

THE INVESTOR

THE INVESTMENT TRUST AGAIN

BY RUDOLPH L. WEISSMAN

THE announcement by the Committee on Stock Listings of the New York Stock Exchange of its readiness to receive applications to list the securities of investment trusts is important, since it marks a departure from the previous policy of the Exchange.

The listing of a security has a number of readily understood advantages, among which are a ready market and greater collateral value; to the investment trust, it will give a certain prestige and advertising value.

The New York Stock Exchange and other exchanges have been careful to avoid giving the impression that listing carries with it a warranty as to the value of a security, or of assurance of financial success. The general requirements of the New York Stock Exchange merely afford protection against the grosser forms of fraud, and the illegal issuance of securities. The supervision over a corporation's activities has never been one of the functions of stock exchanges.

The special requirements for investment trust issues are a recognition of their magnitude and of the distinctive problems arising out of their nature. They may well serve as a guide to the investor's scrutiny of the general management type.

The application must state the affiliations of the officers and directors with other enterprises, if the investment trust is managed by its own officers and directors; if it is managed by others, a copy of the management contract is required. Full details must be presented regarding the basis on which compensation for management is computed, including direct payments, op-

tions, warrants, and any other form of compensation, either present or future. All costs of organization and all selling expenses of each class of securities, and the net proceeds to the corporation must be shown in detail. Excessive costs, unless absorbed prior to the date of application, may be considered as a bar to listing. It may be assumed that even when absorbed, excessive expenses will have weight in determining the attitude of the Listing Committee. Unfunded debt that exceeds prudent limits is frowned upon.

An agreement is required that managers will charge only the regular commissions on dealings in securities listed on the New York Stock Exchange or other recognized exchanges, and only reasonable commissions on unlisted securities. No non-voting stocks will be listed unless substantially preferred as to both dividends and assets. As a safeguard against the use of preferred stocks which are totally barred from a voice in the management, or control under all circumstances by those whose investment may be relatively small, stocks with preferential dividend rights, but which do not carry voting power, must be accorded the right to vote when one year's preferential dividends are in arrears. The right to vote continues until the arrears have been liquidated. The Exchange could, with propriety, have gone further and demanded exclusive voting power in these cases.

The provisions that will meet with greatest opposition are those relating to the statement of earnings and balance sheets. The income account must show separately gross earnings under at least these classifications: interest, dividends, profit on sale of securities, profit on syndi-

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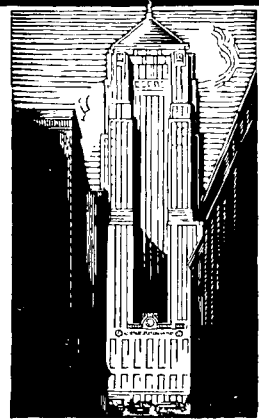
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