

July 13, 1938

Mr. John K. Starkweather
Investment Bankers Association of America
111 Broadway
New York, New York

Dear Mr. Starkweather:

This is a reply to your letter of July 8. It is a little delayed because I brought the Investment Bankers Conference files with me up to my camp and I am trying to make a rough draft of my report here.

What you say in the second paragraph of your letter as to the interpretation of Mr. Douglas' speeches in Seattle, Denver, and San Francisco is, of course, disturbing. If you remember when you and Nevil and I were talking with Mr. Mathews, we pointed out at great length the questions which would arise in the minds of any of the members of the conference if they were advised, either by the Commission or the officers of the Conference, to form another association. It is inevitable, under these circumstances, that the person so advised begins to wonder why he should be told, urged, invited, or whatever else, to form a new association if the Conference has done such a devil of a good job and is going forward to qualify as a National association under the Act.

All of this difficulty is, as I see it, the inevitable consequence of the Commission's attempt to accomplish too speedy action. You know that I told Mr. Mathews this because you heard me. You may rely that I told Mr. Douglas the same thing before our meeting in Mr. Mathews office. The trouble with all this is that I see no way of avoiding the risk involved in it. Even Mr. Mathews, wise as he is, saw no difficulty about sending young lecturers out over the country to "explain" the Maloney Bill. The thing which even he does not understand is that it is not a question of just what these representatives say at these various meetings, but is rather a question of what our members read into what is said and what deductions they draw from the very fact that all this lecturing is going on.

Up to now the Security and Exchange Commission has by and large used the Conference as its contact with the business in general. Our members have heard through the Conference of the

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of the actions and proposals of the Commission. I know, of course, that the Commission has issued news releases and that the Commissioners have from time to time spoken at various meetings. When the Commission starts to canvas the country it is going to make the job harder. This is going to be so whether they advise the formation of regional associations for direct registration, whether they advise local associations for ultimate affiliation, or whether they do not advise anything. The mere fact that the Commission has sent two or three lecturers into the field will make anyone with half a brain wonder what is wrong with the organization which has been working these matters out in the past.

If your three Western Governors are right and Mr. Douglas is urging regional organizations which could be qualified as National associations under the Maloney Act, then the whole damn thing will be set back, in my judgment, by whatever period of time will be necessary for the Commission to recognize that regional associations will not work. I had hoped that after our meeting in Washington there would be no further suggestions from the Commission and that their speeches to organizations of the trade would be confined to explaining and amplifying the Maloney Bill and pointing out the advantages which, in their judgment, accrued from the organization of a National Association. This may still be so because Chairman Douglas' speeches in Seattle, San Francisco, and Denver were prior to our conference.

The problem of holding the members of the Conference while we work out registration is going to be difficult if there is any doubt among the members, but I do not see anything that any of us can do about it sore than we have done. I note that you say the Rocky Mountain Group is active in forming an association. If the Chairman of the Commission urged them, that is what he wanted them to do and I do not see quite how the IBA or IBC can advise them not to do it. I note what you say about the effect upon the various representatives from New England, the South, and Middle West of these announcements, all of which tends to demonstrate that any kid can light a straw stack but no kid can put it out after it is started. I think they will all of them have to canvas this possibility and if any of them make up their minds to try it, then the Security and Exchange Commission will have the opportunity to determine whether they want ten or twelve National Associations. If they do, they have changed their minds since I last met with them on this subject; but clearly if that is the kind they want, that is the kind they probably will have. There is not much beyond this that I can see until after I have been to Washington again.

I am going to be at home on Monday of next week and I am

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writing Ben Griswold to see if he can meet me in Washington sometime the middle of the week. It is Ben who is really on the spot. He and Wally are getting letters which either openly or covertly ask whether the Conference is on the way out. I think these letters have to be answered and I do not think it is easy to do. However, the only thing I know to do is go ahead as we have planned. I think it would be a great mistake to attempt to register without full consideration of all of the details merely to "beat out" some other plan.

We tried to explain to Mr. Mathews and I tried to explain to Mr. Douglas the very difficult questions which are involved in laying the plans for a National association which will be able to collect the funds necessary and make a decent try at self-regulation. You do not solve these difficulties by ignoring them. I do not think that we should waste time and you know that I have never counselled that, but I have been working with this thing for so long that I know that any organization which is going to amount to anything must be carefully set up so as to include the largest possible number of bona fide investment dealers.

I did not start out to write you a book but I guess I have done it. I am sending a copy of this letter to Murray Hanson, to Ben Griswold, and to Nevil Ford.

Very truly yours,

Jos. C. Hestetler

JCH/DM