proved reserves are adequate for the present, but drilling for new reserves will have to increase in the future to meet the steadily rising demand and to maintain the current reserve-production ratio.

On the demand side, gas sales show an annual growth rate of 5%-6%, a rate well in excess of oil (3%-4%) and coal (2%), although below the rate of gas sales expansion in the early and middle 1950's. The American Gas Association estimates that the present growth rate will continue through the 1960's, which is impressive testimony to the competitive characteristics of this superior fuel.

Gas industry construction expenditures over the next few years will be channeled primarily into distribution facilities, as shown in Table VI. The table illustrates the increasing growth prospects of distribution systems while transmission facilities are expected to expand at a slower rate. Since pipelines have now been extended to all large population centers of the nation, the future growth will come primarily from the looping of existing lines rather than the construction of new facilities. On the other hand,

distribution companies will expand their lines to serve new markets as well as increase the market saturation in their present territories.

Of the \$7.1 billion of construction expenditures estimated for the 1963-1966 period, 47% is expected to be financed from internally generated cash and the balance from outside capital. The new capital requirements are expected to come mainly from debt securities (86%) and the balance from the sale of preferred and common equity.

Investment Outlook

The prevailing regulatory and economic conditions within the natural gas industry lead us to the same conclusion as stated in last year's report, namely that distribution company common stocks present a better investment vehicle than transmission companies for participation in the future growth of the natural gas industry. The FPC's tendency towards increasingly more stringent regulation of the interstate pipeline companies make the investment outlook for these equities less attractive than in former years.

The economic pressure on field prices caused by excess supplies, together with competition from other fuels, will mean relatively stable gas prices at the wellhead over the next four or five years. Moreover, the FPC's program to reduce the producer and pipeline rate case backlog and encourage voluntary settlements will mean that distribution companies can count on stable costs of gas purchased from pipelines. For these reasons and the greater prospective growth rate for distribution systems, we continue to favor the distribution companies over the pipelines for growth of capital. On the other hand, pipeline stocks are still regarded by us as investment-grade holdings and many present attractive yields together with interesting prospects for diversification into related fields.

Canadian Oil Industry Summary

The Canadian National Oil Policy goal of a minimum production of 800,000 barrels daily in 1963 seems close to fulfillment with production expected to be about 792,000 barrels a day this year. This is the culmination of a three-year program to increase Canada's self-sufficiency in crude

oil. By virtue of a twofold plan, including the increased use of Canadian oil, domestic marketing west of Ottawa and expansion of exports to the United States, Canada's self-sufficiency has increased to a level of approximately 80%, a substantial change from the 67% in 1957.

Almost all phases of the industry in Canada show signs of continual expansion, and the expected result for 1963 is one of satisfactory achievement. Production of crude oil and natural gas liquids is expected to show about an 8% increase, or about 62,000 barrels a day more than the production for 1962. Drilling has begun to show signs of a revival, although during the first half of the year drilling was down in comparison with 1962. Additions

to refining capacity of about 50,000 barrels a day in 1963 will bring total refining capacity to over one million barrels a day, at an additional cost of \$60 million. Consumption of petroleum products is demonstrating excellent progress and will probably be up 4½% compared with last year's, which is the largest increase of the last four years. Sales of natural gas, although less than last year's increase, should be up about 15-20% with over half this amount supplying the domestic market. Looping of two principal pipelines in Canada will provide the stimulus for expenditures of over \$100 million in this phase of the industry, which will at least double the outlay of last year. Reserves of oil and natural gas liquids increased by about 700

TABLE VI
Gas Utility and Pipeline Construction Expenditures
By Type of Facility

	1959-1962	1963-1966	Increase	
	Actual	Estimated	Amount	%
-----Millions of Dollars-----				
Distribution	2,734	3,031	297	10.9
Transmission	2,809	2,285	(524)	(18.7)
Production and Storage	733	996	263	35.9
Underground Storage	246	393	147	59.8
General	386	429	43	11.1
Total Industry	6,908	7,134	226	3.3

Source: American Gas Association, 1963 Gas Facts.

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million barrels in 1962 to a record high of about 5.2 billion barrels. However, most of the additional reserves came from extensions to existing fields and development of known areas.

Crude Oil Production

The continuing implementation of the National Oil Policy has enabled Canadian producers to increase production in 1963 by about 38,000 barrels a day of crude oil. The Province of Alberta is expected to contribute about 465,000 barrels a day, an in-

crease of 13,000 barrels a day. British Columbia, by expanding from 24,400 to 33,800 barrels a day, will show the largest percentage increase. Alberta still accounts for by far the greater amount of production, and total liquid output in this province is expected to rise to 552,000 barrels daily in 1963.

The increase in Canadian production in 1961 and 1962 was about 191,800 barrels daily, and about two-thirds of this was due to increased exports of crude oil

into the United States. However, in 1963 the principal increase is expected to stem from domestic demand with relatively little increase anticipated for the export market.

The lack of new discoveries has presented a problem for future production in Canada, and reserves credited to new fields last year amounted to only 24.3 million barrels, the second lowest in the history of the Canadian industry. Most of last year's additional reserves came from extensions to existing fields and totalled about 670 million barrels. For the past three years new discoveries have averaged only about one-fifth of the average rate of the preceding eight-year period, and it is quite apparent that for the past three years so-called new reserves have merely been extensions of earlier discoveries. Unless there is a drastic change in the Canadian discovery rate, the industry will have to look for another source to provide adequate oil supplies.

In view of this depleting situation, Canada has been considering the utilization of what is probable the world's largest oil deposit, the Athabasca tar sands. In an area of about 21,000 square miles located about 300 miles northeast of Edmonton, it is estimated that reserves of oil may be approximately 375 billion barrels. There have been three propositions made to the Alberta Oil and Gas Board for the development of these tar sands, and although one proposition, the Great Canadian Oil Sands Limited, did have approval, this venture has now requested an increase of production from 31,500 barrels a day to 45,000 barrels a day in order to make the project financially feasible and also obtain financing from Sun Oil Company amounting to 67.5 million. Two other proposals, each requesting permission for 100,000 barrels a day production, consisting of a \$250 million project of Shell and a \$350 million project of the Cities Service, Richfield and Imperial group, have been rejected for the time being. Estimates are that by 1970 production from the Athabasca tar sands will be necessary, but the Alberta Oil and Gas Conservation Board has been reluctant to give any permission for the development of these sands until it has assurance that the present Canadian production will in no way be adversely affected.

The expansion of domestic consumption and the substantial in-

crease during the past five years in production is illustrated in Table VII.

Natural Gas

The spectacular increase in natural gas sales shows some signs of abatement, but still all indications are that this segment of the petroleum industry is still very healthy and growing at a rapid rate. In 1962 total sales of natural gas averaged about 2.1 billion cubic feet daily, up 40% from the preceding year. Last year, in spite of a sulphur mercaptan

problem, deliveries from the newly completed Alberta-California gas line averaged 320 million cubic feet daily, down somewhat from the contracted 450 million cubic feet daily, which, however is expected to be reached this year.

Expectations are that in 1963 daily Canadian production of natural gas will reach about 2.5 billion cubic feet, an increase of 20% over last year.

Table VIII reviews Canadian

Continued on page 92

TABLE VII

Canadian Supply and Demand Data
Total Liquid Hydrocarbons

	1958	1959	1960	1961	1962
	-----Thousands of Barrels/Day-----				
Production	462	521	544	643	733
Exports	85	98	122	191	249
Production for Domestic Supply	377	423	422	452	484
Crude and Product Imports	374	424	444	446	454
Total Domestic Demand (Including Inventory)	765	829	865	883	937

Source: The Oil and Gas Journal

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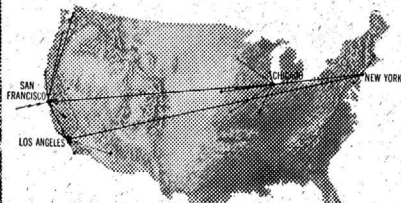


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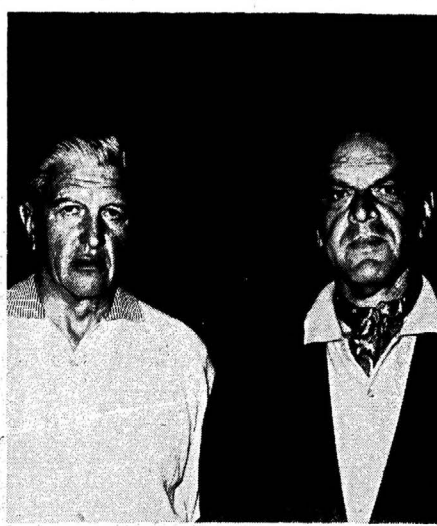
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Report of IBA Oil, Natural Gas Securities Committee

Continued from page 91

natural gas sales, including both domestic and exports to the United States and shows the increasing use of Canadian natural gas in both areas.

Although at present there appears to be a large natural gas reserve supply, the discovery rate

(sufficient for present needs) may be inadequate for future demands. Proved reserves at the end of 1962 were approximately 35.2 trillion cubic feet, compared with production of approximately 936 billion cubic feet. On the basis of last year's production, Western Canada has proven gas reserves

for a 37-year supply, almost sufficient to supply double the present demand.

If some of the Canadian Gas Association projections of demand for the next decade are assured, total demand of 10 billion cubic feet daily will be reached by 1973. On this basis, the Canadian industry will need to find 57 trillion cubic feet during the next 10 years to meet these forecasts. During the last four years the discovery rate for natural gas has averaged about 3.65 trillion cubic feet, versus a need of 5.7 trillion cubic feet annually if these future demands are to be met satisfactorily.

It seems apparent that the present reserves are sufficient to meet current demands. However, if future demand increases to approximately the level anticipated, there will be some difficulty in providing adequate supplies to satisfy total needs.

Refining

In accordance with the National Oil Policy, the Canadian refining industry has also continued to grow, and although the increase in product demand last year was not as great as was hoped for, with the trend toward the use of domestic crude, the Ontario refining area will assume greater importance in the overall Canadian picture. With current projects totalling about 48,000 barrels a day in additional capacity, the estimated excess capacity of 132,000 barrels a day by the end of the year is expected to preclude any new construction for the next few years. The most significant project was the Shell refinery near Toronto, which went on stream by the middle of the year at a cost of \$35 million and will have a capacity of 31,000 barrels a day. This project will aid considerably in fulfilling the objectives of the National Oil Policy of lowering imports to under 50% of refinery requirements. The Shell refinery initiated a reversal in the direction of flow of a portion of the Trans-Northern Products Pipeline, which will eliminate the flow of products from Montreal to Ontario and is an important factor in the displacement of imports.

A smaller project but quite important to the Maritime Provinces is Texaco of Canada's 13,500 barrel-a-day refinery, which went on stream in August and will increase the petroleum product supply in this area.

One of the more important

construction projects in 1963 will recover liquids from the gas flow of the Trans-Canada Pipeline.

Pipeline Construction

In contrast to last year's ebbs in pipeline construction, expansion plans of Trans-Canada line and Interprovincial Pipeline

are expected to boost pipeline construction for 1963 to over \$100 million, doubling that of last year. Another noteworthy construction is Petroleum Transmission's 577-mile line from Empress, Alberta, to Winnipeg, Manitoba, which is considered to be the longest LPG line in Canada and will certainly be a stimulus for increased consumption of LPG. Trans-Canada plans to loop 205 miles of a 34-

TABLE VIII
Canadian Natural Gas Markets

Year	Domestic Sales ----- Million	Export Sales Cubic Feet/Day	Total Sales
1950	159	---	159
1951	178	---	178
1952	181	22	203
1953	203	26	229
1954	274	19	293
1955	328	31	359
1956	394	30	424
1957	462	59	521
1958	569	247	816
1959	776	228	1,004
1960	892	308	1,200
1961	1,033	476	1,509
1962	1,151	990	2,141
1963 (Est)	1,363	1,123	2,486

Source: The Oil and Gas Journal

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inch line in Manitoba and also add some compression to increase the throughput capacity. Inter-provincial Pipeline is looping its 34-inch line in Manitoba and also a section of its line in the United States portion of the system between Michigan and Superior. These three projects will probably consume about two-thirds of the \$100 million expenditure and are only the beginning of increased provision of petroleum and natural gas to unsupplied areas of the country.

After a review of the oil and gas operations in Canada, it is difficult to be anything but sanguine about the present Canadian picture and prospects for 1964. The promising outlook has encouraged investment in distribution, crude production and refining. With self-sufficiency increasing and domestic demand approaching a new high level, it appears that the industry will enjoy a steady growth in future years.

Respectfully submitted,

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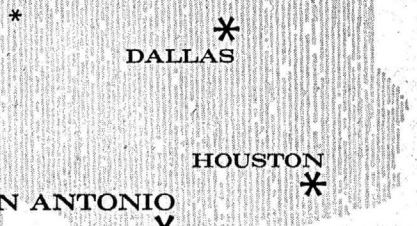
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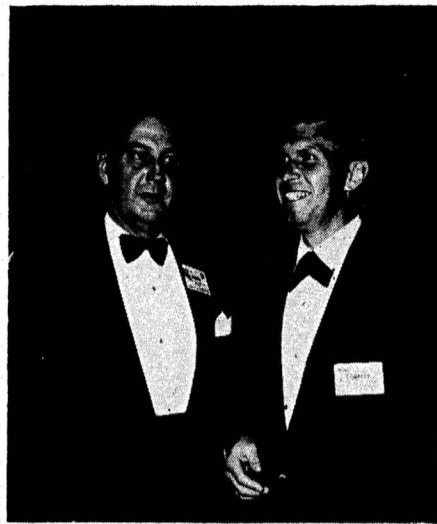
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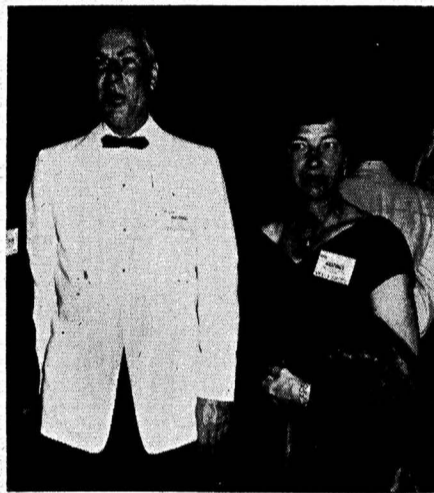
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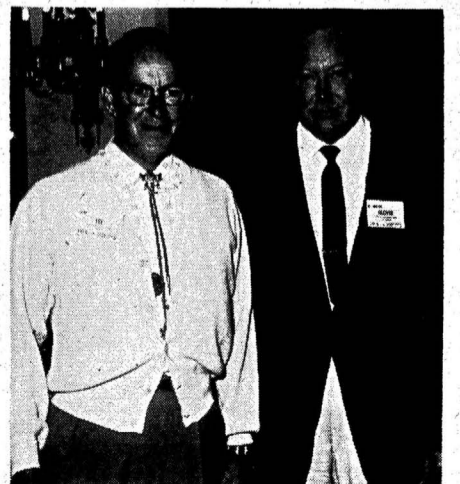
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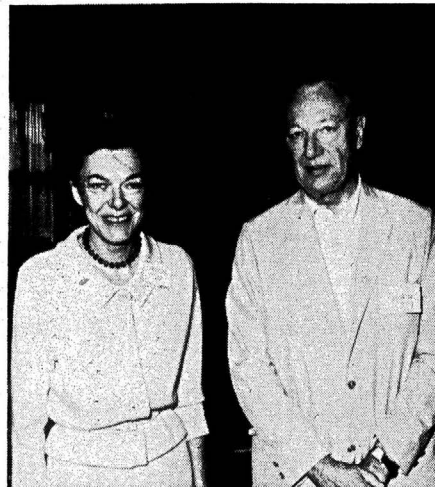
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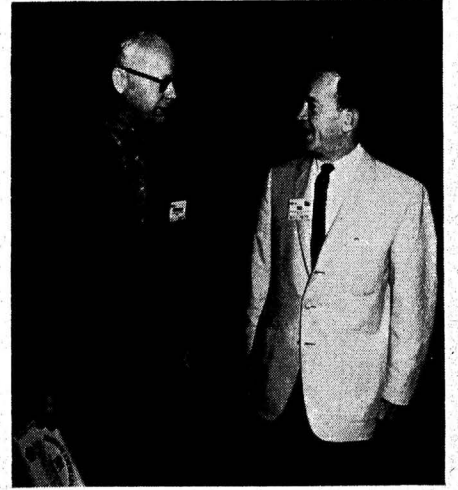
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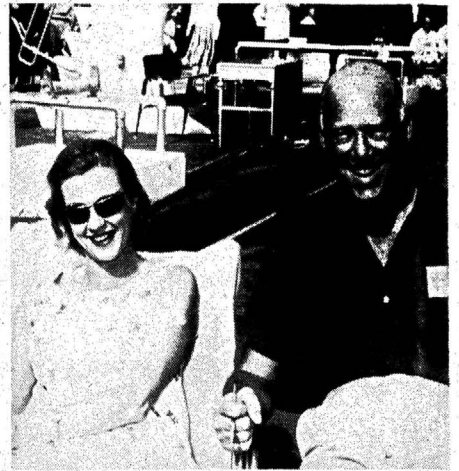
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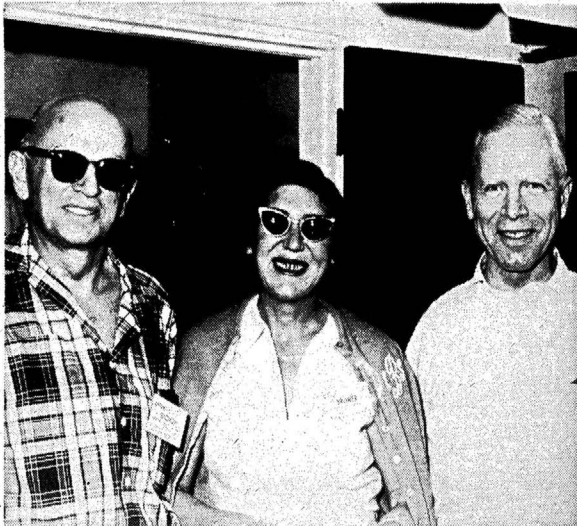
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Report of IBA Federal Taxation Committee

Continued from page 22

tax credit enacted into law in 1954 were only intended as a partial first steps toward relief from double taxation;

(3) Nevertheless, the \$50 exclusion gives complete relief from double taxation to an estimated 4,600,000 shareholders and enables them generally to file simplified tax returns;

(4) The relief provided by the dividend credit in relative terms is the same for everyone—up to 4% taxable dividends;

(5) The 4% credit gives a bigger percentage reduction to the lower income brackets—a 20% reduction to someone in the lowest bracket but only a 4.4% cut to someone in the 91% bracket;

(6) The dividend exclusion and tax credit have had a positive effect in encouraging equity investment;

(7) The effect on equity investment of the dividend exclusion and tax credit has necessarily been modest because the relief enacted was modest. The answer is therefore not to repeal these provisions but, rather, to increase them;

(8) When the credit/exclusion were enacted in mid-1954, the nation's shareholders numbered fewer than 7½ million. A year

ago the total exceeded 17 million and, by all indications, is still rising;

(9) The credit/exclusion are not necessarily ideal forms of relief from double taxation of dividends but Congress in 1954, after much study, concluded that this was the most practical approach toward partially correcting the wrong which came into our tax laws back in 1936; and

(10) Until some better approach is found, the credit/exclusion should be retained and, preferably, expanded.

After tentatively agreeing by a vote of 14 to 11 to reject both of the President's proposals in this area, the Ways and Means Committee finally approved by a 13 to 12 vote provisions which if enacted into law will eliminate the 4% dividend credit in two annual stages while increasing the dividend exclusion to \$100 for each taxpayer.

Provisions of H. R. 8363: the Revenue Act of 1963

The Revenue Act of 1963 (H. R. 8363) has now been passed by the House of Representatives and is awaiting action in the Senate. In those areas of our particular interest the bill now contains the following provisions:

Rate Schedules

Under the provisions of the bill the corporate tax rate would be reduced from 52% to 50% in 1964 and to 48% in 1965. Individual tax rates which now range from 20% to 91% would be reduced to two stages to a new range of 14% to 70%.

Capital Gains Taxation

H. R. 8363 would—

(a) Leave unchanged the taxation of capital gains on assets held more than six months;

(b) Reduce the percentage inclusion on gains realized on securities and real estate held more than two years from 50% to 40% of the gain, with a maximum tax of 21% of the gain;

(c) Permit indefinite carry forward of unused capital losses.

Taxation of Dividend Income

As stated above, H. R. 8363 provides for an increase in the dividend exclusion from \$50 to \$100 for each investor and for the complete elimination by 1965 of the 4% dividend credit.

Statement Submitted to Senate Finance Committee

Last week your Committee submitted its views on H. R. 8363 to the Senate Finance Committee which is now considering the tax bill. In this statement we endorsed all of the provisions of the bill within the areas of our concern with the exception of the provision which would eliminate the 4% dividend credit. Copies of the statement are available at this Convention and therefore a summary of its contents need not be included in this report.

Prospects for Early Passage

Your Committee believes that the prospects for enactment of this major tax legislation early in 1964 are excellent and that the proposed rate reductions, when enacted, will be made effective as of Jan. 1, 1964. We believe that President Johnson's assurances to the Joint Session of Congress last week that he will strive for economy in Government, his demonstrated past ability as Senate majority leader to obtain Senate action on legislation, and his stated intention to obtain prompt action on this bill will all contribute to its early passage.

Other Federal Taxation Matters

This report would not be complete without comment on two important Federal taxation matters which, because of their highly technical and complex nature,

were ably handled on behalf of the IBA by experts in their respective fields.

Federal Income Taxation of Compensatory Options (Including Warrants) Granted to Underwriters and Other Independent Contractors

In July the Commissioner of Internal Revenue issued Technical Information Release 490 proposing an amendment of the regulations relating to the tax treatment of options received by independent

contractors. The proposed regulation would apply only to options granted after July 11, 1963 and would tax the option at the time of grant if at that time it has a "readily ascertainable fair market value." On the other hand, if the market value of the option is not readily ascertainable on grant, the tax would be imposed at ordinary rates on the consideration received for the transfer of the option or on the difference between the option price and the market value of the option at the time of exercise.

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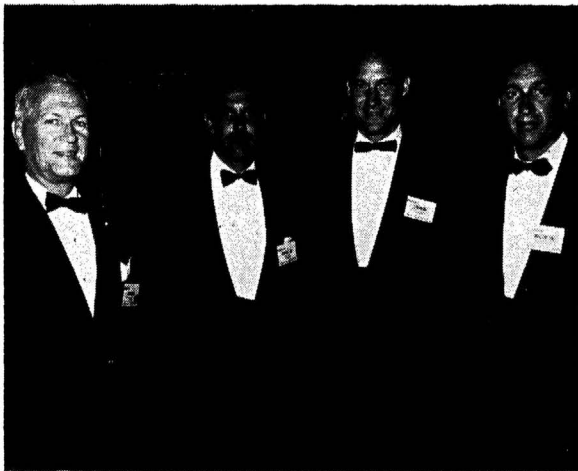
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Report of IBA Federal Taxation Committee

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value of the stock at the time the option is exercised.

The IBA has submitted an extensive brief and supporting material to the Commissioner taking the position that an option, whether or not subject to restrictions on transferability and/or exercise, can be readily valued. While admitting that an option

subject to contingencies or conditions which, if not satisfied, will destroy all value of the option will have no present value until the contingency or condition is satisfied, the brief states that this does not prevent the valuation of non-contingent options as of the date of grant, even where such options are subject to restrictions. Therefore, the brief concludes

that the time of grant must be fixed as the time of taxation of the compensation as the only means of reaching a fair and equitable result with respect to such option transactions.

The Proposed Interest Equalization Tax Act of 1963 (H. R. 8000)

The IBA through its President and the Foreign Investment Committee, has vigorously opposed enactment of the proposed "Interest Equalization Tax Act of 1963" as being contrary to our national interest and a serious abdication of financial leadership in the free world by the United States. The Association's position on this bill has been reported to this Convention and the Federal Taxation Committee merely wishes to express its admiration and gratitude to those who participated in the preparation and delivery of these cogently stated objections to this proposed legislation.

Respectfully submitted,
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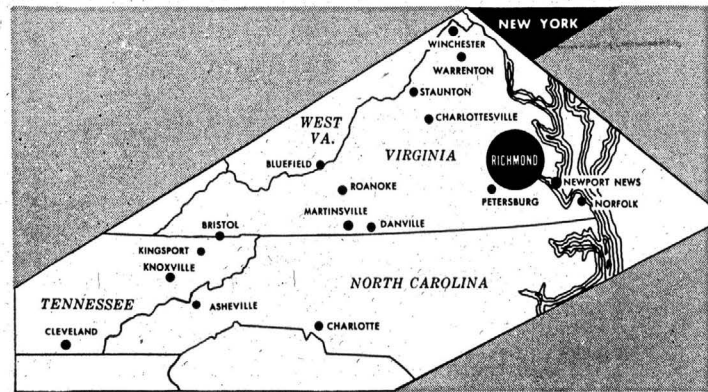
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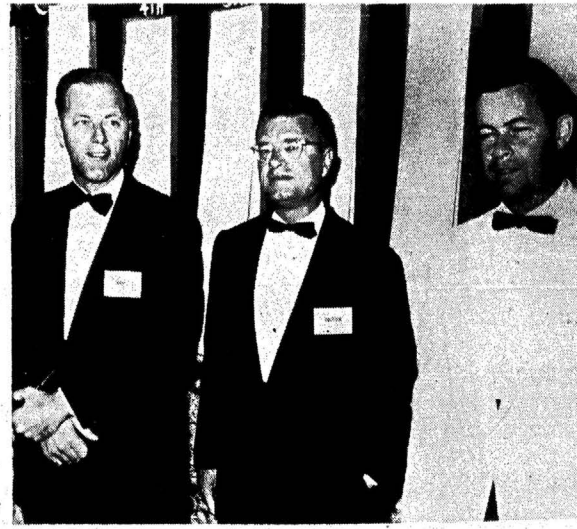
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REISSNER, FRANK L.
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White, Weld & Co., New York

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The New York Times, New York

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The Miami Herald, Miami

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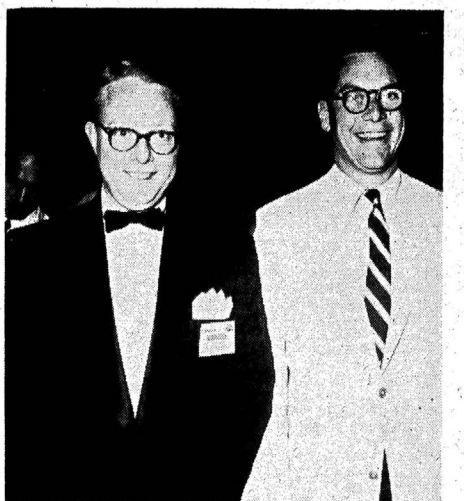
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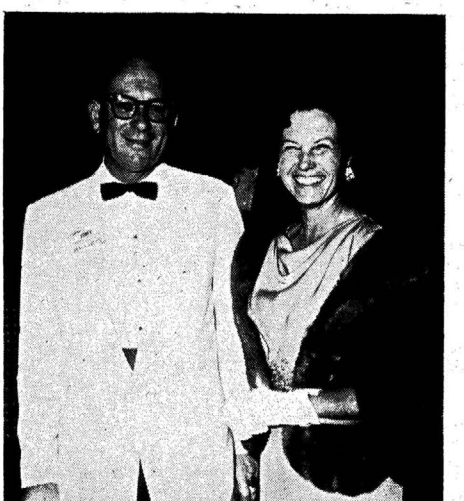
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Brown Brothers Harriman & Co., New York

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Hornblower & Weeks, Philadelphia

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National Boulevard Bank, Chicago

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SEDERBERG, ARELO C.*
Los Angeles Times, New York

SEIBERT, CLAUDE D.*
Commercial and Financial Chronicle, New York

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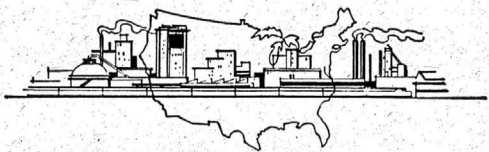
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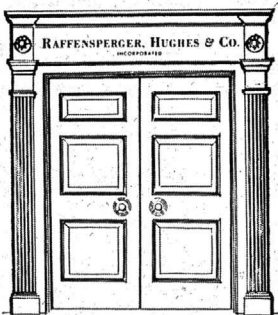
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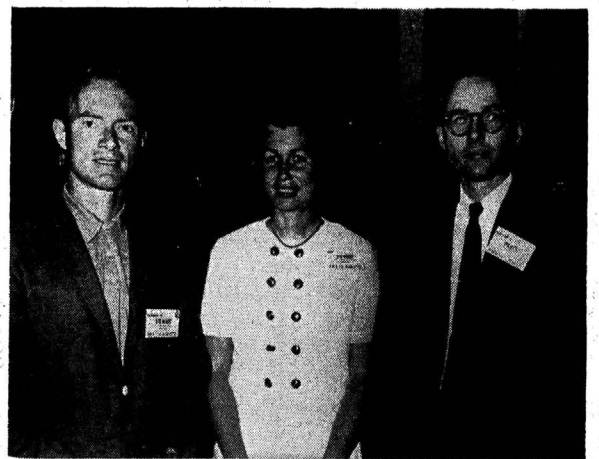
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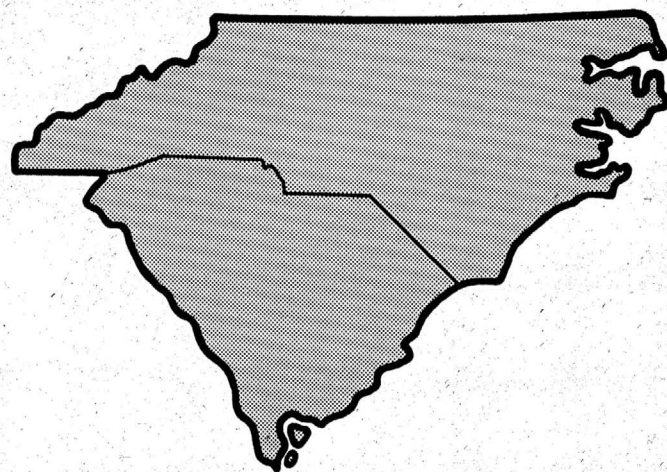
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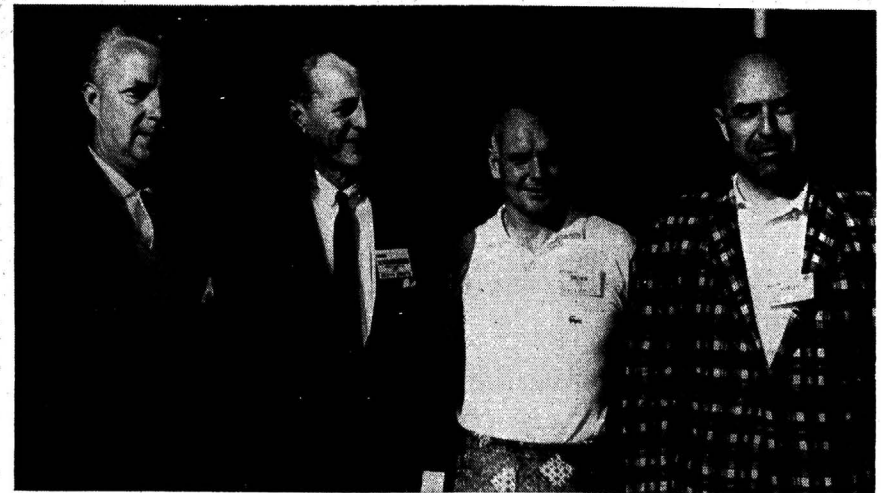
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Report of IBA Foreign Investment Committee

Continued from page 41

and even by temporary drawings on the International Monetary Fund or use of our reserves rather than to endanger the free flow of funds or our position as the world's banker and trustee of the key currency of the world. Once confidence in us and in the freedom of our capital market is impaired, it will be difficult to rebuild it.

The Investment Bankers Association testimony before the Ways and Means Committee concluded that if, however, the Congress

should determine to enact legislation in this area, the IBA strongly recommended that there be exemptions for (1) securities, the proceeds of which are used to pay U. S. persons for goods or services, and (2) the acquisition of outstanding securities. Extensive technical comments were also made on the proposed legislation.

Several meetings were held by IBA representatives with Treasury Department officials on the technical aspects of the proposed legislation.

Under date of November 21, 1963, the President of the IBA and

the Chairman of the Foreign Investment Committee signed jointly a letter which has been sent to each member of the United States Congress with a memorandum supporting the IBA's opposition to the enactment of the proposed Interest Equalization Tax Act of 1963.

Other Activities of the Committee

At the request of the Treasury, the Foreign Investment Committee met with the Secretary of the Treasury and his associates in September to discuss the program envisaged in Section 6 of the President's Balance of Payments Message of July 18 to promote the sale of securities of U. S. private companies to foreign investors and to increase the availability of foreign financing for U. S. business operating abroad. Subsequently, the President appointed a task force, including representatives of the investment banking industry, to study these matters.

Earlier in the year, the Foreign Investment Committee met with the Assistant Administrator for Development Finance and Private Enterprise of the Agency for International Development (AID), Department of State, regarding development banks in foreign countries and other matters of mutual interest. The help of the Committee was solicited in securing able personnel to staff development banks being organized in many foreign countries. There has been further progress during the year in extending the investment guaranty program of the Agency for International Development. Investment guaranty programs are now in effect in 57 developing countries, of which 19 have been negotiated in the last two years.

The Fourth Meeting of the Board of Governors of the Inter-

American Development Bank and Development and its affiliated institutions—the International Development Association and the International Finance Corporation.

The Chairman and several members of the Committee attended in Washington from September 30 to October 4 the Annual Meetings of the Boards of Governors of the International Monetary Fund and of the International Bank for Reconstruction

World Bank as Arbitrator

The World Bank has been giving further study during 1963 to the plan to establish facilities, under the umbrella of the Bank, for the conciliation and arbitration of international investment disputes.

Continued on page 112

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Report of IBA Foreign Investment Committee

Continued from page 111

The proposal has now been given the form of a draft convention. Over the next six months or so, this draft is to be discussed at a series of conferences of legal experts of the Bank's member countries, to be held, through the courtesy of the four regional Economic Commissions of the United Nations, in Addis Ababa, Bangkok, Geneva and Santiago. It is hoped that in 1964 the Executive Directors of the Bank will be able to present to the Board of Governors concrete conclusions and recommendations on this matter.

As shown in Appendices A and B (tables I, II, and III) which bring up-to-date tabulations included in previous annual reports, 1963—up until the time of uncertainties created by the proposed Interest Equalization Tax Act—was an active year for United States investment bankers in the field of foreign investment. Excluding Canadian issues, 13 foreign dollar bond issues with a principal amount totalling \$277,500,000 were publicly offered in the U. S. market by investment bankers in the first seven months of 1963 (in most cases substantial amounts of these issues were sold to investors abroad). In addition, there were several private placements of obligations of European, Japanese and other borrowers.

I wish to express my deep appreciation and gratitude to Mr. Amyas Ames, the President of the IBA, to the members of the Foreign Investment Committee and to the IBA staff for their excellent cooperation in the work of the Committee during the year.

Respectfully submitted,
FOREIGN INVESTMENT COMMITTEE

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TABLE I
Purchases of Foreign Securities by U. S. Investors from Foreigners*
(\$ Millions)

Year	Stocks Purchases		Bonds Purchases		Bonds and Stocks Purchases	
	Gross	Net	Gross	Net	Gross	Net
1946	65.6	0.4	490.4	-265.5	556.1	-265.1
1947	42.6	-14.6	634.3	-24.5	676.8	-39.0
1948	93.7	15.0	291.4	-79.8	388.2	94.8
1949	70.8	-18.0	311.5	-9.8	382.3	-27.8
1950	198.2	24.4	710.2	121.0	908.4	145.4
1951	348.7	76.4	801.0	300.6	1,149.7	377.0
1952	329.6	35.8	677.4	182.1	1,007.0	217.9
1953	303.4	-6.8	621.5	79.0	924.9	72.2
1954	644.9	251.6	841.3	48.8	1,486.1	300.4
1955	877.9	214.3	509.4	-183.9	1,387.3	30.4
1956	875.2	126.1	991.5	385.0	1,866.8	511.1
1957	621.9	29.1	1,392.0	693.1	2,014.0	722.1
1958	803.7	336.4	1,915.1	1,026.1	2,718.8	1,362.5
1959	803.8	237.7	1,457.6	512.0	2,261.5	749.7
1960	591.7	82.6	1,445.0	562.1	2,036.7	644.7
1961	965.6	370.0	1,262.4	460.4	2,228.0	833.4
1962	805.9	103.9	2,037.3	944.0	2,843.2	1,047.9
1963†	408.7	48.7	1,432.1	914.4	1,840.8	963.2

† January-June.

Source: Treasury Bulletins.

* The above data related to the total amount of money debited or credited to U. S. Accounts as the result of transactions in foreign securities, including Canadian securities. The gross purchases figures reflect both new and outstanding issues. The differences between the gross purchases and net purchases figures primarily reflect: (1) sales of foreign securities by U. S. investors to foreign investors; (2) redemption of foreign securities, either in the U. S. or abroad; and (3) purchases for sinking fund purposes.

The statistics cover only securities transactions (including transactions in the securities of international organizations, such as the World Bank). They do not include direct foreign investment by U. S. corporations, nor do they cover inter-company account transactions of U. S. non-banking firms with their own branches and subsidiaries abroad or with foreign parent companies. The statistics are based on monthly reports to the Treasury Department by banks and security dealers and brokers on transactions with foreigners for their own account and for the account of customers. They, therefore, do not cover transactions carried out entirely abroad in which a reporting institution is not involved.

The term "U. S. Investors" covers all institutions and individuals domiciled within the U. S. and its territories and possessions, with the exception of the following: (1) branches or agencies of foreign central banks; (2) other official institutions of foreign countries; and (3) international organizations.



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TABLE II
PURCHASES OF FOREIGN SECURITIES
BY U. S. INVESTORS FROM FOREIGNERS-1962
(\$ Thousands)

Country of Seller	Gross Purchases			Net Purchases		
	Bonds	Stocks	Total	Bonds	Stocks	Total
Europe						
Austria	13,338	25	13,363	2,051	19	2,070
Belgium	47,332	14,543	61,875	10,111	6,861	16,972
Denmark	41,469	78	41,547	36,191	-40	36,151
Finland	1,000	0	1,000	-606	0	-606
France	54,851	79,448	134,299	37,252	39,509	76,761
Germany	54,378	41,380	95,758	19,018	12,533	31,551
Greece	534	997	1,531	459	494	953
Italy	23,757	4,397	28,154	-9,504	-3,395	-12,899
Netherlands	14,912	140,489	155,401	-30,920	65,007	34,087
Norway	46,133	1,548	47,681	23,437	491	23,928
Portugal	466	162	628	-24	-285	-309
Spain	1,889	1,487	3,376	-2,572	832	-1,740
Sweden	13,276	501	13,777	338	266	604
Switzerland	78,333	49,964	128,297	-29,959	20,944	-9,015
Turkey	5	18	23	-28	18	-10
United Kingdom	57,431	72,720	130,151	-27,579	-4,081	-31,660
Other Europe	51,903	1,938	53,841	11,353	1,292	12,645
Total Europe	501,007	409,695	910,702	39,018	140,465	179,483
Canada	681,878	332,696	1,014,574	433,947	-75,367	358,580
Latin America	143,467	21,724	165,191	98,286	6,077	104,363
Asia	182,872	31,418	214,290	147,484	27,758	175,242
Other Countries	127,356	5,970	133,326	48,124	1,640	49,764
International	389,955	0	389,955	166,347	-1,056	165,291
Grand Total	2,026,535	801,503	2,828,038	933,206	99,517	1,032,723

Source: April 1963 Treasury Bulletin. Totals differ slightly from figures in Table I because of unpublished revisions.

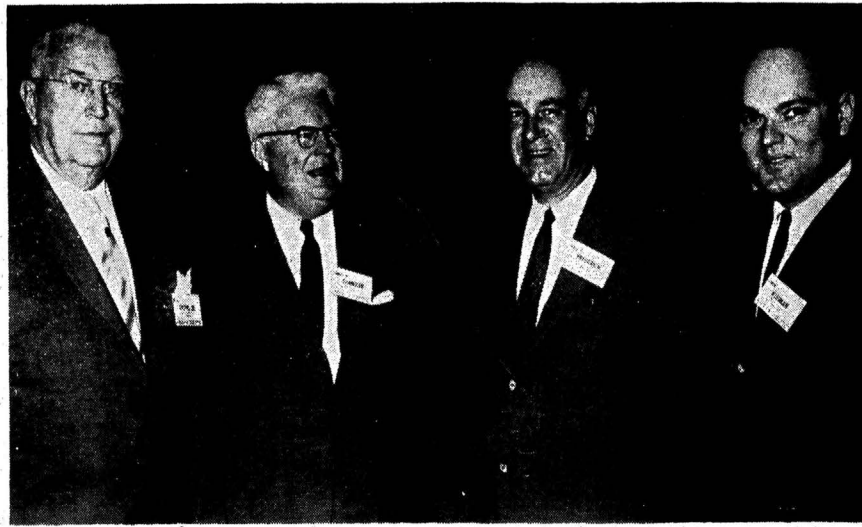
TABLE III
FOREIGN DOLLAR BOND OFFERINGS (1962-1963)
(Offered by Investment Bankers)
(Exclusive of Canadian and World Bank Issues)

Year	Country	Amount (000)	Concurrently Offered Short-Term Debt	Term	Rate	Date of		Payment Clause	Offered	Price	Yield	Concurrent World Bank Financing
						Issue	Maturity					
1962	Commonwealth of Australia	30,000	None	20 yrs.	5 1/2	1-15-62	1-15-82	Dollars	1-23-62	98 1/4	5.65	100,000
		South Europe Pipeline Co.	40,000	None	20 yrs.	5 1/2	3-1-62	3-1-82	Dollars	3-13-62	100 1/2	5.46
	Kingdom of Belgium	30,000	None	15 yrs.	5 1/4	4-1-62	4-1-77	Dollars	3-28-62	98 1/2	5.40	None
	City of Oslo, Norway	10,000	None	15 yrs.	5 1/2	4-1-62	4-1-77	Dollars	4-3-62	98	5.70	None
	Kingdom of Denmark	20,000	None	15 yrs.	5 1/4	5-1-62	5-1-77	Dollars	5-2-62	97 3/4	5.47	None
	Government of New Zealand	25,000	None	15 yrs.	5 1/4	5-1-62	5-1-77	Dollars	5-7-62	97 1/2	5.50	None
	High Authority of the European Coal & Steel Community	25,000	None	20 yrs.	5 1/4	4-15-62	4-15-82	Dollars	5-15-62	99	5.33	None
	Japan Development Bank	17,500	None	15 yrs.	6	5-15-62	5-15-77	Dollars	5-15-62	96	6.41	None
	Copenhagen Telephone Co., Inc.	15,000	None	15 yrs.	5 5/8	6-1-62	6-1-77	Dollars	5-28-62	96.80	5.95	None
	Commonwealth of Australia	30,000	None	20 yrs.	5 1/2	7-1-62	7-1-82	Dollars	6-19-62	97 1/2	5.71	None
	Kingdom of Norway	20,000	None	15 yrs.	5 1/2	8-1-62	8-1-77	Dollars	7-24-62	96 1/2	5.85	None
Shin Mitsubishi Heavy Industries Conv. Debs.	10,000	None	15 yrs.	6 1/2	9-25-62	9-30-77	Dollars	9-17-62	100	6.50	None	
Nippon Telegraph & Telephone	Commonwealth of Australia	18,500	None	15 yrs.	6	9-15-62	9-15-77	Dollars	9-18-62	96	6.41	None
	Commonwealth of Australia	25,000	None	20 yrs.	5 1/2	10-1-62	10-1-82	Dollars	10-16-62	99	5.58	None
	Tokyo Shibaura Electric Co. Conv. Debs.	20,000	None	15 yrs.	6 3/8	12-15-62	3-31-78	Dollars	12-11-62	100	6.375	None
Totals		<u>336,000</u>	<u>None</u>									
1963	Japan Development Bank	22,500	None	15 yrs.	6	2-1-63	2-1-78	Dollars	1-30-63	96 1/2	6.37	None
		Kingdom of Denmark	30,000	None	15 yrs.	5 1/4	3-1-63	3-1-78	Dollars	2-26-63	98 3/4	5.37
	Republic of Finland	12,500	None	10 yrs.	6	3-15-63	3-15-73	Dollars	3-12-63	98 3/4	6.17	None
	Copenhagen Telephone Co., Inc.	15,000	None	15 yrs.	5 3/8	4-15-63	4-15-78	Dollars	4-9-63	98	5.75	None
	Commonwealth of Australia	30,000	None	20 yrs.	5	4-1-63	4-1-83	Dollars	4-10-63	97 1/2	5.20	None
	Mitsui & Co., Ltd. Conv. Deb.	10,000	None	15 yrs.	6 3/8	3-31-63	3-31-78	Dollars	4-23-63	100	6 3/8	None
	Kingdom of Norway	25,000	None	15 yrs.	5 1/4	5-1-63	5-1-78	Dollars	4-24-63	98 1/4	5.42	None
	Japan	27,500	None	17 yrs.	5 1/2	5-1-63	5-1-80	Dollars	5-1-63	97 3/4	5.71	None
	City of Copenhagen	15,000	None	15 yrs.	5 3/8	5-15-63	5-15-78	Dollars	5-21-63	98.23	5.55	None
	City of Oslo	10,000	None	15 yrs.	5 1/4	6-15-63	6-15-78	Dollars	6-12-63	97 3/4	5.47	None
	City of Milan	20,000	None	15 yrs.	5 1/2	7-1-63	7-1-78	Dollars	7-10-63	98 3/4	6.825	None
Mexico	25,000	15,000	15 yrs.	6 3/4	7-15-63	7-15-78	Dollars	7-16-63	97.70	7.00	None	
Nippon Telegraph & Telephone	20,000	None	15 yrs.	5 3/4	7-15-63	7-15-78	Dollars	7-21-63	98 3/4	6.08	None	
Totals		<u>262,500</u>	<u>15,000</u>									

*The Committee Report also included details of issues offered in the years 1956 to 1961 inclusive. This data was published in previous editions of the "Chronicle's" IBA Convention Supplements.



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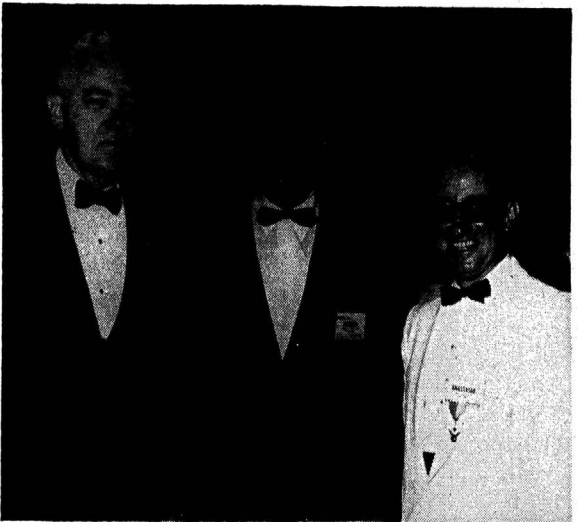
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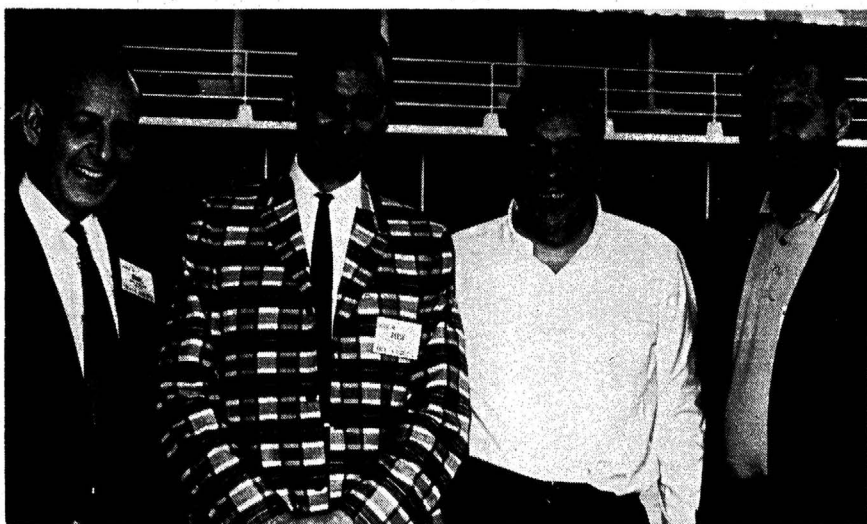
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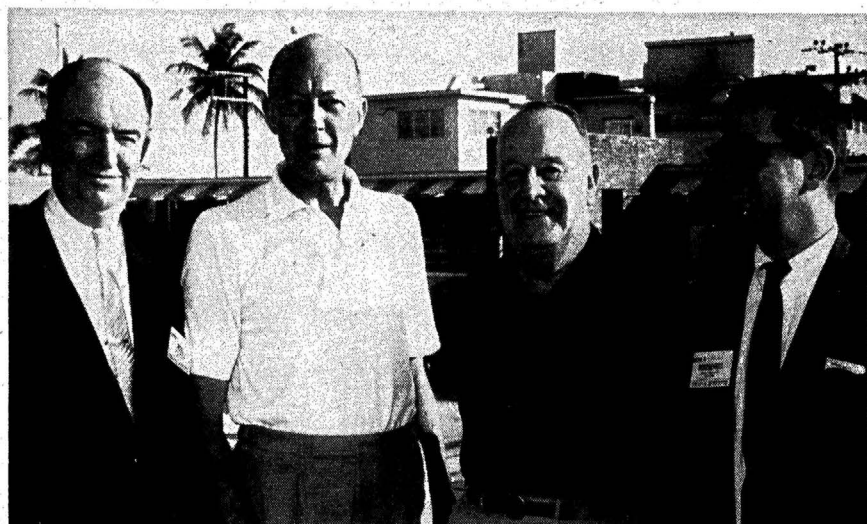
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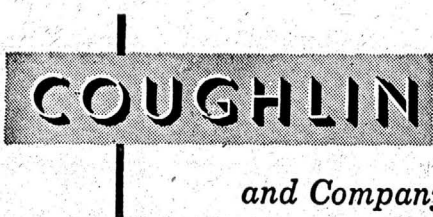


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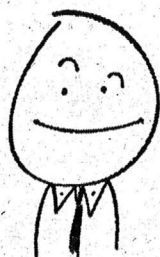


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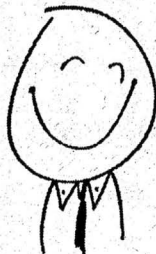
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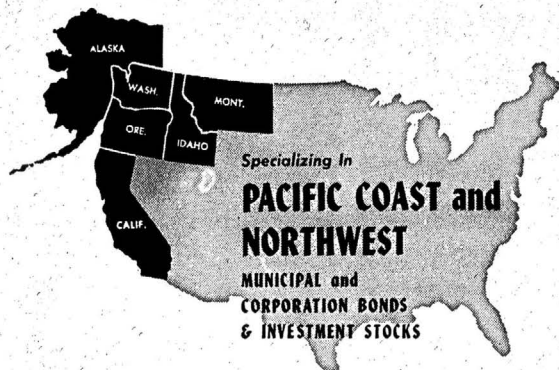
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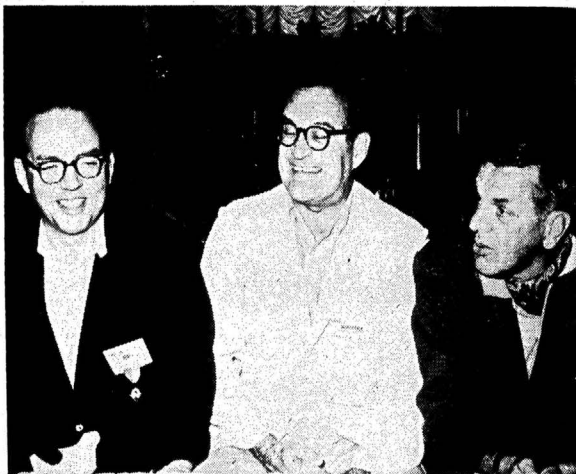
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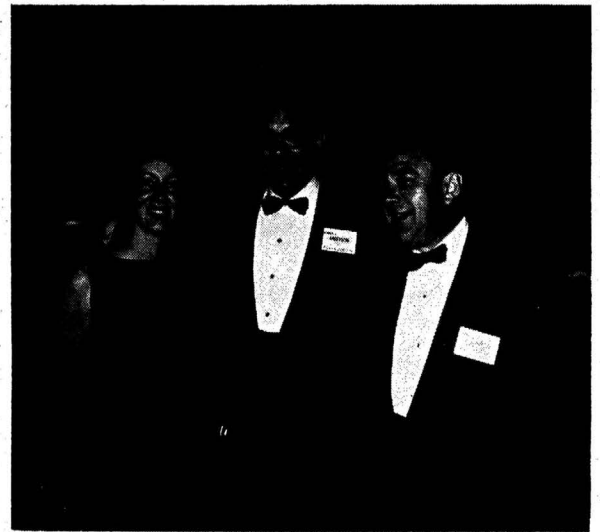
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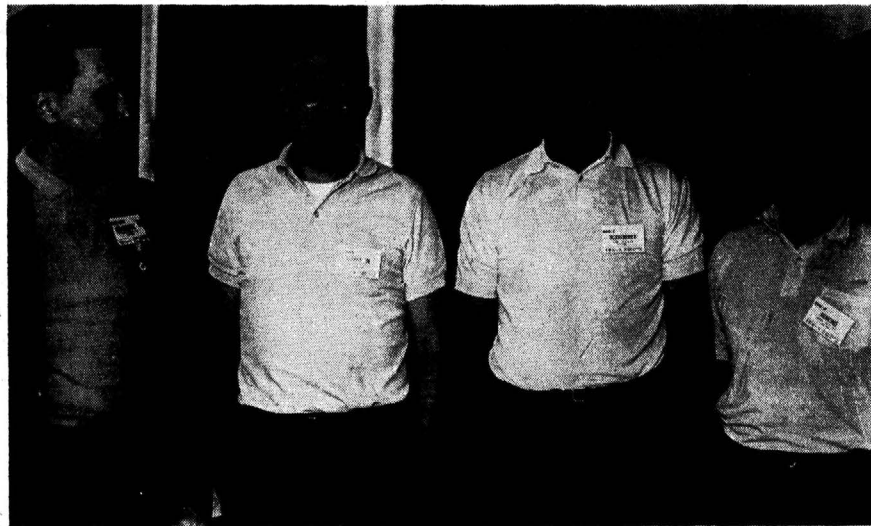
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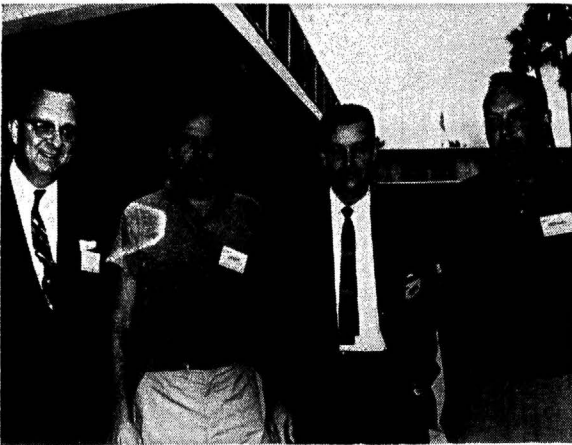
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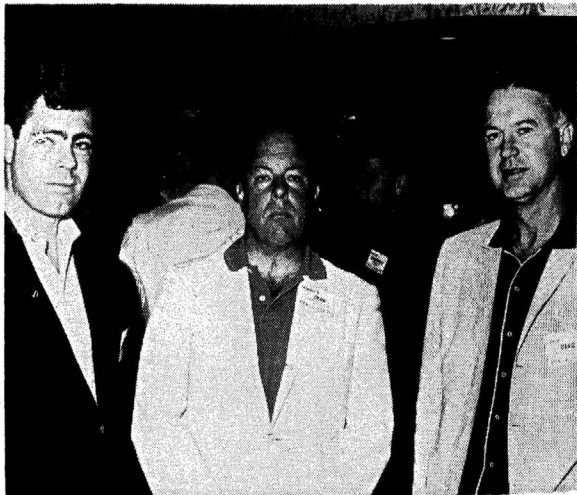
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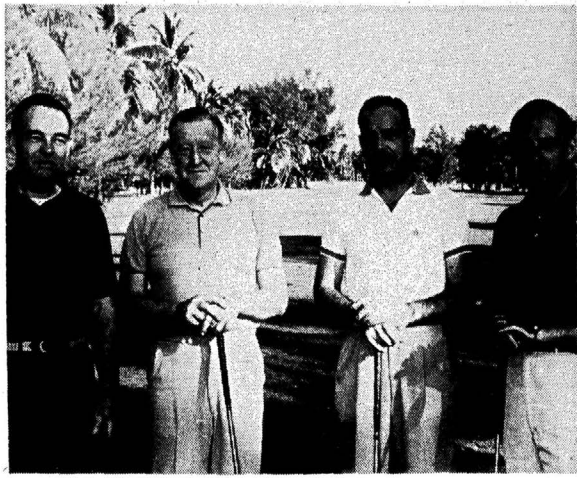
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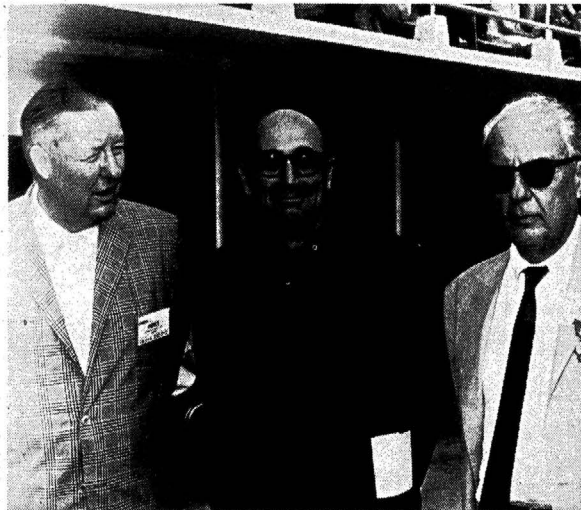
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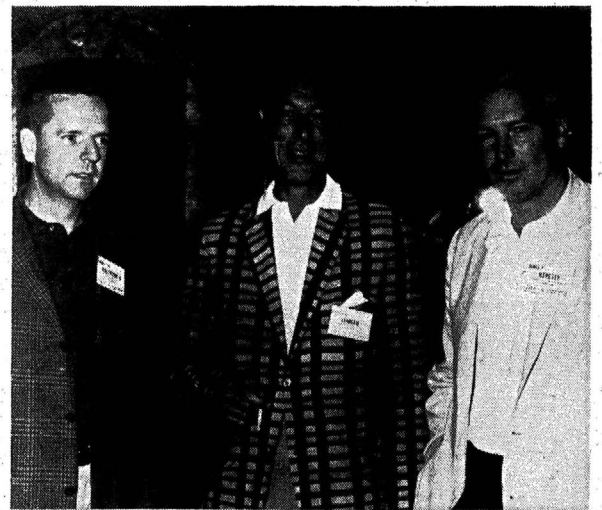
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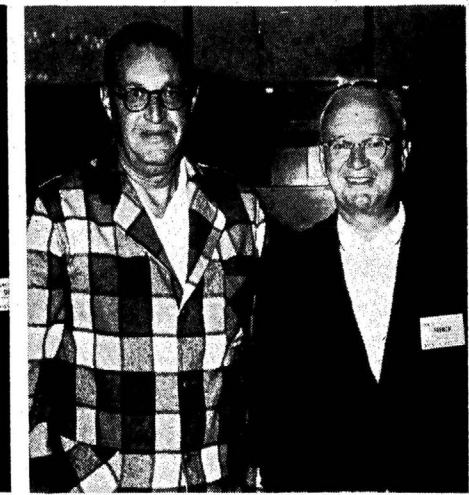
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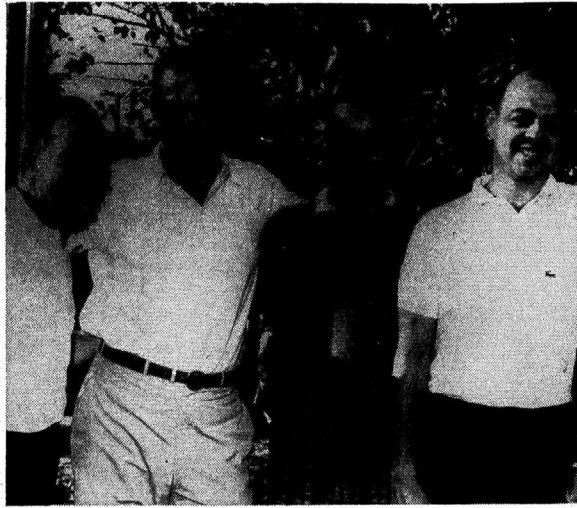
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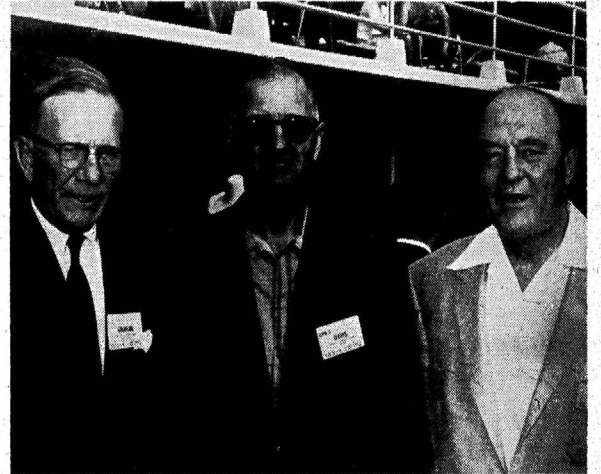
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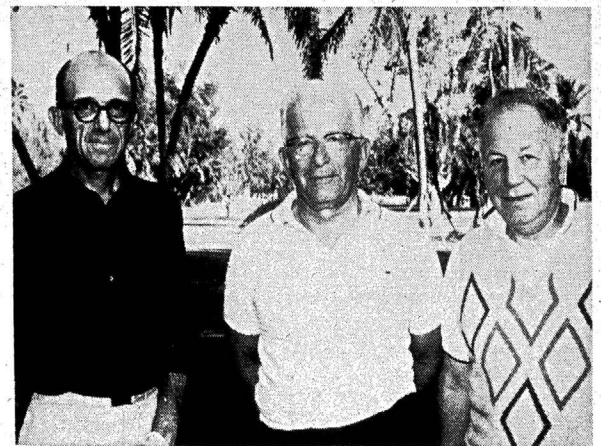
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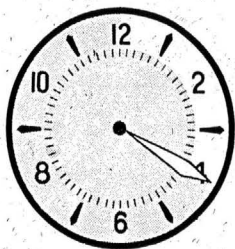
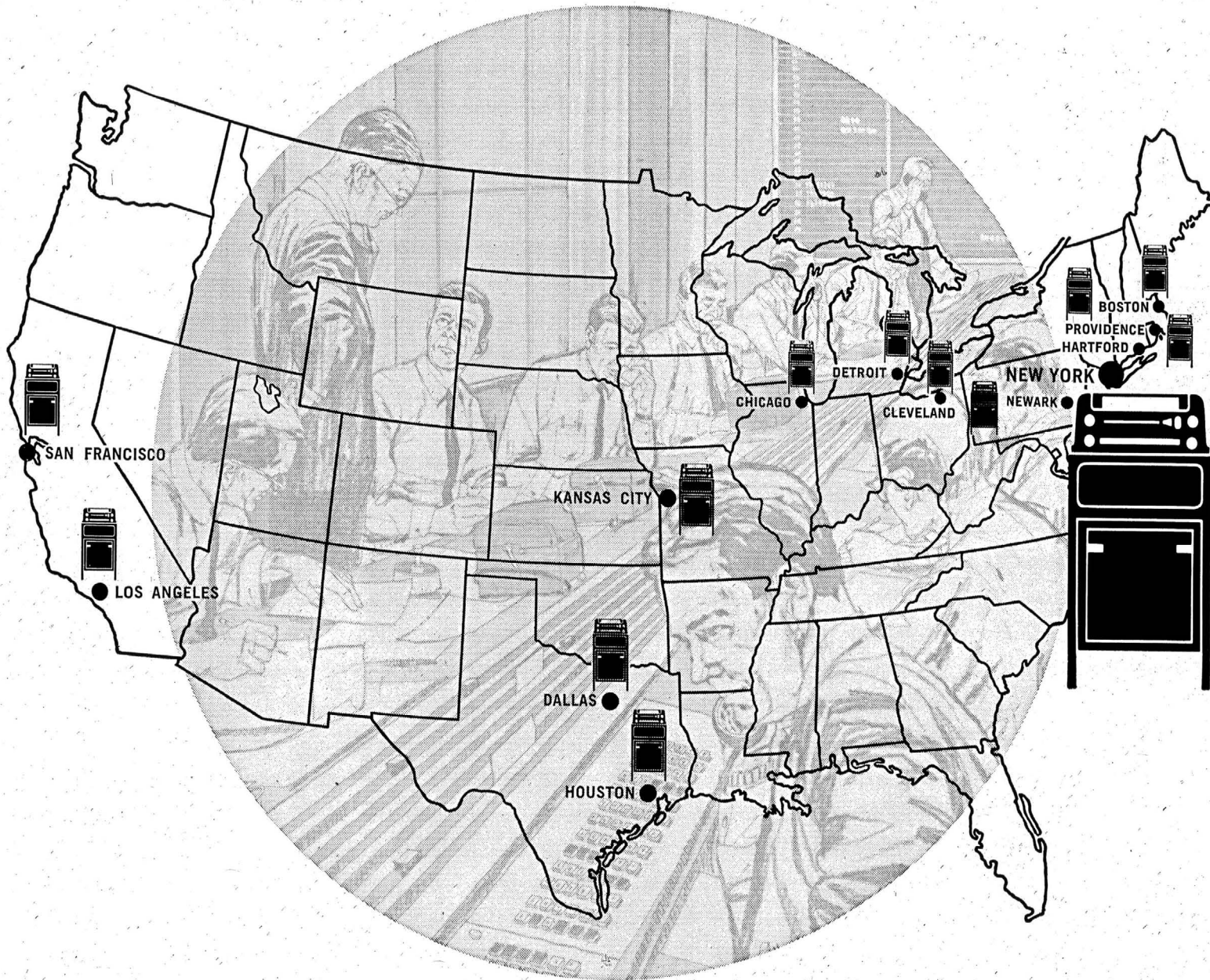
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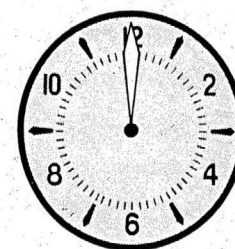


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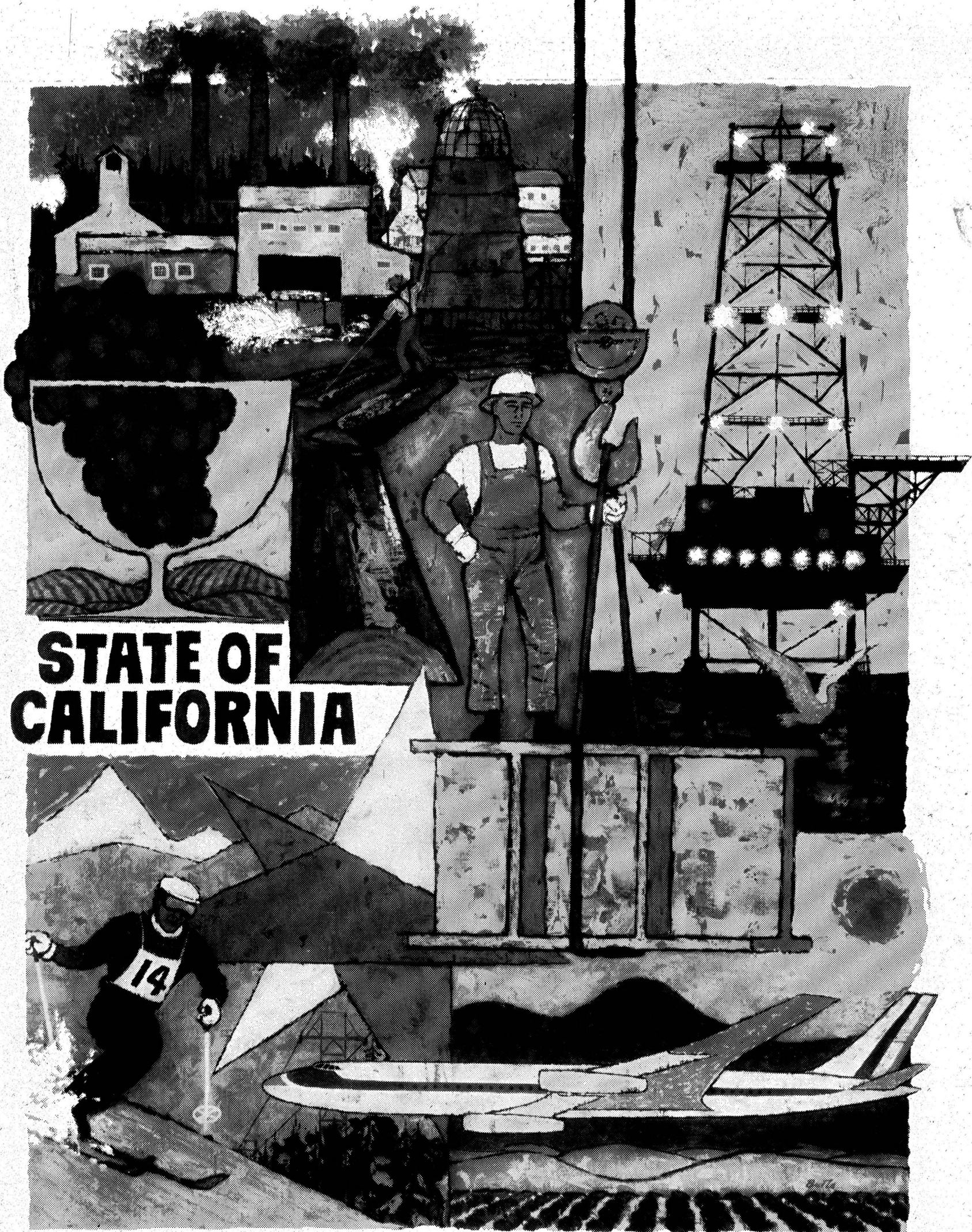
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