PSF JEROME FRANK

PSF: Jerome Frank

Box [redacted]

149

Subject File "F"

PSF
Jerome N. Frank
Henderson

Memo to Senator O'Mahoney
From the President
May 17, 1939

In re-O'Mahoney's plans on taking of testimony on the Insurance phase of TNEC

Memo to Leon Henderson attached--May 19, 1939

Also attached memo to the President--April 12, 1939
From William O. Douglas
Re-Insurance Investigation

See:TNEC folder--Drawer 2-1939 for the above correspondence and other correspondence relating to the Temporary Nat'l Economic Committee

PSF: Frank file personnel

CONFIDENTIAL
MEMORANDUM

Date June 13, 1939

To: The President

From: Chairman Frank, Securities and Exchange Commission

Subject: SEC - Utilities Division.

The problem of the administration of the Holding Company Act seems to me vital not only to the success of the Securities and Exchange Commission, but also to the success of the New Deal.

I am, therefore, happy to report that (after many conferences with Tom, Ben, and Bill Douglas, and with their hearty approval) we have just given our Public Utilities Division a kind of blood transfusion which I believe will set things going properly for the first time. Joseph L. Weiner has been appointed Director of the Division, to succeed Roy Smith when he leaves in the near future. Mr. Weiner is a thoroughly experienced attorney with specialized training in the public utilities field. As a matter of fact, Mayor LaGuardia appointed him Assistant Corporation Counsel of New York City in charge of all public utilities litigation. He has also been, during the LaGuardia regime, counsel for the Board of Transportation of New York City. For the past six or eight months he has been Special Counsel of our Reorganization Division, which he has helped to make a great success in a short time.

We have created a new position of Associate Director, and put Robert H. O'Brien, a two-fisted former Assistant General

Counsel, in that position. O'Brien is, in a sense, one of the boys we have brought up at the Securities and Exchange Commission. He has been with us since the beginning, in jobs of steadily increasing importance and responsibility.

We have also created the position of Counsel to the Public Utilities Division and have put Mr. Roger Foster, formerly Senior Attorney of the Public Utilities Division, in that post. Mr. Abe Fortas, who, as you know, was taken away from us to become General Counsel to the Public Works Administration, regarded Mr. Foster as his ablest lieutenant.

All these moves, I'm glad to say, had the approval of all five Commissioners.

We contemplate creating one or two more key jobs and filling them with men who will complete a real "flying wedge" to clean up the integration and simplification problems of Section 11.

PSF Frank

June 26, 1939
In re-telephone conversations with Jimmy Roosevelt and President's memo to call Jerome Frank and say that Jimmy will come to Washington on July 5th and to let the Atty Gen know. Also other letter from Frank to Jimmy dated Jan 24, 1939.

See: Jimmy Roosevelt folder-Drawer 3-1939

PSF Frank file

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

August 31, 1939

~~CONFIDENTIAL~~ MEMORANDUM

TO: THE PRESIDENT

FROM: Jerome N. Frank

I am somewhat disturbed by recent developments which may seriously affect the adequate handling by the SEC of the matters entrusted to its care, and feel that I ought to call the subject to your attention:

1. You recently appointed an inter-departmental committee, to deal with the war emergency situation, consisting of representatives of the Departments of State, War, Navy, Treasury and Justice.

2. A subcommittee has been appointed with reference to security markets, foreign exchanges, etc., which consists of representatives of Treasury, State, Federal Reserve, Justice and the SEC. At a recent meeting of that subcommittee (the only meeting thus far held) the Federal Reserve was represented by Dr. Parry (whose attitude toward Stock Exchange matters has frequently been at variance with ours) and the State Department was represented by Dr. Feis, (who has sometimes been severely critical of our relation to the securities

markets). At that meeting Dr. Parry disclosed that he had, unbeknownst to the SEC, discussed with Stock Exchange officials steps which the Exchange contemplated taking and of which the SEC had not then been informed.

3. The curious and subordinate position of the SEC, as to matters within its peculiar province, in connection with the workings of the inter-departmental committee, may lead to strange results, as indicated by the following:

Several days ago, Governor George Harrison, of the Federal Reserve Bank of New York, appointed a committee to advise and consult with government officials on foreign exchange matters, a subject which is no direct concern of the SEC. However, yesterday, with no knowledge on the part of the SEC until we read of it in the press today, Governor Harrison appointed another (nine man) committee to advise and consult on other problems, including conditions in the securities market. That second committee consists of Henry Morgan of Morgan Stanley and Company, representing the investment bankers, Mr. Martin, President of the New York Stock Exchange, and the presidents of the leading New York banks; it is also to include a representative of the insurance companies. The press accounts state that the committee "will forward its findings and opinions to Washington" and that "it had not been decided whether to

make the committee permanent if future developments give assurance of peaceful settlement of Europe's problems."

The appointment of that committee had not been discussed with us. It had been informally and briefly discussed with Under-Secretary Hanes, who knew little about its purposes. I have no criticism whatever of Johnnie; I have no doubt that the failure to advise with us was, at most, a pure oversight.

I talked to Johnnie about the matter today. At his suggestion, Governor Harrison phoned me this afternoon. He explained that his new committee was formed merely to give him advice so that he could keep the banks informed of developments, and said that it was not intended that that committee should encroach in any way on our activities.

However, regardless of Governor Harrison's intentions, it is well known that several members of that committee ardently desire to procure amendments to the SEC statutes which would emasculate them; and the existence of such a committee may afford an opportunity for certain persons in Wall Street to take advantage of the emergency, in an effort to establish a program of encirclement of the SEC.

4. In the light of the foregoing, I respectfully suggest that the main inter-departmental Committee and the inter-departmental subcommittee and the War Resources Committee be

instructed that, with respect to matters within the province of the SEC*, no steps should be taken, or plans drafted, or tentative or other commitments or public statements made, without the prior concurrence of our Commission.

5. Leon Henderson and Ed Eicher have read this memo and fully approve.

6. I think the subject is of such great importance that I would appreciate an opportunity to talk with you about it for a few minutes in the near future.

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*This includes the stock exchanges, over-the-counter markets, investment banking, capital markets (other than the government bond market), securities flotations, public utilities, investment trusts, and investigation of insurance companies.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

September 9, 1939

CONFIDENTIAL MEMORANDUM

TO: The President

FROM: Jerome N. Frank, Chairman,
Securities and Exchange Commission.

Thank you, indeed, for your memo asking me to see Henry Morgenthau about the activities of the committees appointed by Harrison. Henry has arranged a chat in Washington between Harrison, himself, and me, to take place sometime when the government bond market eases off. Because of apprehensions that, in the meanwhile, one of Harrison's committees (which are acting, in effect, as advisors to the Treasury) might sound off to the press with adverse comments on matters within the jurisdiction of the SEC, I sent Harrison today, with the approval of the Commission, a letter in reply to his disturbing letter to me of September 5. [I enclose copies of his letter and my reply, at which you may perhaps care to glance.] Our apprehensions were augmented by an editorial in the Wall Street Journal for today (a copy of which is attached) which, together with Harrison's letter, set the stage for just that kind of publicity.

C
O
P
Y

FEDERAL RESERVE BANK

OF NEW YORK

September 5, 1939

Hon. Jerome N. Frank, Chairman,
Securities and Exchange Commission,
Washington, D. C.

Dear Chairman Frank:

I have received your personal letter of September 1 referring to our conversation on the telephone on August 31 concerning the committee recently set up at my suggestion by the various groups included in its membership.

You are quite right in assuming that this committee does not intend in any way to trespass upon the jurisdiction of the Securities and Exchange Commission. As I advised you on the telephone, the reason for the organization of the committee is to have available a group, representative of the principal financial interests in this market, through which this bank in its capacity as fiscal agent of the Government or otherwise may promptly obtain information or cooperative consideration in relation to important problems affecting this market as they may arise. Experience has demonstrated the extreme difficulty of doing this without such a representative committee of limited size.

While your Commission was not directly informed of the plan to organize this committee in advance, nevertheless, I had assumed that you were aware of the general plan to form such a committee because of advance references to it in the press and because it was discussed in some detail at the series of meetings held in Secretary Morgenthau's office last April when the various departments of the Government, including the Securities and Exchange Commission and the Federal Reserve System, outlined actions to be taken in the event of war.

I can assure you and your colleagues that there was no thought that the organization of this committee would in any way conflict with the jurisdiction or functions of the Securities and Exchange Commission, and I am sure that in whatever connection the committee may be called upon it will operate so that there will be no suggestion of any such conflict. I assume, of course, that you would have no objection to receiving suggestions or proposals from this group, as you would from any other group, regarding matters within the jurisdiction of the Commission, in the event that any such suggestions seemed wise or appropriate.

Faithfully yours,
(Signed) George L. Harrison
George L. Harrison, President.

COPY

September 9, 1939

Governor George Harrison,
New York Federal Reserve Bank,
New York, New York.

Dear Governor Harrison:

Thank you for your letter of September 5. I was pleased to learn from Secretary Morgenthau that he has arranged with you that, in the near future, you and he and I will get together for a chat. Meanwhile, the Commission thinks it desirable to make the following comments on your letter:

Responsive to the last sentence of that letter, we want to say, most emphatically, that this Commission, composed as it is of public servants, can have and has no possible objection to receiving, for its consideration, from any citizen or group or committee of citizens, suggestions or proposals regarding matters within the jurisdiction of this Commission, and, ordinarily and as a general rule, can have and has no objection to the publication of any such proposals or suggestions.

The Commission thinks it appropriate, however, to point out, and doubtless you will agree, that such proposals or suggestions, regarding matters within the jurisdiction of this Commission, if made by the committees recently appointed by you, have a quite different status, because of the circumstances under, and the purposes for, which these committees were appointed; so that proposals or suggestions from them are not within that general rule. We have in mind the following:

In your letter you state that the plan of appointing such committees "was discussed in some detail at the series of meetings held in Secretary Morgenthau's office last April when the various departments of the Government, including the Securities and Exchange Commission and the Federal Reserve System, outlined actions to be taken in the event of war."

It so happens that there were no representatives of the SEC present at any such discussions concerning the appointment of such committees. Secretary Morgenthau has just sent me a copy of the transcript of the sole conference at his office at which that subject was considered. It occurred on April 13 when there were present only representatives of the Treasury and the Federal Reserve Board. The transcript shows that there was then discussed, to quote the words you then used, "a bankers' committee to which I might go in any hurry, upon any matter dealing with credit, loans, foreign exchange, gold, or anything else that the Treasury might want us to do", and that such a committee should be in the nature of an "advisory committee". And until receipt of your letter of September 5, this Commission had never been informed of that discussion of that subject. It follows that those committees were not appointed with the approval or concurrence of the SEC.

Your remarks at the April 13 conference, quoted above, also show that it was not contemplated that there be included in the scope of the activities of any such bankers' committee any suggestions or proposals or other action concerning matters affecting the "securities markets", or any other matters within the jurisdiction of the SEC, excepting insofar as they might come within the clause "anything else that the Treasury might want us to do." Accordingly, it would seem that, when the Treasury and the Federal Reserve Board concurred in the suggestion of the appointment of such a committee they did not contemplate that such committee would make proposals or suggestions with regard to matters within our jurisdiction -- except at the request of the Treasury.

Even more to the point is the fact that the discussion at the April 13 conference and your letter of September 5 show that those committees were appointed pursuant to those discussions to act (through your bank, "in its capacity as fiscal agent of the government") in advising the Treasury. It is clear, therefore, that the committees are not merely groups of private citizens formed on their own initiative, but, with the concurrence of the Treasury and Federal Reserve Board, are to act in a quasi-governmental capacity as advisers to the Treasury.

Now, as you know, it is a well settled and proper practice that, if any department or agency of the federal government, such as the Treasury, at any time has any proposals or suggestions regarding the matters within our jurisdiction, it transmits them to us in confidence and does not give them any publicity. Inasmuch, therefore, as the committees which were appointed by you are to act, through you, as advisers to the Treasury, and as the scope of their advisory activities, as described by you at the April 13 conference, was not to include matters within the jurisdiction of this Commission, except at the request of the Treasury, the Commission assumes that you will promptly make the following clear to the committees: (1) Neither of those committees (nor any subcommittees) should make proposals or suggestions regarding matters within our jurisdiction, except at the express request of the Treasury; (2) if the Treasury should request that either of those committees make suggestions or proposals as to matters within our jurisdiction, then (3) the committees (or subcommittees) will (either directly or through you) transmit those suggestions or proposals to the Treasury, in confidence, and without any publicity, leaving it (4) to the Treasury to transmit those suggestions or proposals to the SEC in confidence, as the Treasury in its discretion may see fit, so that no publicity whatever will ever be given by you or the committees to any such suggestions or proposals as to such matters, except with the prior approval of this Commission.

Sincerely yours,

Jerome N. Frank
Chairman

JNF:Lmv

MEMO FOR THE PRESIDENT

T. G. C. does not know anything about this.

G.

PSF: Frank

CONFIDENTIAL MEMORANDUM

September 2, 1939

TO: The President

FROM: Jerome N. Frank

I want you to know that I had nothing, directly or indirectly, to do with the story by Alsop and Kintner concerning John Hancock, a copy of which is attached hereto. Kintner phoned me, the other day, for information on the subject, and I said I knew nothing whatsoever about it.

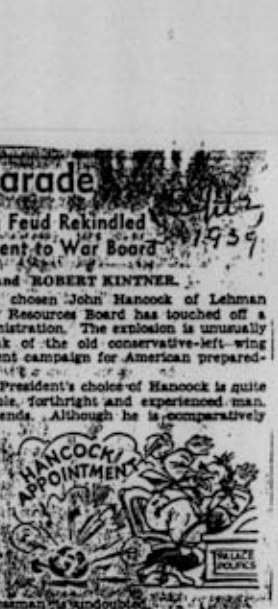
The Capital Parade

Conservative-Left Wing Feud Rekindled By Hancock's Appointment to War Board

By JOSEPH ALSOP and ROBERT KINTNER.

News that the President has chosen John Hancock of Lehman Bros. to be a member of the War Resources Board has touched off a subterranean explosion in the administration. The explosion is unusually significant, being the first outbreak of the old conservative-left-wing rivalry in connection with the current campaign for American preparedness.

From many points of view, the President's choice of Hancock is quite natural. Hancock himself is an able, forthright and experienced man, respected by both enemies and friends. Although he is comparatively young, he was an important figure in Bernard M. Baruch's War Industries Board in the last world conflict. At that time, he served as the Navy's purchasing agent, in which capacity he made friends with the youthful Assistant Secretary of the Navy, Franklin Delano Roosevelt. Now, as a partner in Lehman Bros., he is a member of an investment banking house with which the President's relatives have always been fairly amiable. His standing as a businessman is undoubted.



He originally was invited to come to Washington by Assistant Secretary of War Louis Johnson, who wanted the benefit of his World War experience. He came down this week, talked Navy purchasing, and made an excellent impression. Soon after his arrival, Johnson suggested to the President that he would make an excellent addition to the War Resources Board, on which seven places then remained to be filled. The President assented promptly, and the word of Hancock's appointment was privately passed throughout the administration.

A Stench in the Nostrils

The explosion followed immediately—for a reason which the President, who is probably not very adept in the politics of his own palace, probably did not foresee. The reason's foundation is Hancock's leadership of those members of the New York Stock Exchange who want fairly drastic revision of trading regulations.

Hancock was, in fact, the acknowledged chieftain of the revisionists when they made their first important assault on the Securities and Exchange Commission last winter. It will be remembered how the New York Exchange named a committee to consider revision, with Hancock as chairman; how the committee was enlarged to include representatives of the exchanges in other cities, and how they came to Washington to present "demands" for far-reaching changes.

Their criticism went, chiefly, to the rules against insider manipulation of the markets, which are the very palladium of the S. E. C. Supreme Court Justice William O. Douglas, who was then S. E. C. chairman, was enraged to the point of issuing one of the sharpest public statements ever written by a local bureaucrat. Hancock, whom Douglas denounced by name thereupon became a stench in the nostrils of all good New Dealers, who hold the S. E. C. in the same veneration as the S. E. C. holds the rules against insider manipulation. The feeling against him was especially strong, since he had seemed a fairly friendly businessman before his sally against the S. E. C. and was thus considered a turncoat.

Strength to S. E. C. Foes

The specific outcry against Hancock's appointment takes the form of a complaint that the President has strengthened the hand of the anti-S. E. C. forces in Wall Street. A large number of brokers, thinking that the President's time is running out, have begun to take heart again, to murmur against the pro-S. E. C. stock exchange president, William McC. Martin, and to urge another public demand for easier regulation. Hancock is charged with being associated with these men, and, if the facts are as claimed, it is undoubtedly true that his appointment may encourage the rebellious elements.

There is, however, a deeper and more serious significance in the recriminations of the pro- and anti-Hancockites. The character of the previous appointees to the War Resources Board was conservative enough to cause disquiet among the New Deal group. The choice of Hancock has crystallized this feeling of uneasiness, so that one of the regular rows between the administration right and left seems to threaten. It is to be hoped that the row will be averted by the other appointments to the board. If it is not, the whole preparedness program will be confused by bickering and palace politics.

NEW YORK HERALD TRIBUNE

September 2, 1939

Martin Asks S. E. C. to End Rule Making

Public Examining Board Approves His Statement, Mailed With Its Report

Calls for Action To Assist Market

Suggests 'Policing Power' Stop Its Suppression of Legitimate Activity

It is now high time that the Securities and Exchange Commission allowed the Stock Exchange and its members to get down to the important business of making a living before the organized securities market is completely wrecked, William McC. Martin jr., Exchange president, said in a letter mailed to the membership yesterday evening. The statement from Mr. Martin was sent to members accompanying the report of the public examining board formally received yesterday by the governing committee, which it is understood, approved the text of the letter.

Mr. Martin noted that the Exchange has reorganized its administration completely and co-operated with the commission in every way, but that "its lot has become constantly worse." He says that the continuous aggressive campaign of Federal authorities seriously has impaired the quality of the market and disrupted the morale of the brokerage community.

Customers Satisfied

"The customers of brokerage firms do not give any indication of dissatisfaction with the quality of service rendered, nor do they in any way question the stability or honesty of members and allied members," Mr. Martin says. "And," he continues, "it is also, particularly gratifying to us that the public examining board has seen fit to indicate its belief that such confidence is fully merited."

Mr. Martin emphasizes that the Exchange, of course, wants to continue co-operating with the commission as in the past, but indicates that now is the time for such co-operation to be directed toward improving the market, removing useless restrictions and simplifying the regulatory procedure.

Mr. Martin, speaking for the Exchange, said in his letter that it is now imperative that the Exchange be allowed to operate under the protection of Federal policing, "as citizens do in other walks of life," without having the policeman constantly suppressing legitimate activity.

Text of Letter

The text of Mr. Martin's letter to the membership follows:

"I am transmitting herewith a copy of the report of the public examining board, which I appointed on July 14, 1939, with the approval of the board of governors, to study the suggestions of Jerome N. Frank, chairman of the Securities and Exchange Commission, relating to the further protection of customers of member firms. I am urging the board of governors and the membership to give immediate and careful study to these recommendations, in order that such action, based on them, as may be deemed desirable in the public interest, may be taken as promptly as practicable.

"The report I am sending you marks, in a sense, the completion of a broad program which was begun more than eighteen months ago with the formation of the Conway committee to outline the reorganization of the Exchange. More specifically, this study of customer protection rounds out the particular program which we announced, in co-operation with the Securities and Exchange Commission, on Oct. 26, 1938.

"The reorganization of an institution of this size would have been, in itself, a major task. But the addition to this of the special program that was developed jointly with the Securities and Exchange Commission as a result of the Whitney failure has made extraordinary demands on the time and energies of the management and staff of the Exchange. Moreover, it has also added to already burdensome overhead costs.

Policy Is to Co-operate

"The policy of the Exchange is to co-operate with the Securities and Exchange Commission in carrying out the laws and regulations enacted in the public interest. From time to time spokesmen for the commission have publicly expressed their appreciation of our co-operation and otherwise have indicated their confidence in us. We have demonstrated our determination to operate the Exchange efficiently under Federal regulation.

"If we are to continue to have an efficient and serviceable market, it is imperative for us to give our attention promptly and energetically, to ways and means of maintaining our operations on a self-sustaining basis. The low volume of transactions and reduced listings have resulted in serious loss of income to the Exchange and to its membre firms.

"The urgency of this problem is emphasized in the report of the Public Examining Board, which points out that: Just as the capital position of member firms is the margin of protection for customers, and thus it is important to customers that Stock Exchange firms shall be earning heir way each year and not drawing down their capital, so the financial position of the Exchange itself is a part of the problem of customer's safety.

"I have indicated the broad problem which requires our undivided efforts at this time. In this general task, we earnestly invite the co-operation of our listed companies, the banks of the country, business generally and all others who wish to see the nation's primary securities market sustained at maximum efficiency, with its vital functions unimpaired.

"The Exchange management intends now to devote itself to the problems which are pressing. One of the most urgent of these has to do with the preservation of the market itself. The impact of regulation has already seriously impaired the vitality of the market. This we may recognize as an inevitable consequence of the experimental phases of regulation.

"Among other consequences is an agitation based on apprehension of change, which has been continually disturbing the morale of our community and which, except for the solid character of the confidence in our member firms as exhibited by their customers, could have had even more distressing results. It was our desire to remove our business, as much as possible, from controversy which prompted us to have an impartial public examining board and the independent public accounting firm of Haskins & Sells undertake the recent studies in the field of customer protection.

"If these studies have the effect, as they should have, of putting an end to the controversy and agitation, they will have served a most useful purpose, not only for us but for the public as well. Fortunately, the customers of our member firms have manifested their complete confidence in these firms. And it is also particularly gratifying to us that the public examining board has seen fit to indicate its belief that such confidence is fully merited.

"The Exchange management has no present intention of proposing new rules of an unusual character, except as they may be deemed necessary under the recommendations of the public examining board. We recognize that time is needed for adjustment to those rules already in force. We expect, furthermore, to devote attention to simplification, wherever possible.

"In short, we feel that it is imperative, at this time, that we concentrate our time and our energies upon the rebuilding of our business. As we work to this end, we have the right to regard the policing power, as citizens do in other walks of life, feeling that, while it is ever present in the background, it should never be so much in the foreground that it suppresses legitimate activity."

THE WHITE HOUSE
WASHINGTON

~~CONFIDENTIAL~~

September 5, 1939.

MEMORANDUM FOR

HON. JEROME N. FRANK

I wish you would have a confidential talk with Henry Morgenthau, who is just back, and explain to him the present situation in regard to the Stock Exchange, Mr. Martin's letter, and especially the creation of George Harrison's Committee now headed by Mr. Potter. Tell H. M., Jr., that all of us are distinctly from Missouri and to watch out for a double play or a double cross or something similar.

F. D. R.

PSF Frank

~~CONFIDENTIAL~~ MEMORANDUM

September 2, 1939

TO: The President

FROM: Jerome N. Frank

Responsive to comments by Bill Douglas and to later comments by me, Mr. Martin, President of the New York Stock Exchange, on July 14, 1939, appointed a so-called "examining board" to study and report on the matter of increased customer protection against brokerage insolvencies. The board published its report on August 31.

Mr. Martin, on September 2, made public a letter addressed to the members of the Exchange sending them copies of that report. Attached is a clipping from the New York Herald Tribune for today which quotes his letter. In that letter he said that one of the most urgent problems confronting the Exchange was "the preservation of the market itself. The impact of regulation has already seriously impaired the vitality of the market." He referred to "the low volume of transactions and reduced listings" and commented that "the policing power . . . should never be so much to the forefront that it suppresses

legitimate activity."

In that same letter, he said that, in meeting the broad problems, "we earnestly invite the cooperation of our listed companies, the banks of the country, business generally, and all others who wish to see the nation's primary securities market sustained at maximum efficiency, with its vital functions unimpaired."

The tone of Mr. Martin's letter was a surprise to many persons, including prominent persons associated with the Exchange who are friendly to us, including Mr. Carle Conway. They interpreted Martin's letter as a result of prodding from the old guard who think that the present political situation makes this a good time to begin another attack on the SEC statutes.

I call your attention to the language which I have underscored, taken from Martin's letter of September 2, because it would seem to tie in with the creation, on August 30, of the committee by Governor Harrison, to which I directed your attention in my memo of August 31. Mr. Martin and Mr. Harry Morgan, you will recall, are members of that committee; since my earlier memorandum was written, Mr. Potter, President of the Guaranty Trust Company, has been made Chairman of that committee and Mr. Ecker, Chair-

man of the Board of the Metropolitan Life Insurance Company (now on hearing before the TNEC), has been made the insurance company representative. There would seem to be some reason to believe that when Mr. Martin appealed to leading corporations and the banks of the country to assist him in resisting regulation which "has already seriously impaired the vitality of the market," he had in mind Harrison's committee, the composition of which fits Mr. Martin's requirements.

[We do not intend, for the present, to make any reply to Martin's letter.]

file personal

PSF Frank

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

September 8, 1939

~~CONFIDENTIAL~~ MEMORANDUM

TO: The President

FROM: Jerome N. Frank

There are rumors that someone is proposing that an inter-departmental committee be formed with respect to the utility industry, in the emergency; that the Federal Power Commission is to be represented; that it is contemplated that certain powers, under the Public Utility Holding Company Act (which is within our jurisdiction) are to be employed; but that the SEC is not to be represented. In view of our statutory duties in that field and our splendid utility staff (as reorganized in recent months), I hope that, if any such committee is formed, we will be given a place at the table.

THE WALL STREET JOURNAL

September 9, 1939

REVIEW *and* OUTLOOK

Reconciliation Begins?

It should not escape observation that several heads of federal government departments have very recently invited the counsels of non-official advisory groups and that among the men selected for these conference activities are representatives of the producing industries, the distributive trades and both institutional and investment banking. The proportions of such members in the composition of the advisory committees, moreover, are rather surprisingly large.

This is one phase of the Administration's reaction to the new conditions which the country must reckon with as a result of war in Europe and it would appear to be a decidedly important one. If the present selection of non-official advisers contrasts sharply in respect to experience, attainments and general point of view with the corresponding advisory recruits of recent years, the difference may be taken to reflect a new willingness in Administration quarters to listen to those who have had years of daily contact with industrial and trade processes, with fluctuating labor relations, with the needs and preferences of exacting consumers, with all the intricately related factors that combine to govern the operation of the business machine.

To say that such a reconciliation between "government" and "business" might long since have taken place does not detract from its present value to the country as a whole—assuming that now it has in fact occurred. No doubt that assumption should be made only tentatively, subject to later verification or disproof. But at the moment it appears that real lines of communication have been established between private enterprise on the one hand and Treasury, Agriculture, War and Navy Departments on the other.

This departure from the long familiar Administration attitude toward business leadership gains interest—and perhaps also gains importance—from the demand now so frequently heard in so many quarters for "a truce to politics." A great deal depends, of course, upon the definition to be given to "a truce" in this connection. If anyone supposes that a truce here means a suspension of the critical faculty honestly exercised in Congress or in the press or on the public platform, he is imagining a vain thing. Such a truce, even if it were possible to bring about, would do our people no service. No more now than at any other time can a party in power expect the country supinely to accept whatever it proposes. On the contrary, the idea of cooperation for the general welfare which the appointment of these new advisory bodies implies itself means the complete freedom of the counselors to bring honest—that is, non-partisan and unselfish—criticism to bear upon what government does and proposes to do. The same freedom, naturally, remains to the rank and file of citizens.

In this sense a truce to politics can be realized and will be wholesome to invigorate our economic and political life. Within the limits here crudely drawn a reconciliation between government and business can be attained, without sacrifice of any real reforms accomplished or attempted under the New Deal.

PSF Jerome Frank

Sept 13, 1939

Memo for the President
From James Rowe

In re-telephone conversation with Jerome Frank who says that there are rumors in Wall Street about Paul Shields who might be appointed to War Resources Board etc.

See:James Rowe--Administrative Asst's folder-Drawer 1-1939

file personal

PSF Frank

TE HOUSE
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CONFIDENTIAL MEMORANDUM

September 20, 1939

TO: The President

FROM: Jerome N. Frank, Chairman,
Securities and Exchange Commission

Senator O'Mahoney, when I saw him yesterday, referred to a letter he sent you sometime ago in answer to the open letter you sent him about "idle men and idle machines," saying that you had not replied. You may think it desirable, in view of his comments to me, to answer that letter by a letter not for publication. If so, I should like to supply you with some material showing that his own bill provides for far more in the way of administrative discretion than is now contained in the SEC statutes, although in public utterances and, I believe, in his letter to you, he has asserted that his bill, if enacted, would very substantially reduce administrative discretion. As to the economic arguments advanced in his letter, I think Leon, Currie and I can supply you with considerable data showing the fallacies of his argument.

PSF: Jerome Frank

October 3, 1939.

Dear Miss Thompson:-

The enclosed came soon after I saw you and I thought it was only right to send you this copy and Jerry Frank has given me permission to do so.

Things still look all right for the embargo change.

I hope to see you one of these days soon.

Very sincerely yours,

Miss Dorothy Thompson,
c/o New York Herald Tribune,
230 West 41st Street,
New York, N. Y.

(Enclosure)

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

file

JEROME N. FRANK
CHAIRMAN

September 30, 1939

My dear Mr. President:

Thank you very much indeed for your letter of September 29.

Of course I have no objection to your sending a copy of my letter to Dorothy Thompson.

Faithfully yours,

Jerome

Jerome N. Frank

The President
The White House

HOLD

If Mr. Frank agrees to sending the letter to Miss Thompson--the President will want this correspondence.

September 29, 1939.

Dear Jerry:-

Many thanks for that nice note. You did not have to tell me either of your loyalty or of your fine liberal spirit in the best sense of the word.

I wish you would let me send a copy of your letter at this time to Dorothy Thompson, who happens to be in a very mellow frame of mind -- just for her information and, of course, not for use.

As ever yours,

Honorable Jerome N. Frank, Chairman,
Securities and Exchange Commission,
Washington, D. C.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

September 27, 1939

Confidential

Miss Marguerite LeHand,
The White House,
Washington, D. C.

Dear Miss LeHand:

I would be greatly obliged if, at some convenient time in the near future, you would hand the President the enclosed letter.

Sincerely,

Jerome N. Frank

Jerome N. Frank

This is the clipping which Miss Thompson enclosed. The one attached is as it appeared in the paper.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

FICE OF THE CHAIRMAN

September 27, 1939

~~Confidential~~

The President
The White House

My dear Mr. President:

In Miss Dorothy Thompson's column for today (September 27) she refers to me as one of the "extreme New Dealers" who "believe the future world belongs to vast, continental, self-sufficient, highly regimented and controlled states." That was, indeed, careless writing. For Miss Thompson knows perfectly well, from my writings and from conversations, that I detest regimentation and totalitarianism, and that that is why I have been delighted to serve under you. Her reference to my attitude probably represents her confused reaction to a book, Save America First, which (as carefully explained in the Preface) I wrote and delivered to the publisher in 1937 at a time when I was a private citizen, out of government service, but which was published in 1938. In that book, among other things, I proposed the restriction of our foreign trade, in time of peace as well as war, primarily to this hemisphere, as the best means of making the New Deal work as a preserver of American democracy and of the American profit system.*

Since my return to government service, in December, 1937, I have published nothing on matters concerning our foreign policy or foreign trade. And so much has happened, in that interval, that my present attitude is very substantially different from what it was when I wrote that book.

It is possible, however, that, in the current discussion of the neutrality legislation, someone, in an effort to embarrass you, may refer to my book. Therefore I think

---

* At the time when, in the Fall of 1937, I was being considered for the SEC, I asked Tom Corcoran whether in view of the fact that my book was then forthcoming, I should tell you about it before you appointed me. Although he knew, in a general way, of the point of view expressed in that book, Tom thought that precaution unnecessary.

my loyalty to you should be made clear. Officially, of course, you are my Commander-in-Chief. Unofficially (as Tom Corcoran, Ben Cohen, Bob Jackson, Bill Douglas, Ed Eicher, Leon Henderson, Lauchlin Currie and others can tell you) I am 100 per cent in sympathy with your present position. I believe that all reflective persons must agree that, on the question of neutrality, you are entirely correct and that your opponents are seeking to use outmoded devices, anachronistic in the present state of world affairs.

If I did not think that everyone in the administration other than you should remain silent on that question, I would be glad thus to express myself publicly.

Faithfully yours,

Jerome Frank

Jerome N. Frank

Herald NEW YORK Tribune

October 18, 1939

Miss Thompson dictated this letter on October thirteenth. She was called out of town unexpectedly and the letter was held for her signature. This accounts for the delay in sending it.

DOROTHY THOMPSON
68 CENTRAL PARK WEST
NEW YORK CITY

Full personal

October 18, 1939

Dear Mr. President:

Thank you for your letter enclosing Jerry Frank's comments on my remarks. I should lay off Jerry Frank. He may believe in American isolation but he certainly does not believe in peace at any price. I insist that the result of Jerry Frank's program--which is nothing except the Haushofer geo-political idea--will mean regimented and controlled economy, and his saying that he doesn't want that doesn't change my opinion about what he is advocating. I never suggested that he wrote what he did while he was in the government service. No doubt, my perennial fight with Jerry Frank will go on. Our mutual correspondence ought to be published in a book called "Our Struggle."

I am having the temerity to enclose a copy of my piece for today. I think it is good. If we could only get the issues clear then we could stop talking about war and thinking about war and could, instead, talk about peace. All sorts of thoughts cross my mind as they must yours. For instance, that we ought to call a peace conference, not of politicians but of scientists and economists, from all over the world to make a scholarly analysis of the problems of Western civilization and suggest proposals for a peace of reasoned realism.

With great admiration for the way you are handling this situation, I am

Very sincerely yours,

Dorothy Thompson

The Honorable Franklin D. Roosevelt
The White House
Washington, D. C.

THIS DOCUMENT IS THE BEST
AVAILABLE. EVERY TECHNICAL
EFFORT HAS BEEN TAKEN TO
INSURE LEGIBILITY.

ON THE RECORD

By DOROTHY THOMPSON

Europe Cries to Germany

OCT 13 1939

WHEN George Bernard Shaw taunts the British government for having been unwilling to bomb Berlin on behalf of Poland, he presents a dilemma but contributes nothing to its solution.

It is not only the fear of reprisals that restrains the hands of the French and the British from a horror war. The same thing restrains them that prevented any pact with Russia which would give the Russian Army carte blanche to march into Europe.

Every military consideration favored acceptance of the Russian terms by the Allies. But more than military considerations are at stake. For the object of this war is not to destroy Germany—which, with the aid of Russia, might not have been difficult—but to save Germany for Western civilization against her own leadership.

This war, which Mr. Ford called a phony war, that perplexes so many minds, some of them in our Congress, [illegible] British imperialism. If it was he would not fight it.

He knows that this is the great European civil war, the object of which is to determine what sort of Europe he is going to live in.

It is the war of the European spirit against an alien spirit. And because it is this sort of war, the Allies fight it with profound inhibitions and fight it only because all means of communication between the rest of Europe and Germany have been closed for years by Adolf Hitler. This is the tragedy of this most tragic war—that communication among peoples has been suspended by the leaders of Germany. This is the reason for the seemingly futile bombing with pamphlets in a heartbreaking attempt at communication of Europeans with one another.

* * *

In 1933 Germany seceded from Western civilization. In 1939, with complete consequentiality, Germany opened Europe to Asia.

This war is a civil war to force Germany back into Western civilization and then reorganize and strengthen that civilization by co-operative effort, letting bygones be bygones. Like our own Civil War, it is a war to enforce unity.

The peace terms cannot be written, because the peace terms cannot be dictated. They must be created, together, as a peace for a new and united Europe. In order to make that peace one must have Germany back in the body of Western civilization.

This war is a fight for the living body of Germany.

* * *

What is Western civilization? It is not democracy, not parliamentary government and certainly not capitalism. All of these are merely manifestations of something else—temporary forms to express a more permanent content.

Western civilization is nevertheless definable. It is the synthesis of three things: the Christian ethic, the scientific spirit, and the rule of law.

[illegible] gument against private property; that Western civilization is always fluid, never static, and in constant change and reform is an argument in its favor and a sign of the organic life that is in it.

* * *

This trinity of concepts is unique to the West. Russia, Asia and Africa have never produced a society which is a synthesis of the Christian ethic, free science and the rule of law. The Mahometan world does not know it. China, Japan and India do not know it. They know other things, but not these things.

The synthesis is the unique contribution of Europe, and only those areas of the earth settled, colonized, ruled and lived in by Europeans or the children of Europeans—the Americas, Australia, New Zealand, the Union of South Africa—belong to Western civilization.

These countries are ruled by one kind of spirit, the Western spirit, and inhabited by one kind of man, the Western man. We belong together, whether we like it or not. [illegible]

* * *

It is the world's greatest and most creative civilization, although it has not the most numerous population by any means. It has produced almost the whole of modern science and technology; it has made the greatest conquest of nature; it has liberated the human mind as it has never been liberated; it has created the most secure societies in all history; it has produced the highest standard of living—material and cultural—that mankind has ever known.

It is the only thing worth fighting for, worth dying for.

* * *

Against this unity Germany rebelled—for a thousand reasons, for which the whole civilization bears the guilt. But into that unity Germany must return.

For the gifts and power and genius of Germany are essential to that civilization. The West cannot live without her.

* * *

Long before the politicians woke up to the realization of the tragedy of the German secession—while the politicians were refusing to believe in the secession—the scholars, scientists, poets, artists, religious leaders and philosophers of law were aware—aware and dismayed.

The persecution of the Jews was not a crisis of Jewry. It was a crisis of Christianity, a declaration of war against the Christian ethic. The first to see its profound threat to one of the three pillars of Western civilization were German pastors and priests.

The universities of the West took up arms against Nazism before the states did—by a spontaneous and immediate realization that another pillar was tottering.

And the learned law-journals were awake while France and Britain slept.

The Allies did not bomb German cities because they are cities of Western civilization. This tragic war is being waged by men who love Ger-

it with profound inhibitions and fight it only because all means of communication between the rest of Europe and Germany have been closed for years by Adolf Hitler. This is the tragedy of this most tragic war—that communication among peoples has been suspended by the leaders of Germany. This is the reason for the seemingly futile bombing with pamphlets in a heartbreaking attempt at communication of Europeans with one another.

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Western civilization is, nevertheless, definable. It is the synthesis of three things: the Christian ethic; the scientific spirit; and the rule of law.

The essence of the Christian ethic is that the weak have rights as well as the strong and that the strong must set limitations upon their own power.

The essence of the scientific spirit is that the search for truth transcends the State and may not be limited or suppressed by the State. It presumes the separation of state and culture, i.e., the separation of culture from force.

The essence of the rule of law is that contract is superior to arbitrary force; it presumes a continuity of relationships, constantly being modified but of universal application at each moment, and from whose sovereignty no one is exempt, not the King, not the President, not the powerful, not the weak.

These are the standards of Western civilization, and it is no answer to say that the Christian ethic is not practiced, that science and literature are corrupted, or that the law is made by the powerful in their own interests and evaded when it is not. The perennial struggle of Western civilization, the continual revolution in Western civilization, is to achieve a more Christian, more scientific and juster society.

That adultery flourishes is no argument for the abolition of marriage. That capitalism has abused the institution of property is no ar-

never been liberated; it has created the most secure societies in all history; it has produced the highest standard of living—material and cultural—that mankind has ever known.

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The Allies did not bomb German cities because they are cities of Western civilization. This tragic war is being waged by men who love Germany. Is it not significant that the French propaganda ministry should be headed by Jean Giraudoux, the French writer who has used his pen most powerfully in behalf of the German cause in a moving effort to bring about the spiritual unity of Germany and France?

Is it not significant that everywhere in the world the enemies of Nazism are the friends of Germany? Find the journalists, the writers, the scientists, the economists who first took up their pens against the Versailles system, and you will find the enemies of Nazism.

For these were the men who most passionately cared for the unity of the West, who regarded the postwar situation as an affront against the West, who warned that rebellion was brewing in Germany against the West.

* * *

No, it is not a phony war. It is a terribly real war, in which the weapons are taken up reluctantly by men in whose hearts are fury and love; a war not to divide but reunite; a war that could better be waged and better be settled with words, but cannot be because communication is outlawed by the seceders.

The cry of Europe to Germany is, "Come back to us, be one of us, work with us for a new Europe. Come back, come back, come home!"

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On The Record

WASHINGTON POST

By Dorothy Thompson

OCT 13 1939

Europe Cries To Germany

WHEN George Bernard Shaw taunts the British government for having been unwilling to bomb Berlin on behalf of Poland, he presents a dilemma but contributes nothing to its solution.

It is not only the fear of reprisals that restrains the hands of the French and the British from a horror war. The same thing restrains them that prevented any pact with Russia which would give the Russian army carte blanche to march into Europe.

Every military consideration favored acceptance of the Russian terms by the Allies. But more than military considerations are at stake. For the object of this war is not to destroy Germany—which with the aid of Russia might not have been difficult—but to save Germany for western civilization against her own leadership.

This war, which Mr. Ford called a "phony" war, that perplexes so many minds, some of them in our Congress, is not perplexing at all to the average French poilu or to the simplest Englishman.

He knows that this is not a war to maintain the status quo of Versailles or British imperialism. If it was, he would not fight it. He knows that this is the great European civil war, the object of which is to determine what sort of Europe he is going to live in.

Germany Opened Europe To Asia

IT IS THE WAR of the European spirit against an alien spirit. And because it is this sort of war, the Allies fight it with profound inhibitions and fight it only because all means of communication between the rest of Europe and Germany have been closed for years by Adolf Hitler.

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Genius Of Germany Essential To West

AGAINST THIS unity Germany rebelled for a thousand reasons, for which the whole civilization bears the guilt. But into that unity Germany must return.

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Germany Wanted As Europe's Friend

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Christianity Says Weak Have Rights

THE ESSENCE of the Christian ethic is that the weak have rights as well as the strong and that the strong must set limitations upon their own power.

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That adultery flourishes is no argument for the abolition of marriage. That capitalism has abused the institution of property is no argument against private property; that western civilization is always fluid, never static, and in constant change and reform is an argument in its favor and a sign of the organic life that is in it.

Highest Civilization Reached In West

THIS TRINITY of concepts is unique to the west. Russia, Asia and Africa have never produced a society which is a synthesis of the Christian ethic, free science and the rule of law. The Mahometan world does not know it. China, Japan and India do not know it. They know other things, but not these things. [illegible]

The synthesis is the unique contribution of Europe, and only those areas of the earth settled, colonized, ruled and lived in by Europeans or the children of Europeans—the Americas, Australia, New Zealand, the Union of South Africa—belong to western civilization.

These countries are ruled by one kind of spirit, the western spirit, and inhabited by one kind of man, the western man. We belong together. We have one God, one science, one ethic, a common literature and a common concept of law.

It is the world's greatest and most creative civilization, although it has not the most numerous population by any means. It has produced almost the whole of modern science and technology;

PSF
Jerome Frank

October 13, 1939.

Highly Confidential memorandum to the Sec of the Treasury From the President--asking him to speak to him about the attached Highly Conf memo of October 4, 1939 from Jerome Frank. who states that he thinks it would seem unwise not to be prepared for the consequences to the economy of the U.S. of a peace in Europe in the near future. With that in mind he is having staff prepare a highly conf memo as to the possible effects on the security markets of such a peace together with suggestions for measures to be adopted insuch circumstances. Will send memo in next few days.

See:Henry Morgenthau folder-Drawer 1-1939

PSF.. Frank

October 13, 1939.

Memo to Jim Rowe from Jerome Frank re Giannini case--Transamerica Corp--attached is leter report on case--dated June 29, 1940.

See: Jerome Frank-Gen corres-Drawer 2-1940(July 1st memo from J. Rowe)

PSF
Jerome Frank
Memos

November 20, 1939

~~CONFIDENTIAL~~ MEMORANDUM FOR
SUMNER WELLES

The enclosed has just come from Jerome Frank. Will you be good enough to talk with him about it?

I think that on any matters involving new securities or investments in Latin America, SEC ought to be in on it.

F. D. R.

Copy to Jerome Frank.

fd

Enclosure

J. Frank for

~~CONFIDENTIAL~~ MEMORANDUM

enc -

November 16, 1939

TO: The President

FROM: Jerome N. Frank

The speech made by Sumner Welles yesterday before the Inter-American Financial and Economic Advisory Committee indicates that there may be developments in the near future which will involve investment in Latin America and dealings with Latin American governments that will directly impinge upon the activities of the SEC under the Securities Act. Not only do we have duties in that respect, but we also have considerable data obtained from registration statements and in connection with a study of defaulted foreign debts, a portion of which were published in an elaborate report (of more than 800 printed pages) in 1937. Inasmuch as developments may be rapid, it occurs to me that it may not be amiss to suggest that the SEC be represented on intergovernmental committees dealing with the Latin American situation. I have some reason to believe that Secretary Morgenthau would not be at all averse to such participation on our part.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

file personal

DEPARTMENT OF STATE
WASHINGTON

November 20, 1939

My dear Mr. President:

I am somewhat at a loss to know how to interpret the memorandum of November 16 sent you by Jerome Frank and enclosed with your memorandum to me of November 20.

As you know, upon the recommendation of Henry Morgenthau, you authorized the creation of a special committee composed of the Secretary of the Treasury, Jesse Jones and myself to determine the policy, subject to your approval, to be adopted with respect to requests received by this Government from the Governments of the other American Republics for credits.

As you will also remember, it was determined that one of the most important questions to be dealt with by this committee in this connection was the question of the debt defaults on the part of some of these governments. At the last meeting of the committee the Secretary of the Treasury requested Jerome Frank personally to take part in the discussions in connection with the

The President,

The White House.

subject of debt defaults. He was present at the meeting and it was requested by the Committee that the S.E.C. cooperate closely with the committee in all matters that had to do with that aspect of the financial problems of our neighbors. Mr. Frank expressed his willingness to cooperate in this way and has subsequently sent a memorandum to the members of the committee with regard to the attitude of the S.E.C. on the general problem.

As you will see from the above, insofar as the policy of our own Government with respect to the general question of Latin American financing is concerned, the S.E.C. has already been requested to cooperate with the committee.

In his memorandum to you, however, Mr. Frank suggests "that the S.E.C. be represented on the intergovernmental committee dealing with the Latin American situation", and adds that he has reason to believe that Secretary Morgenthau would not be at all averse to such participation on the part of the S.E.C.

Under the terms of the resolution unanimously adopted at Panama which created the Inter-American Economic and Financial Advisory Committee which is now in session in Washington, each government was requested to appoint one member upon the committee. I myself, as you know, am representing this Government on the committee. The course which I myself will follow with regard to the questions

that come up before the committee will be determined by the views of the special subcommittee created by the Executive Committee on Commercial Policy and upon which all of the interested departments and agencies of the Government are represented, namely, the Departments of State, Treasury, Commerce, Agriculture and Labor, the Tariff Commission, Maritime Commission and the Federal Loan Agency.

As you know, the questions to be dealt with by the Inter-American Advisory Committee in Washington are general problems arising from the desire of the American Republics to prevent the war situation from prejudicing normal inter-American trade, as well as those questions which involve the development of trade relations on this continent upon a sound basis.

The belief of the Secretary of the Treasury, Jesse Jones and myself has been that the logical interest and jurisdiction of the S.E.C. would be limited to new Latin American financing in the United States, as well as to the plans that might be worked out to deal with the question of debt defaults.

With regard to any representation of the S.E.C. on the intergovernmental committee, it would seem to me clearly out of the question. This Government is entitled to only one representative on the intergovernmental committee and I

am at present occupying that position. Moreover, if you were to appoint a representative of the S.E.C. to serve on the Inter-American Committee, all of the other departments and agencies which I have listed above would very naturally and with far greater reason ask for similar representation, and the representation of our Government on the Inter-American Committee would consequently amount to eight members, although the resolution which created the committee, as I have pointed out, only authorized each government to appoint one representative.

I shall of course talk with Jerome Frank about this matter personally since I am sure he is laboring under some misapprehension of the facts. I hope you will forgive this long exposition, but I wanted to lay the situation before you in full detail so that you would clearly see that the Secretary of the Treasury, Jesse Jones and I had already appreciated the need of having the S.E.C. cooperate with us on the question of Latin American debt defaults and that we were fully aware of the desirability of such cooperation, but that this Government can only legitimately have one representative on the Inter-American Committee, and, finally, that the matters to be taken up by the Inter-American Committee itself are not questions which affect problems under the jurisdiction

of the S.E.C.

Believe me

Faithfully yours,

PSF
Frank

THE WHITE HOUSE
MAR 4 2 33 PM '40
RECEIVED

file 1

~~CONFIDENTIAL~~ MEMORANDUM

March 2, 1940

TO: The President

FROM: Jerome N. Frank, Chairman
Securities and Exchange Commission

Mr. Chester Lane, our General Counsel, tells me that he and the general counsel of several other agencies feel strongly that Bob Jackson ought to be on your Civil Service Committee.

As I understand it, you appointed former Attorney General Murphy ex officio as a member, but he is apparently retaining his membership and Bob is a little squeamish about moving forward.

PSF Frank

March 6, 1940.

Dear Jerry:-

Thank you for your memoranda. I am, of course, delighted with the excellent way the Associated Gas matter has worked out. I only hope that Tommy and Peggy will not have to interrupt their honeymoon to appear before Mr. Justice Leibell.

Come and see me soon.

As ever yours,

Honorable Jerome N. Frank, Chairman,
Securities and Exchange Commission,
Washington, D. C.

~~CONFIDENTIAL~~ MEMORANDUM

March 5, 1940

TO: The President

FROM: Jerome N. Frank, Chairman
Securities and Exchange Commission

As I indicated in a previous memorandum, in your absence there was a good deal of fuss and feathers about the SEC becoming trustee of Associated Gas. As part of the res gestae, Henry Morgenthau, for divers reasons, wrote and published a letter to Senator Norris in which he described the situation somewhat inaccurately and gave the impression that we were somewhat derelict in the discharge of our duties to investors and consumers in advising Judge Leibell that we were unwilling to be named as trustee.

My visit to church the other morning helped me to meet the situation: It led to my sending Henry the attached letter which may amuse you. The letter had the intended effect of restoring amity between the Treasury and the SEC.

March 4, 1940

Personal

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury.

Dear Henry:

I have written you about four letters, all of which I have subsequently thrown into the waste-paper basket. They had to do with my peeve at the way you publicly panned the SEC in your letter to Senator Norris. However, several things have happened recently: I had a touch of flu and my physiological fever burned off my emotional high temperature. Then the court appointed some bang-up trustees. And finally, this morning at church I was much impressed by the prayer, "Deliver us from fretfulness and self-pity." I took that to heart and therefore am laughing at myself. Perhaps you and I can have lunch together sometime soon and laugh at one another.

Sincerely yours,

Jerome N. Frank
Chairman

File

~~CONFIDENTIAL~~ MEMORANDUM

THE WHITE HOUSE
MAR 4 2 32 PM '40
RECEIVED

Francis Alex

March 2, 1940

TO: The President

FROM: Jerome N. Frank, Chairman
Securities and Exchange Commission

As you probably have noticed from the press, Judge Leibell appointed Driscoll and Thorp as trustees for Associated Gas and Electric Corporation and Walter Pollak as trustee for Associated Gas and Electric Company.

Everybody is exceedingly pleased at these appointments. There was much travail on the subject while you were gone, but I thought it just as well not to bother you by sending any messages.

In the course of the activities there was need for much finessing and, as a result, Leon and I were accused, at one time, in effect, of selling out to Wall Street. I trust that you will not take that charge seriously.

file personal

Jerome Frank. Corcoran

AIDE-MEMOIRE

The Securities and Exchange Commission has been asked whether it would accept the trusteeship of Associated Gas and Electric Company if such trusteeship were tendered by the Court.

The Commission would be immensely aided in making its decision if it could be apprised whether in view of the policies and purposes laid down by Congress in the Public Utility Holding Company Act, the Court felt as the Commission feels, that in the selection of a trustee other than the Commission the following principles should be applied.

1.) There should be only one trustee - not multiple trustees.

2.) The trustee's compensation should be strictly limited and should not in any event exceed twice the amount of the salary of the judge in charge of the case.

3.) Attorneys' fees should be fixed so that the net income of the counsel retained should be no more than commensurate with the compensation allowed the trustee.

4.) No one who has been a member of the Commission or its staff should be eligible for trustee.

5.) No one who has engaged directly or indirectly in the utility business or in the underwriting or distribution of utility or holding company securities should be eligible as trustee.

6.) No one should be designated as trustee unless he enjoys the confidence of both the Court and the Commission.

Comments on more than one trustee

The Commission has been familiarizing itself with the details of the Associated Gas and Electric System for a number of years and has full information concerning the operation of the System. In the opinion of the Commission there is no need of burdening the estate - and depleting what at the best will be meager returns for holders of securities - through the expenses of more than one trustee.

With the consent of the Court a single competent and independent trustee can obtain and coordinate such technical aid as he may require in the performance of his duties.

Multiple trusteeships would create a division of responsibility and friction in administration which would be particularly dangerous in

matters where there is such sharp division of opinion as there is in the relationship of utility corporations to public regulation.

A single trustee can serve for both "the Company" and "the Corporation": where there is a conflict in interest special counsel can be named to handle any lawsuits between the two. Such a practice is already a matter of precedent in the Southern District of New York - a precedent worked out when it was the custom to appoint the Irving Trust Company receiver in nearly all cases.

Comment on the ineligibility for trusteeship

As the Commission has already ascertained by its own studies, the difficulties of this System do not lie in the physical operations of its properties, but in financial management.

Practically all interests in the utility business can perceive a particular advantage to themselves in the distressed situation of this huge holding company system. The operation of Section 11 of the Holding Company Act may require the System to divest itself of some operating properties, and the properties of the System are so widely scattered that

every other utility organization in the country could conceive of some part of the Associated System as a possible addition to itself.

The possible financial interrelationships are equally involved.

Under such circumstances the trustee should have had no connection directly or indirectly with any other utility interest, operating or financial, or with the underwriting or distributing of the securities of any utility operating or holding company.

No trustee with such connections - past or present - could be regarded as free from entangling alliances and sufficiently independent to command the confidence of the Court, of the Commission or of security-holders apprehensive that further unnecessary financial operations will add to losses already sustained from excessive financial operations of the past.

[Nor is the Commission willing to regard as eligible for the trusteeship one who has been a member of the Commission or its staff. Until the disinterested position of the Commission is more securely established in the public mind, the Commission does not wish to be under the suspicion, however unwarranted, that it has exercised its influence to turn patronage in the direction of its associates.]

The trustee is of course administering the estate under the responsible supervision of the Court itself.

But it is impossible to overestimate the importance to the Securities and Exchange Commission and to the administration of the Holding Company Act of the precedents established under this trusteeship.

The Associated Gas and Electric System is the holding company system which was obviously most in the minds of Congress in giving the Securities and Exchange Commission power to act as trustee.

It is the system which, under the prior management just failed, has come in conflict at probably more points than any other system with the policy of the federal Congress as expressed in the Holding Company Act.

It is a situation in which the necessity for reorganization has so long been expected and in which large losses to holders of securities have so long been expected that wastage of assets and administrative friction between the Commission and the trustee will immediately draw down watchful criticism of the most violent kind.

There is further significance in the fact that this is the first large holding company system to become subject to the provisions

of the Holding Company Act relating to companies in reorganization. The management of the trustee will be a test of the practical feasibility of the plan of cooperation between the courts and administrative bodies provided in the Act for the extensive rearrangement of the financial structures and operating company relationships contemplated under Section 11 and the financial plan under which this System is reorganized will affect the possible form of reorganization of all other holding company systems subject to Section 11.

file

PSF: Frank, J.

CONFIDENTIAL MEMORANDUM

THE WHITE HOUSE
MAR 8 8 57 AM '40
RECEIVED

March 7, 1940

TO: The President

FROM: Jerome N. Frank, Chairman
Securities and Exchange Commission

At lunch today I told you of a letter written by Judge Healy to the Wall Street Journal concerning integration of holding companies. Attached is a copy of that letter.

CONFIDENTIAL RECEIVED

LETTERS TO THE EDITOR

SECTION 11 OF THE UTILITIES ACT

The following letter from Robert E. Healy, Commissioner of the Securities and Exchange Commission, was written as a personal communication and not for publication. Because it discusses a situation which is very much in the public eye and because it is such an excellent statement of the viewpoint it advocates, we sought and obtained from Judge Healy permission to publish the letter.

- - - - -

Editor, The Wall Street Journal:

I am expressing disagreement with your editorial in the January 31 issue of The Wall Street Journal concerning Section 11 of the Holding Company Act. According to my dim lights it misconceives the purpose of Section 11 and the nature of the public utility industry.

The Public Utility Holding Company Act was adopted as a result of the widespread abuses which were disclosed by the Federal Trade Commission's investigation of utility holding companies. Because of these abuses Congress decided, and correctly so, in my opinion, that large holding systems could not be regulated adequately by the States and subjected them to Federal regulation.

So far as the particular provisions of Section 11 are concerned, Congress concluded that far-flung disjointed utility systems could not be efficiently operated in such a way as adequately to serve the public or investors. So far as service is concerned, I can tell you of several operating companies which can not sensibly or fairly issue any more bonds or preferred stock, which are in dire need of generating facilities, which should and can finance only through common stock, yet the common stock is all held by a holding company which is unable to subscribe for additional common stock. It can't do it and it won't let anyone else do it. This is just playing dog in the manger. This situation is not due to the Act. Many of these companies were developed by unsound and even dishonest means and their present huge arrearages of preferred dividends, which impede their own financing, are the fault of their own congenital defects. From the investor's point of view practically every company (I except the North American and perhaps one or two others) which indulged in scatteration, has gone through bankruptcy, is going through bankruptcy or will have to go through bankruptcy or some form of reorganization.

Congress itself laid down the standards of what constitutes an "integrated public utility system." Such a system, where composed of electric properties, must be one physically interconnected or capable of physical interconnection, and one which, under normal conditions, may be economically operated as a single interconnected and coordinated system, confined in its operations to a single area or region, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation. Similar criteria are established for gas utility systems. Under certain conditions a holding company is permitted to retain more than one integrated public utility system. The Commission [Securities and Exchange Commission] is obligated to grant such permission where additional systems cannot be economically operated independently, where they are located in the same state or in adjoining states, and where the continued combination of such systems is not unduly large within the standards of the statute. This is not discretionary with us. It is a rule of law.

Under the machinery set forth in the statute for enforcing Section 11, holding companies may file simplification plans voluntarily or they may await action by the Commission. Under either procedure, however, the requirements of the law are the same, and whichever procedure is followed the Commission must approve a plan where it conforms to the statutory requirements.

Such proceedings, whether initiated by voluntary application pursuant to Section 11 (e) or by the Commission, are not concerned initially with integration plans for the regrouping of public utility properties. The principal question is how many integrated systems can one holding company own. That issue has to be determined according to standards of law. That is the main purpose of proceedings either under Section 11 (b) or 11 (e). Our decision is subject to review in the Courts. Before compliance may be enforced by court proceedings, however, the company is permitted at least one or, if conditions warrant, two years to carry out the requirements of the statute after the Commission has made its order. During that period, or prior to it, the holding company, perhaps along with other companies in the industry, can work out its plans for readjusting its system appropriately. When you stop to think of it this national concern as to how many integrated systems one holding company should own is not much different in essence from the concern which caused the Republicans, under Benjamin Harrison, to pass the Sherman Act in 1890, and the Democrats, under Woodrow Wilson, to pass Section 7 of the Clayton Act in 1914. The tests by which it must be decided how many integrated systems one holding company can own are described in the Act much as I have described them here. They seem to be very practical and sensible, and also very fair considering the public interest in these "public service" companies and the injury which many holding companies have inflicted on both the public consumer and investor.

I can not agree with you that the entire idea of Section 11 is "fantastic." On the basis of the Federal Trade Commission's thorough investigation of public utility holding companies, Congress found that the growth and extension of holding companies frequently had no relation to economy of management and operation or the integration and coordination of related operating properties. The investigation also showed that unregulated development of holding companies had resulted in an undue concentration of control in the electric and gas utility industries. In the words of the National Power Policy Committee, "such intensification of economic power beyond the point of proved economies not only is susceptible of grave abuse but is a form of private socialism inimical to the functioning of democratic institutions and the welfare of a free people."

You suggest that Section 11 attempts to interfere with the judgment of corporate management in matters "of private interest." I believe that in this statement you have overlooked the fact that public utilities and the holding companies which control them are clearly affected with a public interest. Certainly the Government should have the right to say something as to the direction of growth of national utility systems made up of corporations which are said to be devoted to the public service, which occupy public streets, highways, and dam interstate and international rivers, usually without paying for the privilege, which, through delegation to them of a portion of the state's sovereignty, are permitted to condemn private property, which are generally given by the Government vested monopolies in large areas, and which owe their very existence to the indulgence of the government. For these extraordinary privileges the companies should have returned the best of service and because of them should have been the most stable of investments. Instead of which they were made in too many instances the tools of the wildest and most unreliable financial adventurers.

ROBT. E. HEALY,
Commissioner.

Washington, February 17, 1940.

PSF Frank

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

File personal

THE WHITE HOUSE
MAR 10 12 13 PM '40
RECEIVED

March 9, 1940

~~Confidential~~

The President
The White House

My dear Mr. President:

You may be amused by the attached letter I sent to Peggy and Tommy, particularly the enclosure, and especially the last few paragraphs thereof.

Very respectfully yours,

Jerome

Jerome N. Frank

Enclosures 2.

March 8, 1940

Mr. and Mrs. Thomas G. Corcoran
Gray Rocks Inn
St. Jovite
Province of Quebec
Canada

Dear Children:

Of course you know how delighted I am.

Yours with love,

Jerome N. Frank
Chairman

P. S. It occurs to me that you may be interested in the enclosed O. Henry story.

JNFrank:PJD

THE ROMANCE OF A BUSY BROKER

By O. Henry

Pitcher, confidential clerk in the office of Harvey Maxwell, broker, allowed a look of mild interest and surprise to visit his usually expressionless countenance when his employer briskly entered at half-past nine in company with his young lady stenographer. With a snappy "Good-morning, Pitcher," Maxwell dashed at his desk as though he were intending to leap over it, and then plunged into the great heap of letters and telegrams waiting there for him.

The young lady had been Maxwell's stenographer for a year. She was beautiful in a way that was decidely unstenographic. She forewent the pomp of the alluring pompadour. She wore no chains, bracelets, or lockets. She had not the air of being about to accept an invitation to luncheon. Her dress was gray and plain, but it fitted her figure with fidelity and discretion. In her neat black turban hat was the gold-green wing of a macaw. On this morning she was softly and shyly radiant. Her eyes were dreamily bright, her cheeks genuine peach-blow, her expression a happy one, tinged with reminiscence.

Pitcher, still mildly curious, noticed a difference in her ways this morning. Instead of going straight into the adjoining room, where her desk was, she lingered, slightly irresolute, in the outer office. Once she moved over by Maxwell's desk, near enough for him to be aware of her presence.

The machine sitting at that desk was no longer a man; it was a busy New York broker, moved by buzzing wheels and uncoiling springs.

"Well--what is it? Anything?" asked Maxwell, sharply. His opened mail lay like a bank of stage snow on his crowded desk. His keen gray eye, impersonal and brusque, flashed upon her half impatiently.

"Nothing," answered the stenographer, moving away with a little smile.

"Mr. Pitcher," she said to the confidential clerk,

"did Mr. Maxwell say anything yesterday about engaging another stenographer?"

"He did," answered Pitcher. "He told me to get another one. I notified the agency yesterday afternoon to send over a few samples this morning. It's 9.45 o'clock, and not a single picture hat or piece of pineapple chewing gum has showed up yet."

"I will do the work as usual, then," said the young lady, "until some one comes to fill the place." And she went to her desk at once and hung the black turban hat with the gold-green macaw wing in its accustomed place.

He who has been denied the spectacle of a busy Manhattan broker during a rush of business is handicapped for the profession of anthropology. The poet sings of the "crowded hour of glorious life." The broker's hour is not only crowded, but the minutes and seconds are hanging to all the straps and packing both front and rear platforms.

And this day was Harvey Maxwell's busy day. The ticker began to reel out jerkily its fitful coils of tape, the desk telephone had a chronic attack of buzzing. Men began to throng into the office and call at him over the railing, jovially, sharply, viciously, excitedly. Messenger boys ran in and out with messages and telegrams. The clerks in the office jumped about like sailors during a storm. Even Pitcher's face relaxed into something resembling animation.

On the Exchange there were hurricanes and landslides and snowstorms and glaciers and volcanoes, and those elemental disturbances were reproduced in miniature in the broker's offices. Maxwell shoved his chair against the wall and transacted business after the manner of a toe dancer. He jumped from ticker to 'phone, from desk to door with the trained agility of a harlequin.

In the midst of this growing and important stress the broker became suddenly aware of a high-rolled fringe of golden hair under a nodding canopy of velvet and ostrich tips, an imitation sealskin sacque and a string of beads as large as hickory nuts, ending near the floor with a silver heart. There was a self-possessed young lady connected with these accessories; and Pitcher was there to construe her.

"Lady from the Stenographer's Agency to see about the position," said Pitcher.

Maxwell turned half around, with his hands full of papers and ticker tape.

"What position?" he asked, with a frown.

"Position of stenographer," said Pitcher. "You told me yesterday to call them up and have one sent over this morning."

"You are losing your mind, Pitcher," said Maxwell. "Why should I have given you any such instructions? Miss Leslie has given perfect satisfaction during the year she has been here. The place is hers as long as she chooses to retain it. There's no place open here, madam. Countermand that order with the agency, Pitcher, and don't bring any more of 'em in here."

The silver heart left the office, swinging and banging itself independently against the office furniture as it indignantly departed. Pitcher seized a moment to remark to the bookkeeper that the "old man" seemed to get more absent-minded and forgetful every day of the world.

The rush and pace of business grew fiercer and faster. On the floor they were pounding half a dozen stocks in which Maxwell's customers were heavy investors. Orders to buy and sell were coming and going as swift as the flight of swallows. Some of his own holdings were imperilled, and the man was working like some high-geared, delicate, strong machine--strung to full tension, going at full speed, accurate, never hesitating, with the proper word and decision and act ready and prompt as clockwork. Stocks and bonds, loans and mortgages, margins and securities--here was a world of finance, and there was no room in it for the human world or the world of nature.

When the luncheon hour drew near there came a slight lull in the uproar.

Maxwell stood by his desk with his hands full of telegrams and memoranda, with a fountain pen over his right ear and his hair hanging in disorderly strings over his forehead. His window was open, for the beloved janitress Spring

had turned on a little warmth through the waking registers of the earth.

And through the window came a wandering--perhaps a lost--odor--a delicate, sweet odor of lilac that fixed the broker for a moment immovable. For this odor belonged to Miss Leslie; it was her own, and hers only.

The odor brought her vividly, almost tangibly before him. The world of finance dwindled suddenly to a speck. And she was in the next room--twenty steps away.

"By George, I'll do it now," said Maxwell, half aloud. "I'll ask her now. I wonder I didn't do it long ago."

He dashed into the inner office with the haste of a short trying to cover. He charged upon the desk of the stenographer.

She looked up at him with a smile. A soft pink crept over her cheek, and her eyes were kind and frank. Maxwell leaned one elbow on her desk. He still clutched fluttering papers with both hands and the pen was above his ear.

"Miss Leslie," he began, hurriedly, "I have but a moment to spare. I want to say something in that moment. Will you be my wife? I haven't had time to make love to you in the ordinary way, but I really do love you. Talk quick, please--those fellows are clubbing the stuffing out of Union Pacific."

"Oh, what are you talking about?" exclaimed the young lady. She rose to her feet and gazed upon him, round-eyed.

"Don't you understand?" said Maxwell, restively. "I want you to marry me. I love you, Miss Leslie. I wanted to tell you, and I snatched a minute when things had slackened up a bit. They're calling me for the 'phone now. Tell 'em to wait a minute, Pitcher. Won't you, Miss Leslie?"

The stenographer acted very queerly. At first she seemed overcome with amazement; then tears flowed from her wondering eyes; and then she smiled sunnily through them, and

one of her arms slid tenderly about the broker's neck.

"I know now," she said, softly. "It's this old business that has driven everything else out of your head for the time. I was frightened at first. Don't you remember, Harvey? We were married last evening at 8 o'clock in the Little Church around the Corner."

file personal

PSF: Frank Jer

CONFIDENTIAL MEMORANDUM

May 6, 1940

TO: The President

FROM: Jerome N. Frank, Chairman
Securities and Exchange Commission

In the light of comments in the press that the Republican platform may imply that the New Deal has condoned political corruption, I call your attention to the fact that today we issued orders relating to the North American Company and its subsidiary, Union Electric Company of Missouri. There, on the basis of data collected in an investigation, we order public hearings to be held to determine, inter alia, whether or not that subsidiary has been expending funds in connection with the candidacy, nomination or election of various persons in public office and in support of political parties, etc. in Missouri.

The dominant political party in Missouri has, of course, been the Democratic Party. This doesn't look as if the Democratic members of the SEC were trying to cover up dirty politics in their own party.

Attached are copies of our orders.

For IMMEDIATE Release Monday, May 6, 1940

SECURITIES AND EXCHANGE COMMISSION
Washington

SECURITIES ACT OF 1933
Release No. 2252

UNITED STATES OF AMERICA
BEFORE THE SECURITIES AND EXCHANGE COMMISSION

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D. C., on the 6th day of May, A.D., 1940.

In the Matter of THE NORTH AMERICAN COMPANY and UNION ELECTRIC COMPANY OF MISSOURI Proceeding pursuant to Sections 8(e) and 20(a) of the Securities Act of 1933, as amended.	ORDER INSTITUTING PROCEEDING AND DESIGNATING OFFICER TO TAKE TESTIMONY

I

The Commission's public official files disclose that:

(a) The North American Company, at various times, filed with the Commission, pursuant to the Securities Act of 1933, as amended, registration statements and amendments thereto, with respect to the securities hereinafter enumerated:

Title of Issue and Effective Registration Date	*Amount*
Common Stock, $10 par value (November 30, 1938)	375,000 shs.
Preferred Stock, 5 3/4% Series, $50 par value, entitled to cumulative dividends (January 20, 1939)	896,580 shs.
3 1/2% Debentures, Series due 1949 - due February 1, 1949 (January 20, 1939)	$20,000,000
3 3/4% Debentures, Series due 1954 - due February 1, 1954 (January 20, 1939)	$25,000,000
4% Debentures, Series due 1959 - due February 1, 1959 (January 20, 1939)	$25,000,000

(b) Union Electric Company of Missouri, at various times, filed with the Commission, pursuant to the Securities Act of 1933, as amended, registration statements and amendments thereto, with respect to the securities hereinafter enumerated:

Title of Issue and Effective Registration Date	*Amount*
$5 Preferred Stock, without par value, entitled to cumulative dividends (November 27, 1938)	130,000 shs.
3% Notes due 1942, due July 1, 1942 (June 28, 1937)	$15,000,000
First Mortgage and Collateral Trust Bonds, 3 3/4% Series due 1962 - due July 1, 1962 (June 28, 1937)	$80,000,000

II

It appears that:

(a) Said registration statements and amendments thereto filed with the Commission by The North American Company contain information as to the history, business, capital structure, management, operations, and financial condition of said company and its subsidiary companies, including St. Louis County Gas Company and Union Electric Company of Missouri and its subsidiary companies, which information is based, in part, upon books, records and accounts made and kept by St. Louis County Gas Company and by Union Electric Company of Missouri and by its subsidiary companies; and

(b) Said registration statements and amendments thereto filed with the Commission by Union Electric Company of Missouri contain information as to the history, business, capital structure, management, operations, and financial condition of said company and its subsidiary companies, which information is based, in part, upon books, records and accounts made and kept by Union Electric Company of Missouri and by its subsidiary companies; and

III

The Commission obtained information from various sources as to the existence of certain conditions and practices with respect to St. Louis County Gas Company and Union Electric Company of Missouri and its subsidiary companies, and on the basis thereof issued an order on November 9, 1938, instituting an investigation into such conditions and practices, which investigation has been conducted under said order and succeeding orders issued by the Commission, including an order for investigation issued June 7, 1939, pursuant to the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Public Utility Holding Company Act of 1935; and

IV

Herbert S. French, Paul J. Cotter, and Harry C. Coles, Jr., have reported to the Commission evidence obtained in said investigation tending

to show that for a long period of time conditions and practices of the character below enumerated may have existed with respect to St. Louis County Gas Company, Union Electric Company of Missouri, its subsidiary companies and their predecessor companies, and in view of said report it appears to the Commission to be necessary and appropriate in the public interest to determine whether:

(a) Substantial sums have been disbursed by said companies to certain of the officers, attorneys and employees thereof, purportedly for designated expenses incurred by such persons, when in fact such alleged expenses were not incurred by such persons and the sums received by such persons were used for other purposes; such transactions are not properly reflected on the books, records and accounts of said companies; and

(b) Substantial sums have been disbursed by said companies to certain attorneys, insurance agencies, contractors, supply houses and others, purportedly in payment for designated goods, materials or services supplied, when in fact said sums were not disbursed in payment of the goods, materials and services designated, and the sums received by such persons were used for other purposes; such transactions are not properly reflected on the books, records and accounts of said companies; and

(c) Substantial sums have been received by said companies from officers, attorneys, and employees thereof, and from insurance agencies, contractors, supply houses and others, the receipts of which are not properly reflected on the books, records and accounts of said companies; and

(d) Substantial contributions have been made, directly and indirectly, by and on behalf of said companies in connection with the candidacy, nomination, election and appointment of various persons to public office, and in support of political parties, and of committees and agencies thereof; such contributions are not properly reflected on the books, records and accounts of said companies; and

(e) Substantial payments have been made, directly and indirectly, by and on behalf of said companies, for the purpose of influencing the opinions and conduct of persons holding public office; such payments are not properly reflected on the books, records and accounts of said companies; and

(f) Substantial sums have been disbursed by said companies, not in the ordinary course of business, for the personal uses of certain officers and employees thereof, for gifts to and entertainment of persons holding public office and others, and for the employment of detective agencies, so-called inspection services, audit companies, engineering companies and others; such disbursements are not properly reflected on the books, records and accounts of said companies;

V

IT IS ORDERED, pursuant to Sections 8 (e) and 20 (a) of the Securities Act of 1933, as amended, that a proceeding be conducted to ascertain whether the conditions and practices above referred to exist or have existed, for the following purposes:

(a) To determine whether said registration statements, or any of them, include untrue statements of material facts or omit to state any material facts required to be stated therein or necessary to make the statements therein not misleading; and

(b) To determine whether any provisions of said Act, or of any rule or regulation prescribed under authority thereof, have been or are about to be violated; and

IT IS FURTHER ORDERED that for the purpose of said proceeding Edward C. Johnson, an officer of the Commission, is hereby designated to administer oaths and affirmations, subpena witnesses, take evidence, require the production of any books, papers, or other documents deemed relevant or material to the inquiry, and to perform all other duties in connection therewith authorized by law; and

IT IS FURTHER ORDERED that in conducting said proceeding said Edward C. Johnson shall afford The North American Company and Union Electric Company of Missouri and any other persons showing a legitimate interest in this proceeding the right to cross-examine witnesses summoned by counsel for the Commission and to produce evidence relevant or material to the inquiry, and for this purpose paragraphs (f), (g), and (h) of Rule V of the Commission's Rules of Practice shall be applicable to the proceeding; and

IT IS FURTHER ORDERED that said proceeding for the taking of testimony and the production of evidence begin at the office of the Securities and Exchange Commission, 1778 Pennsylvania Avenue, N.W., Washington, D. C., at such time, not less than twenty days after the date hereof, as said Edward C. Johnson shall designate by not less than ten days' notice by confirmed telegram to The North American Company and Union Electric Company of Missouri, and shall continue thereafter at such times and places in Washington, D. C., or elsewhere as said Edward C. Johnson may determine; and

IT IS FURTHER ORDERED that a copy of this order be served on The North American Company and Union Electric Company of Missouri, personally or by registered mail.

By the Commission.

Francis P. Brassor,
Secretary.

(SEAL)

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For IMMEDIATE Release Monday, May 8, 1940

SECURITIES AND EXCHANGE COMMISSION
Washington

SECURITIES EXCHANGE ACT OF 1934
Release No. 2505

UNITED STATES OF AMERICA
BEFORE THE SECURITIES AND EXCHANGE COMMISSION

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D. C., on the 6th day of May, A.D., 1940.

In the Matter of THE NORTH AMERICAN COMPANY and UNION ELECTRIC COMPANY OF MISSOURI Proceeding pursuant to Section 21 (a) of the Securities Exchange Act of 1934, as amended.	ORDER INSTITUTING PROCEEDING AND DESIGNATING OFFICER TO TAKE TESTIMONY

I

The Commission's public official files disclose that:

(a) The North American Company, at various times, issued the securities hereinafter enumerated, and registered such securities on the New York Stock Exchange, a national securities exchange, pursuant to the provisions of the Securities Exchange Act of 1934, as amended:

Common Stock, $10 par value	8,602,887 shs.
Preferred Stock, 5-3/4% Series, $50 par value	696,580 shs.
Preferred Stock, 6% Series, $50 par value	606,678 shs.
3-1/2% Debentures, Series Due 1949 - due February 1, 1949	$20,000,000
3-3/4% Debentures, Series Due 1954 - due February 1, 1954	$25,000,000
4% Debentures, Series Due 1959 - due February 1, 1959	$25,000,000
5% Debentures due 1961 - due February 1, 1961 (removed from registration and redeemed)	$25,000,000

Said company filed with the Commission in registering the foregoing securities on said exchange various applications for registration and amendments thereto, supplemental reports and other documents, pursuant to the provisions of Sections 12 (b), 12 (c), and 13 of said Act, as amended, and the rules and regulations prescribed by the Commission thereunder; and

(b) Union Electric Company of Missouri, at various times, issued the securities hereinafter enumerated, and registered such securities on the New York Stock Exchange, a national securities exchange, pursuant to the provisions of the Securities Exchange Act of 1934, as amended:

$5 Preferred Stock, without par value	130,000 shs.
First Mortgage and Collateral Trust Bonds, 3-3/4% Series due 1962 - due July 1, 1962	$80,000,000
General Mortgage Bonds, 5% Series due 1957 - due April 1, 1957 (removed from registration and redeemed)	$22,500,000

Said company filed with the Commission in registering the foregoing securities on said exchange various applications for registration and amendments thereto, supplemental reports and other documents, pursuant to the provisions of Sections 12 (b), 12 (c), and 13 of said Act, as amended, and the rules and regulations prescribed by the Commission thereunder; and

II

It appears that:

(a) Said applications for registration and amendments thereto, and said supplemental reports and documents filed with the Commission by The North American Company contain information as to the history, business, capital structure, management, operations, and financial condition of said company and its subsidiary companies, including St. Louis County Gas Company and Union Electric Company of Missouri and its subsidiary companies, which information is based, in part, upon books, records and accounts made and kept by St. Louis County Gas Company and by Union Electric Company of Missouri and its subsidiary companies; and

(b) Said applications for registration and amendments thereto, and said supplemental reports and documents, filed with the Commission by Union Electric Company of Missouri contain information as to the history, business, capital structure, management, operations, and financial condition of said company and its subsidiary companies, which information is based, in part, upon books, records and accounts made and kept by Union Electric Company of Missouri and by its subsidiary companies; and

III

The Commission obtained information from various sources as to the existence of certain conditions and practices with respect to St. Louis County Gas Company and Union Electric Company of Missouri and its subsidiary companies, and on the basis thereof issued an order on November 9, 1938, instituting an investigation into such conditions and practices, which investigation has been conducted under said order and succeeding orders issued by the Commission, including an order for investigation issued June 7, 1939, pursuant to the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Public Utility Holding Company Act of 1935; and

IV

Herbert S. French, Paul J. Cotter, and Harry C. Coles, Jr., have reported to the Commission evidence obtained in said investigation tending to show that for a long period of time conditions and practices of the character below enumerated may have existed with respect to St. Louis County Gas Company, Union Electric Company of Missouri, its subsidiary companies and their predecessor companies, and in view of said report it appears to the Commission to be necessary and appropriate in the public interest to determine whether:

(a) Substantial sums have been disbursed by said companies to certain of the officers, attorneys and employees thereof, purportedly for designated expenses incurred by such persons, when in fact such alleged expenses were not incurred by such persons and the sums received by such persons were used for other purposes; such transactions are not properly reflected on the books, records and accounts of said companies; and

(b) Substantial sums have been disbursed by said companies to certain attorneys, insurance agencies, contractors, supply houses and others, purportedly in payment for designated goods, materials or services supplied, when in fact said sums were not disbursed in payment of the goods, materials and services designated, and the sums received by such persons were used for other purposes; such transactions are not properly reflected on the books, records and accounts of said companies; and

(c) Substantial sums have been received by said companies from officers, attorneys, and employees thereof, and from insurance agencies, contractors, supply houses and others, the receipts of which are not properly reflected on the books, records and accounts of said companies; and

(d) Substantial contributions have been made, directly and indirectly, by and on behalf of said companies in connection with the candidacy, nomination, election and appointment of various persons to public office, and in support of political parties, and of committees and agencies thereof; such contributions are not properly reflected on the books, records and accounts of said companies; and

(e) Substantial payments have been made, directly and indirectly, by and on behalf of said companies, for the purpose of influencing the opinions and conduct of persons holding public office; such payments are not properly reflected on the books, records and accounts of said companies; and

(f) Substantial sums have been disbursed by said companies, not in the ordinary course of business, for the personal uses of certain officers and employees thereof, for gifts to and entertainment of persons holding public office and others, and for the employment of detective agencies, so-called inspection services, audit companies, engineering companies and others; such disbursements are not properly reflected on the books, records and accounts of said companies.

V

IT IS ORDERED, pursuant to Section 21(a) of the Securities Exchange Act of 1934, as amended, that a proceeding be conducted to ascertain whether the conditions and practices above referred to exist or have existed, for the following purposes:

(a) To determine whether any person has violated or is about to violate any provision of said Act or any rule or regulation thereunder; and

(b) To aid in the enforcement of the provisions of said Act, in the prescribing of rules and regulations thereunder, and in securing information to serve as a basis for recommending further legislation concerning the matters to which said Act relates; and

IT IS FURTHER ORDERED, pursuant to Section 21(b) of the Securities Exchange Act of 1934, as amended that for the purpose of said proceeding Edward C. Johnson, an officer of the Commission, is hereby designated to administer oaths and affirmations, subpena witnesses, compel their attendance, take evidence, require the production of any books, papers, correspondence, memoranda, or other records deemed relevant or material to the inquiry, and to perform all other duties in connection therewith authorized by law; and

IT IS FURTHER ORDERED that in conducting said proceeding said Edward C. Johnson shall afford The North American Company and Union Electric Company of Missouri and any other persons showing a legitimate interest in this proceeding the right to cross-examine witnesses summoned by counsel for the Commission and to produce evidence relevant or material to the inquiry, and for this purpose paragraphs (f), (g), and (h) of Rule V of the Commission's Rules of Practice shall be applicable to the proceeding; and

IT IS FURTHER ORDERED that said proceeding for the taking of testimony and the production of evidence begin at the office of the Securities and Exchange Commission, 1778 Pennsylvania Avenue, N.W., Washington, D.C., at such time, not less than twenty days after the date hereof, as said Edward C. Johnson shall designate by not less than ten days' notice by confirmed telegram to The North American Company and Union Electric Company of Missouri, and shall continue thereafter at such times and places in Washington, D.C., or elsewhere as said Edward C. Johnson may determine; and

IT IS FURTHER ORDERED that a copy of this order be served on The North American Company and Union Electric Company of Missouri, personally or by registered mail.

By the Commission.

Francis P. Brassor,
Secretary.

(SEAL)

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For IMMEDIATE Release Monday, May 6, 1940

SECURITIES AND EXCHANGE COMMISSION
Washington

HOLDING COMPANY ACT
Release No. 2045

UNITED STATES OF AMERICA
BEFORE THE SECURITIES AND EXCHANGE COMMISSION

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D. C., on the 6th day of May, A. D., 1940.

In the Matter of THE NORTH AMERICAN COMPANY and UNION ELECTRIC COMPANY OF MISSOURI Proceeding pursuant to Section 18 (a) of the Public Utility Holding Company Act of 1935	ORDER INSTITUTING PROCEEDING AND DESIGNATING OFFICER TO TAKE TESTIMONY

I

The Commission's public official files disclose that:

(a) Within the meaning of the Public Utility Holding Company Act of 1935: The North American Company is a holding company; North American Edison Company was, until dissolved on February 8, 1939, a holding company and a subsidiary company of The North American Company; Union Electric Company of Missouri is a holding company and is itself a subsidiary company of The North American Company, and was, until February 8, 1939, a subsidiary company of North American Edison Company; St. Louis County Gas Company is a subsidiary company of The North American Company and an associate company of Union Electric Company of Missouri; and

(b) The North American Company, North American Edison Company and Union Electric Company of Missouri registered as holding companies and filed registration statements, pursuant to Section 5 of the Public Utility Holding Company Act of 1935 and the rules and regulations prescribed by the Commission thereunder; The North American Company and North American Edison Company filed supplements to their registration statements, pursuant to Section 14 of said Act and the rules and regulations prescribed by the Commission thereunder; and all of said companies, at various times, filed with the Commission applications, declarations, reports and other documents pursuant to various sections of said Act and the rules and regulations prescribed by the Commission thereunder; and

II

It appears that:

(a) Said registration statements and supplements thereto and said applications, declarations, reports and documents filed with the Commission by The North American Company and by North American Edison Company contain information as to the history, business, capital structure, management, operations, and financial condition of said companies and their subsidiary companies, including St. Louis County Gas Company and Union Electric Company of Missouri and its subsidiary companies, which information is based, in part, upon books, records and accounts made and kept by St. Louis County Gas Company and by Union Electric Company of Missouri and by its subsidiary companies; and

(b) Said registration statement and said applications, declarations, reports and documents filed with the Commission by Union Electric Company of Missouri contain information as to the history, business, capital structure, management, operations, and financial condition of said company and its subsidiary companies, which information is based, in part, upon books, records and accounts made and kept by Union Electric Company of Missouri and by its subsidiary companies; and

III

The Commission obtained information from various sources as to the existence of certain conditions and practices with respect to St. Louis County Gas Company and Union Electric Company of Missouri and its subsidiary companies, and on the basis thereof issued an order on November 9, 1938, instituting an investigation into such conditions and practices, which investigation has been conducted under said order and succeeding orders issued by the Commission, including an order for investigation issued June 7, 1939, pursuant to the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Public Utility Holding Company Act of 1935; and

IV

Herbert S. French, Paul J. Cotter, and Harry C. Coles, Jr., have reported to the Commission evidence obtained in said investigation tending to show that for a long period of time conditions and practices of the character below enumerated may have existed with respect to St. Louis County Gas Company, Union Electric Company of Missouri, its subsidiary companies and their predecessor companies, and in view of said report it appears to the Commission to be necessary and appropriate in the public interest to determine whether:

(a) Substantial sums have been disbursed by said companies to certain of the officers, attorneys and employees thereof, purportedly for designated expenses incurred by such persons, when in fact such alleged expenses were not incurred by such persons and the sums received by such persons were used for other purposes; such transactions are not properly reflected on the books, records and accounts of said companies; and

(b) Substantial sums have been disbursed by said companies to certain attorneys, insurance agencies, contractors, supply houses and others, purportedly in payment for designated goods, materials or services supplied, when in fact said sums were not disbursed in payment of the goods, materials and services designated, and the sums received by such persons were used for other purposes; such transactions are not properly reflected on the books, records and accounts of said companies; and

(c) Substantial sums have been received by said companies from officers, attorneys, and employees thereof, and from insurance agencies, contractors, supply houses and others, the receipts of which are not properly reflected on the books, records and accounts of said companies; and

(d) Substantial contributions have been made, directly and indirectly, by and on behalf of said companies in connection with the candidacy, nomination, election and appointment of various persons to public office, and in support of political parties, and of committees and agencies thereof; such contributions are not properly reflected on the books, records and accounts of said companies; and

(e) Substantial payments have been made, directly and indirectly, by and on behalf of said companies, for the purpose of influencing the opinions and conduct of persons holding public office; such payments are not properly reflected on the books, records and accounts of said companies; and

(f) Substantial sums have been disbursed by said companies, not in the ordinary course of business, for the personal uses of certain officers and employees thereof, for gifts to and entertainment of persons holding public office and others, and for the employment of detective agencies, so-called inspection services, audit companies, engineering companies and others; such disbursements are not properly reflected on the books, records and accounts of said companies.

V

IT IS ORDERED, pursuant to Section 18 (a) of the Public Utility Holding Company Act of 1935, that a proceeding be conducted to ascertain whether the conditions and practices above referred to exist or have existed, for the following purposes:

(a) To determine whether any person has violated or is about to violate any provision of said Act or any rule or regulation thereunder; and

(b) To aid in the enforcement of the provisions of said Act, in the prescribing of rules and regulations thereunder, and in obtaining information to serve as a basis for recommending further legislation concerning the matters to which said Act relates;

IT IS FURTHER ORDERED, pursuant to Section 18 (c) of the Public Utility Holding Company Act of 1935, that for the purpose of said proceeding Edward C. Johnson, an officer of the Commission, is hereby designated to administer

oaths and affirmations, subpena witnesses, compel their attendance, take evidence, require the production of any books, papers, correspondence, memoranda, contracts, agreements, or other records, deemed relevant or material to the inquiry, and to perform all other duties in connection therewith authorized by law;

IT IS FURTHER ORDERED that in conducting said proceeding said Edward C. Johnson shall afford The North American Company and Union Electric Company of Missouri and any other persons showing a legitimate interest in this proceeding the right to cross-examine witnesses summoned by counsel for the Commission and to produce evidence relevant or material to the inquiry, and for this purpose paragraphs (f), (g), and (h) of Rule V of the Commission's Rules of Practice shall be applicable to the proceeding;

IT IS FURTHER ORDERED that said proceeding for the taking of testimony and the production of evidence begin at the office of the Securities and Exchange Commission, 1778 Pennsylvania Avenue, N.W., Washington, D.C., at such time, not less than twenty days after the date hereof, as said Edward C. Johnson shall designate by not less than ten days' notice by confirmed telegram to The North American Company and Union Electric Company of Missouri, and shall continue thereafter at such times and places in Washington, D. C., or elsewhere as said Edward C. Johnson may determine; and

IT IS FURTHER ORDERED that a copy of this order be served on The North American Company and Union Electric Company of Missouri, personally or by registered mail.

By the Commission.

Francis P. Brassor,
Secretary.

(SEAL)

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For IMMEDIATE Release Monday, May 6, 1940

SECURITIES AND EXCHANGE COMMISSION
Washington

SECURITIES ACT OF 1933
Release No. 2253
SECURITIES EXCHANGE ACT OF 1934
Release No. 2506
HOLDING COMPANY ACT
Release No. 2046

UNITED STATES OF AMERICA
BEFORE THE SECURITIES AND EXCHANGE COMMISSION

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D.C., on the 6th day of May, A.D., 1940.

In the Matter of THE NORTH AMERICAN COMPANY and UNION ELECTRIC COMPANY OF MISSOURI Proceeding pursuant to Sections 8 (e) and 20 (a) of the Securities Act of 1933, as amended. - - - - - In the Matter of THE NORTH AMERICAN COMPANY and UNION ELECTRIC COMPANY OF MISSOURI Proceeding pursuant to Section 21 (a) of the Securities Exchange Act of 1934, as amended. In the Matter of THE NORTH AMERICAN COMPANY and UNION ELECTRIC COMPANY OF MISSOURI Proceeding pursuant to Section 18 (a) of the Public Utility holding Company Act of 1935.	ORDER FOR CONSOLIDATION OF PROCEEDINGS FOR STATED PURPOSES

The Commission now having pending before it the following related proceedings:

(1) Proceeding in the matter of The North American Company and Union Electric Company of Missouri, instituted by order dated May 6th, 1940, pursuant to Sections 8 (e) and 20 (a) of the Securities of 1933, as amended;

(2) Proceeding in the matter of The North American Company and Union Electric Company of Missouri, instituted by order dated May 6th, 1940, pursuant to Section 21 (a) of the Securities Exchange Act of 1934, as amended;

(3) Proceeding in the matter of The North American Company and Union Electric Company of Missouri, instituted by order dated May 6th, 1940, pursuant to Section 18 (a) of the Public Utility Holding Company Act of 1935; and

It appearing that said proceedings involve common questions of fact and that testimony and other evidence adduced in each proceeding may have a bearing on the matters involved in each of the other proceedings; that the persons substantially interested in each of said proceedings are the same; and that substantial saving in time and expense will result if said proceedings are consolidated for the purpose of the taking of testimony and the production of evidence, and are conducted as one proceeding, so that the testimony and other evidence adduced in each proceeding may stand as evidence, insofar as relevant and material, in each of the other proceedings;

IT IS ORDERED that the three proceedings referred to above be and they hereby are consolidated for the purpose of the taking of testimony and the production of evidence.

By the Commission.

Francis P. Brassor,
Secretary.

(SEAL)

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PSF: Frank

MEMORANDUM

File

May 20, 1940

THE WHITE HOUSE
MAY 21 8 55 AM '40
RECEIVED

To: The President

From: Jerome N. Frank, Chairman
Securities & Exchange Commission

Subject: The Action of Securities Markets May 20, 1940.

Stocks improved from the opening until noon in fairly active dealings. Particularly in demand were the steel and aircraft issues. Thereafter, moderate but persistent selling cancelled the price advances and industrials closed about unchanged while railroad and utility stocks were slightly improved on the day. Trading was at a reduced rate and the total reported volume on the New York Stock Exchange was 1,240,000 shares.

U. S. Government bonds were firm at improved prices. Several large sales were reported from out-of-town savings banks which were well taken. It was also reported that a large insurance company is selling short notes and buying bonds but that the offerings of the latter being scarce make this operation difficult. High grade corporate bonds were also firm and bids improved. The medium and lower grade bonds, however, were lower and irregular.

All the commodity markets improved. Wheat, corn and other grains advanced substantially; cotton was strong as well as rubber, hides and sugar.

Higher quotations were recorded for the Pound Sterling, Franch Franc and particularly the Canadian dollar. In London, however, securities were very weak in spite of early precautionary measures by the jobbers in widening quotations. Industrial and rail issues declined to new low levels for the year.

There was a sharp decline on the Tokyo Stock Exchange. Several large sales of our securities from the Far East in recent sessions have been reported.

File Personal

PSF: Frank

THE WHITE HOUSE
RECEIVED
MAY 10 8 41 AM '40

CONFIDENTIAL MEMORANDUM

May 9, 1940

TO: The President

FROM: Jerome N. Frank, Chairman
Securities and Exchange Commission

Mr. Lauchlin Currie tells me that he has discussed with you the idea of regional finance corporations somewhat along the line suggested in the speech I made in Cleveland last month. I think you will be interested to know that I received a letter from Mr. Justice Brandeis today, reading as follows:

> "My thanks for the Cleveland address. I hope it will help in developing Regional and Equity financing."

PSF Frank

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~

June 13, 1940.

MEMORANDUM FOR

HON. SAM RAYBURN

I enclose a confidential memorandum to me from Jerome Frank. I do hope that things like this can be permanently pigeonholed for this session.

F. D. R.