Share Trading and the London Stock Exchange 1914-1945: The Dawn of Regulation

SWINSON, CHRISTOPHER

SHARE TRADING AND THE LONDON STOCK EXCHANGE 1914–1945

THE DAWN OF REGULATION

CHRISTOPHER SWINSON OBE, MA, FCA

Submitted to Durham University in conformity with the regulations for the degree of

Doctor of Philosophy

DURHAM UNIVERSITY BUSINESS SCHOOL

MARCH 2016

SHARE TRADING AND THE LONDON STOCK EXCHANGE 1914–1945

THE DAWN OF REGULATION

ABSTRACT

In the London of August 1914, there was no statutory regulation of share trading. By the beginning of 1946, only traders registered in accordance with the Prevention of Fraud (Investments) Act 1939 were permitted to engage in share trading between members of the public. This study examines the stages by which share trading in the United Kingdom came to be a statutorily regulated activity and by which the London Stock Exchange moved from being antagonistic towards public regulation in 1914 to lobbying in 1944 for the new scheme to be implemented.

A number of challenges were posed by changes in the character of the demand for and supply of securities which were evident before 1914 but hastened by the 1914-1918 war. There is no evidence that the Exchange, its members or outside observers understood how these changes would affect the overall character of the market or its sensitivity to risk. Almost all regulatory interventions between 1914 and 1945 responded to crises which exposed the failure of existing arrangements to cope with the consequences of market changes. Whilst these interventions show that self-regulatory arrangements could be effective, they also demonstrate the limitations of reliance on self-regulation alone. Although the Exchange's members supported severe action after the crashes of 1929, the criminal justice system again proved inadequate to deal with abusive share trading generally. The 1939 legislation responded to the criminal justice system's failure and, for the Exchange, was made palatable by protecting its formal independence.

Each successive regulatory intervention in part responded to compromises in previous interventions occasioned by the need to secure acceptance by market operators.

SHARE TRADING AND THE LONDON STOCK EXCHANGE 1914–1945

THE DAWN OF REGULATION

TABLE OF CONTENTS

LIST OF TABLES

LIST OF CHARTS

LIST OF APPENDICES

UNITED KINGDOM ACTS OF PARLIAMENT

Year	*Title*	*Pages*
1861	Larceny Act	145,165
1862	Companies Act	50,62
1867	Companies Act	62
1869	Newspapers, Printers and Reading Room Repeal Act	165
1879	Companies Act	51
1890	Partnership Act	28
1890	Directors’ Liability Act	51, 52
1890	Companies (Winding Up) Act	63
1894	Finance Act	214
1900	Companies Act	51, 103
1901	Larceny Act	165
1907	Companies Act	51
1908	Companies (Consolidation) Act	119, 148
1914	Defence of the Realm Act	88
1916	Larceny Act	165, 235
1916	Registration of Business Names Act	165
1922	Finance Act	214
1925	Trustee Investments Act	192
1927	Finance Act	214
1928	Companies Act	154,232
1929	Companies Act	154, 165, 232
1930	Finance Act	214
1937	Finance Act	215
1939	Prevention of Fraud (Investments) Act	247, 257, 258
1939	Emergency Powers (Defence) Act	275
1946	Borrowing (Controls and Guarantees) Act	288

UNITED KINGDOM STATUTORY INSTRUMENTS AND OTHER REGULATIONS

CASES

This is a list of the United Kingdom civil proceedings and judgments cited in the text. Citations of criminal proceedings are not included in this list but are listed in the Appendices to individual chapters as appropriate. Where the case was formally reported, the formal reference is cited below. Where a case was not formally reported, a reference to a newspaper report is cited.

Year	*Parties*	*Reference*	*Page*
1843	Foss v Harbottle	(1843) 67 ER 189	63
1867	Central Railway of Venezuela v Kisch	(1867) 2 HL 99	62
1886	In Faure Electric Accumulator Company Limited	(1886) 40 ChD 141	103
1889	Derry v Peek	(1889) 14 Appeal Cases 337	51
1892	Scott v Brown Deraing McNab & Company	(1892) 2QB 296	182
1919	Weinberger v Inglis and others	*The Times*; 8 April 1919; page 6	22
1920	Frish v National Alliance House Purchase and Investment Company	*The Times;* 9 September 1920; page 4. *The Times;* 16 September 1920; page 4.	148
1925	In re City Equitable Insurance Corporation	(1925) 1 ChD 407	124, 152
1929	FA Hales Limited v Cross Keys Trust Limited	*Financial Times*; 2 July 1929; page 11.	168
1929	North British Artificial Silk v Tokenhouse Securities	*Financial Times*; 26 July 1929; page 10.	168
1930	Faber and another v Tyler Wilson and Company and others	*The Times;* 28 October 1930 and elsewhere	226, 265
1932	Morris & Jones v Harman Clarke and Williams	*Manchester Guardian;* 3 February 1932.	266
1933	Clifton v Weil and others	*The Times*; 12 March 1933 and elsewhere	266
1934	Kleinwort & Sons v Associated Automatic Machine Corporation	(1934) 50 TLR 244.	182, 192
1936	Application by the liquidator of Broad Street Press Limited, Vulcan Copper Mines Limited and Rhodesia Border Mining Corporation Limited	*Manchester Guardian*; 25 January 1936.	227, 268
1937	Brendon and others v Spiro and others	*Manchester Guardian;* 2 March 1937.	269
1937	Pearson v Charlton and Singer	*Manchester Guardian;* 14 April 1937.	269
1938	Williams v Brady and others	*The Times;* 25 February 1938.	271
1938	Silverman v Wolfenden	*Manchester Guardian;* 15 October 1938.	272
1938	Ullstrom v Petter and others	*Manchester Guardian;* 24 November 1938.	272

ABBREVIATIONS

ADUR	American and Dominions Unbreakable Records Limited
AFT	Austin Friars Trust Limited
AIL	Agricultural Industries Limited
AIT	Association of Investment Trusts
BPP	British Parliamentary Papers
BST	BST Limited (subsequently renamed British Shareholders Trust Limited)
CBL	Commercial Bank of London Limited
C&GS	Corporation & General Securities Limited
CCH	Clarence Hatry
CEFI	City Equitable Fire Insurance Limited
DBB	Dictionary of Business Biography
DI	Detective Inspector
DNB	Dictionary of National Biography
DORA	Defence of the Realm Act, 1914
DPP	Director of Public Prosecutions
F&B	Foster & Braithwaite
GDP	Gross Domestic Product
IMTA	Institute of Municipal Treasurers and Accountants
IPO	Initial Public Offering
JIL	Jute Industries Limited
LMA	London Metropolitan Archive
LML	Leyland Motors Limited
NP&RRA	Newspapers, Printers and Reading Rooms Repeal Act 1869
NSC	Northumberland Shipbuilding Company Limited
NYAG	New York Attorney General
NYSE	New York Stock Exchange
OTC	Over the Counter

PF(I)	Prevention of Fraud (Investments) Act 1939
SEC	Securities and Exchange Commission
SI	Statutory Instrument
S&RO	Statutory Rules and Orders
SSL	Secretarial Services Limited
VMH	Violet Hatry (Clarence Hatry's wife)

ACKNOWLEDGEMENTS

I first encountered Clarence Hatry in 1974 when I spent a year working in Pinners Hall, a building which in part Hatry occupied for a decade after the end of the 1914–1918 war. Since then, Hatry has been a constant companion to the extent that, some years ago, my wife and I walked the streets of London tracing the places where Hatry lived and worked. In August 2015, we made a discovery while drinking coffee in Angelina, a favourite café by the Louvre in Paris. Angelina make a pastry called a financier. Out of respect for Hatry, we ordered one and pronounced it the most boring of their many (usually delicious) pastries. This was the only boring moment in this project. That it has proved an endlessly fascinating and rewarding study I owe to Hatry himself and to many other people.

I have stood on the shoulders of the many librarians and archivists who have preserved and indexed the records mentioned in the text. It has been a delight to find public and private institutions that work quietly, without public display, but above all well. I am especially grateful to the teams at:

Bank of England Archive
Barings Archive
Bill Bryson Library, Durham University
Bodleian Library, Oxford University
British Library (including the erstwhile newspaper depository at Colindale)
Dundee University Archives
Guildhall Library, London
HSBC Archives
Institute of Advanced Legal Studies, London
Lloyds Bank Archive
London Metropolitan Archive
London School of Economics Library
National Archives
National Library of Australia
Royal Bank of Scotland Archives
Schroders Archive
St Andrews Special Collections
University of Lincoln

All of these teams have handled my many requests with care and sensitivity, understanding my persistence when at first documents proved elusive.

I also owe much to the many who have helped by providing information, answering queries or offering encouragement, including Shona Butterfield, Roy Chandler, Toby Dennis, Sarah Ferguson, Susan Gompels, Terry Gourvish, Richard Macve, Chris Napier, Robert Maas, Josephine Maltby, Michael Oliver, David Prince, Janette Rutterford, (the late) Bill Tiplady, (the late) Eddie Weiss and Martin Vander Weyer.

That I was able to embark on this project, I owe to Durham University Business School which, through the good offices of David McCollum-Oldroyd, offered a home.

That the project proved so stimulating I owe to the complementary insights of my supervisors, Ranald Michie and David McCollum-Oldroyd, who repeatedly challenged my thinking and assumptions. This was not always pain-free but always led me beyond points at which I might otherwise have compromised if left to my own devices.

That I was able to persevere I owe to the support of my wife, Christine, and my son, Timothy, and to the example they both provide of even-tempered persistence and determination. They have never given up hope that I might learn from their example.

To all of them, I am more grateful than I can say.

CS

29 February 2016

STATEMENT OF COPYRIGHT

CHAPTER ONE – INTRODUCTION

On 22 May 1946, a block of shares in St Helena Gold Mines Limited was placed on the London Stock Exchange. The price approved by the Exchange's New Issues Sub-Committee was 52s 6d. Interest was so great that by 1000 hours, the shares were trading at prices over £5 and ended the day at 4⅛ to 4½, falling subsequently to 3½.[1]

It was immediately rumoured that the shares had been 'rigged'[2]: a rumour that became the subject of a disciplinary inquiry by the Exchange. The outcome was that the senior partner of the brokers responsible, Keith, Bayley & Rigg, was suspended for two years and six jobbers who had made substantial profits received lesser punishments. For some members, these punishments were not sufficient. J&A Scrimgeour wrote to the Council suggesting that action should have been taken against the broking firm as a whole and not simply its senior partner:

> *'The times are difficult and the difficulties will not be alleviated by timid measures, neither can we expect the prestige of the Stock Exchange to be enhanced until full measures for the protection of the public, and members generally, are adopted.'*[3]

Scrimgeours' interest in the public's protection was shared by the council, which had asked the brokers' senior partner whether:

> *' . . . he agreed that the public, in order to obtain an interest in the shares, had to pay a premium to Keith, Bayley & Rigg and their friends of £2 a share.'*[4]

The senior partner agreed, and went on to express his regret for the 'grave discredit' this had brought to the Stock Exchange.

For a member whose memory extended to trading on the Exchange before the 1914–1918 war, such an interest in the protection of the public would have seemed remarkable. Market rigs had been mounted before, and had been punished,[5] but on the grounds that rigs

---

1 *The Times*; 16 October 1946; page 2.

2 i.e. the manipulation of trading to achieve artificially high or low share prices.

3 *The Times*; 18 July 1946; page 7. Stock Exchange Council Minutes; Guildhall Library. Kynaston (2001); page 16.

4 Stock Exchange Council Minutes; Guildhall Library.

5 For example: the following rigs were reported in *Money Market Review*: Anglo French Corporation, 26 May 1917; Sehampang Sumatra, 14 July 1917; Chaffers Gold Company, 25 August 1917.

disadvantaged fellow members of the Exchange, not that they abused members of the public. In effect, between 1914 and 1946 there had been a sea-change in the Exchange's thinking and in its practice. Whereas in 1914 the Exchange was solely concerned with overseeing the integrity of relationships between its members, by 1946, with government encouragement, the Exchange had accepted responsibility for protecting the interests of the wider investing public.

At the time, some commentators recognised the scale of the change that had occurred, for in June 1945 *The Economist* observed that:

> *'All these changes add up to an altered mentality among brokers, which is the counterpart of similar movements in so many other fields. It is a mentality which prefers reasonable, but secure, profits to long risks with the alternative of brilliant success or equally striking failure.'*[6]

Subsequent commentators have referred to the same changes, although describing them in different ways. Michie refers to a state of uncertainty after the end of the war and to the Exchange's need to secure a rapid return to peacetime trading conditions.[7] Kynaston, dealing with a broader canvas, refers to concern among members that the Exchange had become a public institution rather than a private club that existed to facilitate its members' trading.[8] Both largely attribute the changed circumstances to the economic effects of the 1939–1945 war, and to the effect of controls implemented during the war. Doubtless the effect of the war was extensive, but it cannot account for the fact that the key legislation underpinning the regulation of share trading was passed in 1939 before the commencement of the war and manifestly not in contemplation of the onset of war.[9] Further, the legislation was brought into force in 1944, before the end of the war, as the Board of Trade acquiesced to lobbying by the Stock Exchange which had traditionally opposed such legislation.

This study examines the nature of the change in the regulatory arrangements for share trading that occurred between 1914 and 1945, arguing that a combination of factors led to political demands for new regulatory approaches. It suggests that the Stock Exchange's failure in the

---

All of these rigs involved brokers reporting artificial trades in the Supplementary List to create the illusion of a rising market in the shares concerned.

6 *The Economist*; 23 June 1945; page 858.

7 Michie (1999); pages 326–327.

8 Kynaston (2001); pages 30-31.

9 Prevention of Fraud (Investments) Act, 1939.

1920s to act to stem the growing risk of insubstantial and weakly underwritten new issues stemmed from the persistence of the pre-1914 belief that the Exchange should not accept any corporate responsibility to investors: a belief that was sustained by a failure to understand the direction in which the market was changing and did not change until members were confronted by the existential threat of the two crashes of 1929. It goes on to argue that the most effective regulatory interventions of the period were undertaken by the Exchange itself, at a time when members were galvanised by the enormity (to them) of the threat which they faced, and that all interventions by the government were to some extent compromised and bore the seed of their own subsequent failure and revision.

The study suggests that the Stock Exchange and the government faced four challenges posed by a change in the character of the demand for and supply of securities that had begun to be apparent before 1914. The investing community expanded to include a large number of first-time holders whose holdings tended to be small: too small for the traditional relationship between stockbroker and client to be economically viable. Such holders either sought security through institutional intermediaries, partly encouraged by tax considerations, or traded without professional advice becoming prey to unscrupulous traders.

At the same time, vendors of shares increasingly saw in the market not a means by which to dispose of ownership but a source of finance as a decline in corporate profitability together with higher tax rates restricted businesses' ability to finance investment by retention of profit. This trend was reinforced by tax reforms which tended to favour companies whose shares were traded on a recognised stock exchange.[10]

Both the broadening investing community and vendors became less tolerant of speculative activity. Smaller investors were more vulnerable and sensitive to the risk of loss. Vendors seeking longer term finance preferred stability. In effect, the market became less tolerant of the market volatility caused by waves of speculation that had been evident before the 1914–1918 war, and of old-style company promotion. As a consequence, the houses that circled the Exchange changed: old-style company promoters disappearing to be replaced by new-style issuing houses.

[10] Reform of death duties in 1894, introduction of rules on close companies in the early 1920s, changes to the valuation of securities for death duty purposes in the late 1920s.

The first challenge posed by these changes concerned the expectation that investors alone should be responsible for managing their own risks or in other words that the buyer should beware: caveat emptor. This principle was the foundation of the Exchange's relationship with members. Implicit in this approach was the assumption that clients had both the experience and, where necessary, the access to advice to enable them to manage their risks. As the market welcomed a larger number of smaller investors who had savings to invest but neither the experience to assess and mitigate their own risks nor the access to necessary advice, at what point would caveat emptor become an impractical and untenable principle?

The second challenge was to self-regulation as an organising principle for bodies such as the Exchange. To deal with changing circumstances, any organisation must be able to identify challenges and to face them successfully. In the case of the Exchange, self-regulation had been viewed as essential for the well-being of members, to the extent that the grant of a royal charter had been resisted because it would have involved oversight by the Privy Council. As the underlying assumptions were challenged, how successfully would the Exchange manage its responses?

The third challenge was to the criminal justice system. Beyond the London Stock Exchange and the provincial stock exchanges, share trading could take place free from regulation other than the constraint of criminal law and prosecutions. Would the criminal justice system provide an adequate response to abuse of unsuspecting investors in off-market transactions?

The fourth challenge was to the government's management of the financial system and the financing of its expenditure. Between 1914 and 1918, rather than relying solely on taxation, the government chose to meet a large part of the cost of prosecuting the war by raising loan issues that were traded through the Exchange, a studiously independent organisation. What measure of influence or control did the government need to achieve its own policy objectives?

By 1945, the answers to these questions had become clear. After the twin crashes of 1929, it had been necessary to abrogate the principle of caveat emptor. The Stock Exchange had eventually been able to act with determination to defend the principle of self-regulation. The criminal justice system had failed to meet the challenge of abusive share-pushers. The government had concluded that it could achieve its objectives through influencing rather than legislating to control the Exchange.

In analysing the paths travelled in finding these answers, this study draws a number of conclusions.

The process which led to the introduction of a statutory scheme for regulating share trading cannot be understood without an appreciation of the contemporary political environment: a context often not fully considered by institutional histories. At no point in the period with which this study is concerned was the regulation of share trading a prime concern of the politicians involved in considering these issues. It waxed and waned in importance in their eyes in proportion to its perceived relevance to the achievement of other objectives. As a consequence, politicians were prepared to compromise in implementing proposals for regulation of share trading once the objectives of prime concern to them appeared within grasp. In February 1919, this led to the abandonment of proposals for extended capital controls. In 1938, this led to acceptance of the Stock Exchange's conditions for acceptance of the statutory scheme. These compromises were accepted even though they were known to embed weaknesses in regulatory arrangements which in due course led to calls for further reform.

The study also shows how, in the 1920s and 1930s, reliance solely upon the criminal justice system as a means of regulating abusive share trading became untenable. There were several reasons for this. Such reliance may have been thought credible in the previous century, but by the 1930s such narrow reliance coupled with the widening public interest in share ownership was exposing to abuse a section of the public that was ill-fitted to protect itself. Regulation that depended upon post facto punishment and in many cases upon private prosecution did not serve to deter, eliminate or avoid the social damage caused by the abuse.

There is also some suggestion that attempts to prosecute established City houses or people created market antagonism which was inimical to any regulatory purpose. The prosecution of Lord Kylsant, which at the time was regarded by some as politically inspired, served to create sympathy for him in his plight rather than satisfaction that a wrongdoer had been punished. In this way, although prosecutions might satisfy a public demand for retribution, they might stand in the way of sensible improvements in practice.

In part this was due to the nature of prospectus and share issue fraud, the type of fraud with which this study has been principally concerned. As the study shows, prospectus and share issue fraud encompassed a wide spectrum of behaviour. In many cases, it was an explicit motive of vendors to achieve their commercial objectives within the law; and to achieve that they relied upon their advisers and agents. That is one of the services that company promoters such as Hatry provided. In the Royal Mail Steamship case, although it was accepted that a prospectus had been incorrectly drawn up and so was misleading, the jury appears also to have been prepared to conclude that Lord Kylsant did not intend to commit fraud. As the study shows, in the Jute Industries case, the vendors' commercial objective was to dispose of their equity interest in spite of worsening economic circumstances, the likelihood of impending losses and a declining stock market. Hatry's purpose was to achieve the vendors' objective but within the law. When the technical weakness of the Royal Mail Steamship prospectus is compared with the more substantial weaknesses in the Jute Industries prospectus, where no prosecution seems ever to have been considered, the unsatisfactory consequences of reliance upon criminal prosecutions alone are made clear. In the end, these were matters of judgement. Prosecution in such circumstances was an uncertain undertaking.

Nonetheless, the study provides evidence that prosecutions can and did serve a valuable regulatory purpose. The exceedingly rapid prosecution of Hatry and his condign punishment suggested that he and his colleagues were alone responsible for the London market's problems in September 1929. They also suggested that the problems had been dealt with promptly and effectively. This was done so successfully that some newspapers were moved to note that arrangements in London were superior to those in New York in this respect. In 1929, Hatry was regarded as an outsider. Behind the screen afforded by his prosecution and conviction, encouraged by a well-networked Governor of the Bank of England, the Stock Exchange was able to reform its systems quietly and to deal discreetly with members whose mistakes it did not wish to see repeated. This low-key approach might not have been possible had it been handled openly.

The efficacy of prosecutions and regulation remain matters for current debate. In London, the Fair and Effective Markets Review (2015) specifically recommended increases in the maximum penalties in respect of certain offences against the possibility that they may be needed in extreme circumstances. In New York, Judge Rakoff has suggested on a number of occasions that if the Great Recession of 2008 were caused in whole or in part by fraud, as various governmental authorities suggested, then the failure to bring to justice those responsible 'bespeaks weaknesses in our prosecutorial system that need to be addressed'.[11]

That the Exchange was able to deal successfully with the weaknesses in systems and behaviour demonstrated so powerfully in 1929 can be attributed to two factors: the leadership of the Governor of the Bank of England and the blindingly obvious risk that the Exchange's independence would be lost. Confident in wider City support and the support of members, the self-regulatory Exchange was able to move boldly. The study has shown that the hollowing out of underwriting arrangements that contributed to the excess of the new issues boom of 1928 is evident from documents that were made available to the committee, but has found no evidence that their implications were understood by the committee let alone by the membership at large. Members' views were clouded by the desire to repair their incomes following the limited trading of the war years, and the risks of poor underwriting may have been genuinely difficult to discern. In any event, the committee was powerless to act without the support of the membership, which in turn depended upon the membership's appreciation of the need for action.

This study's examination of these issues consisted of three discrete exercises.

The first involved tracking and comparing the archival evidence for negotiation of the principal regulatory interventions between 1914 and 1945 that are listed in Appendix One to the Chapter. This exercise consisted of an examination and comparison of the records of the London Stock Exchange, the Bank of England and relevant government departments, including the Board of Trade, Treasury, the Home Office, the Director of Public Prosecutions and the Ministry of Health. This study was augmented by an examination of the records of parliamentary debates and of committees of inquiry, although the detailed briefing papers submitted to the Wrenbury Committee in 1918 and the Greene Committee in 1925 do not appear to have survived.[12] This study of official papers was supported by an analysis of the debates in contemporary books and journals of the case for regulation of share trading.

---

[11] 'The financial crisis: why have no high-level executives been prosecuted?' *The New York Review of Books*; 9 January 2014. Downloaded 1 January 2016.

[12] Both the Wrenbury Committee and the Greene Committee were appointed to consider amendment of company law.

The second study consisted of tracing and examining the records of relevant prosecutions between 1914 and 1945. A starting point for this study was provided by lists of share-pushing prosecutions between 1900 and 1935 that were submitted to the Bodkin Committee in 1937.[13] To augment this information, the registers of cases referred to the Director of Public Prosecutions were also examined.[14] As it was evident that the lists prepared from these sources were probably incomplete, they were supplemented by digital searches of *The Times* and the *Financial Times*. A search was then made for all newspaper reports and other records of prosecutions that had been identified.

The third study consisted of tracing and examining the records of a sample of new share issues between 1914 and 1945. To provide focus for this study, the sample consisted of all of the shares floated by Clarence Hatry, augmented by a study of his activities and career. His experience together with the changes he made in his business during the 1920s demonstrate the process that led to the disappearance of promoters. Although he was the best known of the company promoters operating during the period, famed for his ability to navigate the Exchange's rules to achieve vendors' commercial objectives, there is no biographical study of his life.[15] He became the most notorious promoter following the crash brought on by the collapse of his companies at the end of September 1929. His actions led directly to a number of regulatory interventions during the period, and his trial in 1930, stage-managed by the Governor of the Bank of England, provided a screen behind which the Exchange reformed itself. This proved critical to the Exchange's defence of its independence. As his operations involved both on-market and off-market issues, and included issues which led to innovation within the Exchange and others which led to abuse, this sample afforded an opportunity to examine the relationship between the regulated market place provided by the Exchange and the unregulated space beyond. In contrast to existing studies, which are largely institutional in character, this is material to an understanding of the forces that led to regulatory reform. It also afforded an opportunity to explore the network of relationships on which Hatry relied.

---

[13] The Committee was appointed in December 1936 to consider the case for regulating share-pushing.

[14] The form of these registers changed in the early 1930s from bound volumes to a card index system which rendered this check impossible for the final years of the period.

[15] There are a number of short reviews (DNB, DBB, Manley 1976), one or two books reviewing fraudsters have included chapters devoted to Hatry (Vallance 1955, Pearson 1961, Gilbert 1986) and occasional brief newspaper articles (*Sunday Express* February 1930). Clarence Hatry was reported to have begun work on an autobiography, but no book was ever published and persistent enquiries have failed to locate any papers prepared by him.

The sample was not intended to be representative of all IPOs between 1919 and 1939,[16] but only of the transactions of a company promoter who ultimately was disgraced. A list of Hatry's corporate transactions is set out in Appendix Two to this Chapter.

The search for records of Hatry's transactions was problematic since obtaining a rounded view of a transaction would have required examination of the records of all the parties involved: the company whose shares were being issued, the company promoter, any banks involved in supporting the issue and the London Stock Exchange. Hatry's papers have not survived: they were presumably destroyed by liquidators when his companies were wound up. Nonetheless the search successfully located original records that illuminated each stage of a company promoter's work, albeit in relation to different transactions. A list of the archival sources for this study is set out in Appendix Three to this Chapter.

The outcome of these studies is an account of the stages by which the regulatory settlement of 1945 was developed from the market environment of 1914, which is described in Chapter Two.

Chapter Three describes the developments that occurred during the 1914–1918 war from the initial imposition of new issue controls in January 1915 to their removal in 1919. Created by an agreement between the Stock Exchange and the Treasury which was enforced solely through the Stock Exchange's own rules, the controls proved dysfunctional because they did not apply to off-market transactions. The incentive to enter into transactions off-market which were not permitted on-market ultimately undermined the controls' purpose and frustrated the Exchange's members who had been happy to see controls introduced in January 1915 as a means of restoring their livelihood. In 1919, members saw the abolition of controls as vital to restoring the economic rents of membership. Others suggested that some continuing control would be desirable to avoid the abuse of the new class of inexperienced investors. In the event, the Treasury's attempt in January 1919 to impose permanent controls was to prove a humiliating failure. In returning to 'business as usual', caveat emptor remained a guiding principle.

The end of hostilities in November 1918 was accompanied by hope that commercial life would return to normality and prosperity. For a while, trade and the stock markets boomed. But

16 Studies of such representative samples have been reported elsewhere: Chambers (2010).

there was also uncertainty about how the transition to a peacetime economy would be managed and whether markets which had been lost during the war could be recovered. In the event, the transition proved troublesome and markets were not recovered so that the post-war boom was followed by a crash in 1920. Slowly business recovered, leading to a further boom in 1928.

As years passed, deeper uncertainties emerged. War had exposed the inefficiency of many old industries and had given fresh impetus to new technologies. The character of the investing public had been changed as had the risk appetite of many investors. Government expenditure, even when reduced in 1920, was at a higher level than before 1914 and required a higher level of taxation. As a result, attitudes towards investment were changing with a search for higher returns within acceptable levels of risk and volatility. Sustained returns based on continuing relationships came to be more valued than short-term speculative gains.

These circumstances challenged the incomes of Stock Exchange members which did not quickly return to pre-1914 levels. In seeking to defend their interests, members demonstrated the weaknesses of self-regulation. Chapter Four describes how members coped with these pressures in the years between 1919 and 1929.

In particular, these circumstances challenged the pre-1914 approach to the launch of new issues which aimed to realise short-term profits at the time of flotation, often irrespective of the consequence in terms of a business's sustainability. As a result, the houses that encircled the Exchange were obliged to take a new direction. Old-style company promoters disappeared and new issuing houses were created. Chapter Five describes the change in the financial model underlying the business of organising new issues.

The combination of uncertainty about the future of old and new industries and the emergence of many inexperienced small investors looking for higher returns was an opportunity for the unscrupulous, which tested arrangements for deterring and controlling abuse. Within the Stock Exchange, these arrangements depended upon the Committee's vigour in refreshing and applying the rules. Beyond the Exchange, reliance was placed on prosecutions. Chapter Six assesses the performance and failure of the Exchange and the criminal justice system between 1919 and 1929 in deterring abuse.

Matters were brought to a head by the two crashes of 1929: the first in the spring which saw the failure of many companies floated in 1928 and the second in September, precipitated by the collapse of Clarence Hatry's companies. The crashes became an existential threat to the Exchange, as they coincided with the election of a minority Labour government on a manifesto envisaging nationalisation of the Bank of England and the creation of a National Investment Bank to direct investment. Members were galvanised to support reforms of the new issue rules. Yet as the crisis gradually subsided, the members' support for reform also subsided with the result that certain of the proposals were not implemented. In this process, radical reforms were implemented, demonstrating that when certain conditions are satisfied self-regulating organisations could act decisively and successfully. These events are analysed in Chapter Seven.

The events of 1929 encouraged the market's growing risk aversion. As institutional investors became important, the London Stock Exchange's membership became ever more polarised between brokers dealing with corporate business and those dealing with personal clients. There continued to be battles between these two groups of members which were usually determined on favour of a conservative majority of members. These developments between 1930 and 1939 are described in Chapter Eight.

Although the reforms implemented by the Exchange in 1930 were successful in eliminating weak underwriting within the Exchange, they did not eliminate abuse altogether. Their principal effect was to drive abusive activity off-market. A series of scandals ensued which the Exchange, government departments and prosecutors were powerless to control. Embroiled in campaigns to increase middle class readership, newspapers such as the *Daily Mail* and the *Daily Express* saw in these scandals an opportunity to gain support, and began to lobby for government intervention. The high point of these campaigns was reached in January 1936 when the *Daily Mail's* allegations concerning Maurice Singer, a share-pusher, were completely vindicated in a libel action. This emboldened the *Daily Mail* to campaign for regulation of share traders, bringing to the fore the political debate on institutional reform which had begun in the early 1920s. In the autumn of 1936, the Exchange acquiesced in the government's appointment of the Bodkin Committee, ostensibly to inquire into the case for regulating share trading, but in practice to consider how a system of regulation could be introduced.

The report of the Bodkin Committee recommended an approach to regulation which was designed to respect the sensitivities of the Stock Exchange by proposing that the London Stock Exchange should be recognised but not subjected to any form of oversight by government. From the Exchange’s point of view, this outcome was desirable because it would remain free to set its own rules and especially the Conduct of Business Rules which protected members’ commercial interests. Officials, Conservative ministers and the Labour opposition all resisted this lack of oversight, but when the Board of Trade proposed to implement the recommendations in a way that would have avoided this problem, the Exchange resisted. Eventually, the Board of Trade backed down.

The events leading to the appointment of the Bodkin Committee and the negotiations which led to the implementation of its recommendations are described in Chapter Nine.

Although the Board of Trade strove to implement the new legislation quickly, its efforts were defeated by the declaration of war. On this occasion, the Treasury had planned for the introduction of wartime control of new issues and the dysfunctionality of the 1914–1918 controls was not repeated. Nonetheless, concern among the Exchange’s members grew about business bypassing the Exchange. Pressured by members, the Exchange’s Committee came to see in regulation a way of ensuring that its members and the members of competing exchanges could compete with each other, unconcerned about the activities of off-market traders because the registration scheme would virtually eliminate them. For its part, the Board of Trade accepted implementation of the Bodkin Committee’s recommendations and thus the Exchange’s power to regulate the conduct of members without oversight in return for the acceptance by the Exchange that in regulating the market (as opposed to members’ conduct) it would respect the wishes of government. In effect, the government had concluded that it did not need direct control of the Exchange to be able to achieve its policy objectives. The events during the war which led to this conclusion are described in Chapter Ten.

Finally, a review of the factors that drove developments during the period is set out in Chapter Eleven.

APPENDIX ONE TO CHAPTER ONE

PRINCIPAL REGULATORY INTERVENTIONS 1914–1945

Date	*Nature of the intervention*
January 1915	Introduction of wartime controls of Exchange trading and new issues under Temporary Regulations of the Stock Exchange; introduced following negotiations between the Treasury and the Stock Exchange about reopening the Exchange in January 1915.
January 1919	Introduction of Regulation 30F under the Defence of the Realm Act, following consideration by the Treasury of complaints about the operation of the wartime controls in view of the need for continued restriction of new issues after the war. The Regulation was withdrawn within a few days of its announcement to be replaced shortly thereafter by a severely limited new regulation.
December 1919	New Stock Exchange rule introduced following flotation of Agricultural Industries Limited by Clarence Hatry: extended the mandatory disclosure requirements for prospectuses to cover offers for sale.
1928	Companies Act 1928: implementing the recommendations of the Greene Committee on amendment of company law which, inter alia, proposed the creation of new offences to curb share-pushing. Exceptionally, the new offences became effective on the grant of Royal Assent.
1930	New rules introduced by the London Stock Exchange implementing the recommendations of a working party established following the crash of the Hatry group in September 1929.
March 1939	Prevention of Fraud (Investments) Act 1939: implementing the recommendations of the Bodkin Committee. Although Statutory Instruments bringing the Act into force were published, implementation was deferred after the declaration of war in September 1939.
September 1939	Wartime controls of new issues: implementing the recommendations of an internal Treasury Committee which proposed that the new controls should be introduced under public law.
March 1944	Prevention of Fraud (Investments) Act 1939: the Act was brought in to force by Statutory Instrument following lobbying by the Stock Exchange and the process of creating registers of share traders commenced.

APPENDIX TWO TO CHAPTER ONE

CLARENCE HATRY'S TRANSACTIONS

The list below excludes local authority loan issues between 1925 and 1929.

Date	*Company*	*Business*	*Description of transaction*
1913	Union Emigrants Association Limited	Sale of insurance to migrants travelling to United States.	Off-market offer of shares.
1913	Union Emigrants Association (Italy) Limited	Sale of insurance to migrants travelling to United States.	Off-market offer of shares.
1914	Planet Insurance Limited	General insurance company.	Acquisition of controlling interest.
1915	City Equitable Fire Insurance Limited	General insurance company.	Acquisition of controlling interest.
1915	City Equitable Fire Insurance Limited	General insurance company.	Sale of controlling interest.
1916	Commercial Bank of London Limited	Bank.	Acquisition of controlling interest.
February 1917	Marshalls Limited	Provincial department stores.	Capital issue in connection with disposal of stores by Marshall & Snelgrove.
1917	Jos Eltringham Limited	Shipbuilding and ship repairing.	Off-market sale of shares (with Sperling & Company).
1917	H&C Grayson Limited	Shipbuilding and ship repairing.	Off-market sale of shares (with Sperling & Company).
1917	Irvine's Shipbuilding Limited	Shipbuilding and ship repairing.	Off-market sale of shares (with Sperling & Company).
November 1917	London Foundry Company	Brass foundry.	Capital issue approved by Capital Issues Committee.
1918	Northumberland Shipbuilding Limited	Shipbuilding and ship repairing.	Off-market sale of shares (with Sperling & Company).
April 1919	Burton Son & Sanders Limited	Food wholesaling.	Capital reconstruction.
June 1919	Amalgamated Industrials Limited	Mining and shipping combine.	Offer for sale.
July 1919	British Window Glass Limited	Glass manufacturing using newly acquired process.	Offer for sale of debentures.
July 1919	CA Vandervell Limited	Manufacturing of auto electrical components.	Offer for sale of debentures.
October 1919	Leyland Motors Limited	Motor vehicle manufacturing.	Offer for sale of preference shares.
November	Agricultural Industries Limited	Farming.	Offer for sale of

Date	*Company*	*Business*	*Description of transaction*
1919			preference shares.
January 1920	Commercial Bank of London Limited	Bank.	Offer for sale of ordinary shares.
February 1920	British Glass Industries Limited	Glass manufacturing.	Private sale of shares.
March 1920	Kent Portland Cement Limited	Building new cement factory in Kent.	Offer for sale of preference shares.
May 1920	Webb's Crystal Glass Limited	Glass manufacturing.	Private sale of shares.
July 1920	Amalgamated Industrials Limited	Combine of shipping, mining, insurance interests.	Private sale of debentures.
September 1920	United Brassfounders and Engineers Limited	Combine of three brass foundries.	Private sale of shares.
October 1920	Hugh Stevenson & Company Limited	Cardboard manufacturing.	Private sale of shares.
November 1920	Jute Industries Limited	Combine of Dundee jute mills.	Offer for sale of preference shares.
November 1920/1922	Esparto Paper Mills Limited	Combine of paper mills based in East Scotland.	Negotiations to form the combine were unsuccessful because of a failure to agree acquisition prices.
1923?	Wood-Milne Rubber TyreCompany Limited	Tyre manufacturing.	Acquisition of a controlling interest.
1923?	Clover Paint & Composition Company Limited	Marine paint manufacturing.	Acquisition of a controlling interest.
1924	Wood-Milne Rubber Tyre Company Limited	Tyre manufacturing.	Sale of a controlling interest to British Goodrich Rubber Limited.
June 1924	British Goodrich Rubber Company Limited	Tyre manufacturing.	Offer for sale of shares in the UK subsidiary of a US group.
April 1925	Marshalls Limited	Department store.	Offer for sale of preference shares.
July 1925	Glasgow Bonding Company Limited	Bonded storage for whisky distillers.	Offer for sale of shares.
December 1925	Drapery & General Investment Trust Limited	Acquiring interests in department stores.	Offer for sale of shares.
June 1926	Selincourt & Sons Limited	Department store.	Offer for sale of preference shares.
June 1926	Stagg & Russell Limited	Department store.	Offer for sale of preference shares.
July 1926	Plummer Roddis Limited	Department store.	Offer for sale of preference shares.
November 1926	Dawson Brothers Limited	Department store.	Offer for sale of preference shares.
January 1927	Clover Paint & Composition Company Limited	Marine paint manufacturing.	Offer for sale of preference shares to finance acquisition.
May 1927	Corporation & General Securities Limited	Managing local authority loan issues.	Offer for sale of shares.

Date	*Company*	*Business*	*Description of transaction*
May 1927	Footman Pretty & Company Limited	Department store.	Offer for sale of preference shares.
July 1927	London Public Omnibus Company Limited	Acquiring independent bus operators in London.	Privately arranged.
October 1927	Albion Greyhounds Limited	Developing greyhound tracks in Glasgow and elsewhere.	Offer for sale of ordinary shares.
November 1927	Drapery Trust Limited	Department stores.	Sale of a controlling interest (to Debenhams).
January 1928	London Public Omnibus Company Limited	Operating buses in London.	Sale of a controlling interest (to London General Omnibus Company Limited).
February 1928	Debenhams Securities Limited	Department stores.	Offer for sale of preference shares jointly in New York and London (after a capital reconstruction).
March 1928	Photomaton Parent Corporation Limited	Exploiting new process for photograph booths.	Privately arranged.
May 1928	Alvis Car and Engineering Company Limited	Vehicle manufacturing.	Offer for sale of shares.
June 1928	Retail Securities Limited	Investment company.	Offer for sale of shares.
June 1928	International Bitumen Emulsions Limited	Exploiting new process for bitumen road surfaces.	Private placement of shares.
June 1928	Far Eastern Photomaton Corporation Limited	Exploiting new process for photograph booths.	Offer for sale of debentures and shares.
June 1928	Photomaton (Lancashire & Midland) Limited	Exploiting new process for photograph booths.	Offer for sale of debentures and shares.
January 1929	Associated Automatic Machine Corporation Limited	Acquiring interests in manufacturers of automatic vending machines.	Privately arranged and first acquisitions.
March 1929	Associated Automatic Machine Corporation Limited	Acquiring interests in manufacturers of automatic vending machines.	Offer for sale of ordinary shares to finance acquisition of British Automatic Machines Limited.
April 1929	United Steel Companies Limited and United Strip and Bar Mills Limited	Steel manufacturing combine.	Offer for sale of shares to finance acquisitions.
May 1929	Allied Ironfounders Limited	Light castings.	Offer for sale of debenture stock to finance acquisitions to form combine.

APPENDIX THREE TO CHAPTER ONE

CLARENCE HATRY'S TRANSACTIONS: PRINCIPAL ARCHIVAL SOURCES

Transaction stage	*Nature of documents*	*Location*
Identification and formation of vehicle for flotation	Esparto Paper Mills: Correspondence and memoranda relating to negotiations concerning the formation of a new combine, including in particular negotiation of the prices at which the shares of the former companies were to be acquired.	Russell Papers, University of St Andrews, Special Collections.
	Jute Industries Limited: Correspondence relating to the formation of a new combine.	Jute Industries collection, Dundee University Archives.
	Jute Industries Limited: Agreements with companies forming the new combine.	Jute Industries collection, Dundee University Archives. Applications for Listing files, London Stock Exchange, Guildhall Library.
	Agricultural Industries Limited: Information concerning the initial negotiations.	Private information.
	Union Emigrants Association Limited and Union Emigrants Association (Italy) Limited: Documents relating to the trade and agreements transferred to the new company to be offered for sale (including a list of the agents in Eastern Europe).	Board of Trade papers, National Archives.
	Debenhams Securities Limited: Documents relating to the formation of a new holding company and its flotation in both London and New York.	Kleinwort & Sons archive, London Metropolitan Archives.
	Leyland Motors Limited: Documents relating to the partial transfer of net assets to a new company and liquidation of a former company.	Board of Trade papers, National Archives.
	Applications for all securities which it was intended should be listed.	Applications for Listing files, London Stock Exchange, Guildhall Library. After 1919, the files contain copies of the contracts disclosed, including contracts by which former companies were acquired.
Creation of supporting syndicate	United Steel:	M Samuel archive, Lloyds Bank

Transaction stage	*Nature of documents*	*Location*
	Record of the syndicate negotiations and copy of syndicate agreement.	Archive.
	United Steel: Copy of syndicate agreement.	Marquess of Winchester's memoirs (published).
Preparation of prospectus	Jute Industries Limited: Accounting records of Cox Brothers Limited and Gilroy & Sons Limited, including manuscript comparisons between the prospectus and the internal accounting records, production cost summaries and valuation analyses.	Jute Industries collection, Dundee University Archives.
	Agricultural Industries Limited: Comparison of the prospectus with detailed transactions and company structures included in the unpublished report of a Board of Trade Inspector.	Board of Trade papers, National Archives.
Promotional activity for an on-market transaction	Jute Industries Limited: Re-purchase guarantee between directors and Ellis & Company.	Jute Industries collection, Dundee University Archives.
	Jute Industries Limited: Advertising programme to support flotation.	Applications for Listings files, London Stock Exchange, Guildhall Library.
	Corporation & General Securities Limited (C&GS): Documents relating to actions taken by brokers to secure acceptance by brokers to secure acceptance by disaffected jobbers of securities launched by C&GS.	Foster & Braithwaite archive, Guildhall Library.
Underwriting arrangements	Applications for all securities which it was intended should be listed.	Applications for Listing files, London Stock Exchange, Guildhall Library. The files for all applications after 1919 contain copies of the underwriting agreements.
Promotional activity for an off-market transaction	Northumberland Shipbuilding Company Limited: Selling memoranda and correspondence.	Kleinwort & Sons archive, London Metropolitan archives.
Stock Exchange consideration of application for permission to deal	Applications for all securities which it was intended should be listed. Particular attention was given to the two following instances in which permission was denied.	Applications for Listing files, London Stock Exchange, Guildhall Library.
	DA Trust Pool (a transaction managed by James White but	Applications for Listing files, London Stock Exchange,

Transaction stage	*Nature of documents*	*Location*
	supported by Clarence Hatry). Refusal of application on grounds that the planned security was not suitable for trading.	Guildhall Library.
	Jute Industries Limited: Refusal of application on grounds that disclosure was incomplete. Permission was subsequently granted on certain conditions.	Applications for Listing files, London Stock Exchange, Guildhall Library.
Transactions subsequent to flotation	United Steel: Report of Sir Gilbert Garnsey on the financing of the flotation.	DPP papers, National Archives. Also Price Waterhouse & Company archive.
	Hatchards Associated Interests: Unpublished reports of a Board of Trade Inspector.	Metropolitan Police papers, National Archives.
	British Automatic Company: Memoranda concerning the extraction of pension scheme cash and investments.	DPP papers, National Archives.
	C&GS: Correspondence relating to management of profits from flotation of local authority issues.	Foster & Braithwaite archive, Guildhall Library.
	C&GS: Liquidator and Special Manager's report on the winding up of C&GS and agreements with Austin Friars Trust about commission on local authority issues.	Board of Trade papers, National Archives.
	Agricultural Industries Limited: Record of transactions effected at or immediately after flotation: unpublished report of a Board of Trade Inspector.	Board of Trade papers, National Archives.

CHAPTER TWO: 1914 – ON THE BRINK OF WAR

Introduction

In July 1914, on the brink of war, the London Stock Exchange was generally acknowledged to be the leading exchange in the world.[17] The nominal value of securities listed on the Exchange amounted to more than £11 billion: more than the New York Stock Exchange (NYSE) and the Paris Bourse combined. Of that value, more than 50% related to foreign stocks.[18] It existed to serve investors not only in the United Kingdom but also investors throughout the world who chose to transact their business in London rather than in their local exchange. One-third of all negotiable instruments in the world were listed on the London Stock Exchange while the NYSE and the Paris Bourse each listed only about one-fifth of the total.[19]

What led to the achievement of this pre-eminence has long been debated; but is often attributed to the felicities of its bifurcated constitution.[20]

The Exchange's constitution

Originating in decisions made in 1801 to provide a market for the government debt issued to finance the Napoleonic War, the Exchange's constitution distinguished the powers of the proprietors of the Exchange from the powers of the subscribers or members who alone had the right to trade on the Exchange floor. Neal et al conclude that this division of ownership from operation:

> *' . . . was the fundamental factor accounting for [the Exchange's] success as the world's leading stock exchange in the first era of global financial markets.'*[21]

Responsibility for construction and maintenance of the physical facilities of the Exchange was a primary responsibility of the proprietors whose powers were delegated to trustees and managers. Although all people permitted to trade through the Exchange were expected to acquire a share in the Exchange, there was no bar on shares being held by anyone who was not

---

17 Cassis (2010); page 98.
18 Michie (1999); page 88.
19 Davis and Neal (1998). Davis et al (2003); page 4.
20 Kynaston (1983). Michie (1999). Davis et al (2003); Neal (2006); Neal et al (2006); Klaus (2014).
21 Neal and Davis (2006); page 282.

so involved. There was, however, a limit on the number of shares that any individual could hold. The reward for the proprietors came from the charges that could be levied for permitting access to the Exchange so that the proprietors had an interest in maximising the business transacted through the Exchange and the profit that could be made by those using its facilities. In practice the freedom to choose a marketing strategy that would maximise the proprietors' return was limited by two factors. The limitation of shareholdings meant that any change in strategy required broad support. Since all members were expected also to be proprietors, their views had to be taken into account[22] and they could be relied upon to have trenchant views on whether membership should be expanded to maximise membership charges or restricted to maximise the value of membership.

Moreover, as the Exchange was a private body and did not have an exclusive right to organise a market for share trading, there was a constant threat that business which would otherwise be directed to the Exchange might be diverted either to informal trading between parties outside the Exchange or to competing market places such as the exchanges that existed in many provincial cities. It might also be diverted to other forms of investment. If the Exchange were to be bypassed, the benefits of membership in the form of competitive profits or economic rents would be eroded,[23] a danger managed by frequent reconsideration and adjustment of the Exchange's rules. As in the case of other exchanges, this involved action in four areas: the Exchange's trading capacity; trading practices and conduct of business; listing and de-listing securities; and share price manipulation.[24]

Access to the Exchange's trading floor was permitted to members who fell into two principal groups: brokers (who acted on behalf of clients outside the Exchange from whom they earned commissions); and jobbers (who acted as dealers between brokers, making profits from the spread between bid and offer prices). Some brokers also acted as promoters, introducing shares for trading on the Exchange (charging fees for introducing and underwriting new issues).

---

22 In 1919, it was argued on behalf of the Stock Exchange that there was no duty to individual members beyond providing access to the facilities of the Exchange for a period of 12 months. Judgment of Lord Chancellor in Weinberger v Inglis and Others; *The Times*; 8 April 1919; page 6. The case arose over decisions by the committee to exclude from membership people 'of enemy birth' (including naturalised British citizens). The court did not pursue this argument but indicated that it did not accept the contention that the Exchange's obligation to Members was so narrowly limited.

23 Macey and Novogrod (2011–2012); pages 963–1003

24 Macey and O'Hara (2005–2006); pages 583–592.

The rule against 'double capacity',[25] by which brokers could not also act as jobbers, resulted in each group being motivated to maximise the volume of trading from which income was derived. Brokers could try to increase their commission from clients by increasing their commission rates or encouraging their clients to trade more actively. However, a broker would fear that increasing the rate of commission might attract competitive undercutting from other brokers, either inside or outside the Exchange, and many clients resisted what they would have seen as speculative over-trading. Brokers were thus motivated to attract more clients as a way of increasing their business. Those brokers who also acted as promoters received no promotion fees if there were no new issues, so were interested in maximising the number of new issues, and there was in any event a constant need for new issues to replace companies that failed.

For their part, jobbers could attempt to increase their income by increasing the spread between bid and offer prices, but this increased the risk of loss on their book so that they too were led to encourage the volume of transactions by, for example, maximising the number of new issues. Although jobbers thus shared with brokers an interest in maximising business transacted through the Exchange, their interests were not congruent. From a jobber's perspective, attracting business might be an end in itself irrespective of the route by which it reached the Exchange so that a jobber would, for example, be interested in attracting orders directly from provincial brokers. Contrastingly, a broker would expect that such business would be routed through a broker member of the Exchange.

The interests of all members were overseen by the Committee for General Purposes, which was elected by members annually. This committee managed the admission of new members and was empowered to promulgate the rules governing trading through the Exchange. Although nominally the committee had unlimited power to introduce rules and admit new members, the requirement for the annual election of the whole committee ensured that it was sensitive to the views of members about the preservation of their interests and to changes in the balance of members' views. Committee members expecting to hold their seats at the next annual election would expect to be held to account for any undue restriction of the number of members or over-enthusiastic admission of new members.[26] Thus, whilst the committee was responsible for promulgating changes in the rules necessary to reflect changing conditions, the

---

25 Rule 80. This and subsequent references to the Rules are taken from Poley et al (1913).
26 Rule 1.

power to do this was constrained by the committee's accountability to the members, their homogeneity as a group and their perception of the need for changes occasioned by developing conditions.[27]

That the committee was responsive to members' reactions had been demonstrated in 1904, when concern among members about the profitability of their businesses eventually led the committee to adopt a scheme intended to cap the number of members by requiring that applicants for membership should buy the nomination of an existing member (in addition to paying the entrance fee and the annual subscription).[28] Although this restriction did not prove immediately effective, because many existing clerks were immediately introduced to membership under existing rules, membership eventually peaked in 1910.

Table 2.1: London Stock Exchange membership May 1904–November 1914[29]

	Members		*Clerks*				*Total*
			Authorised	*Non-authorised*	*Total*		
	No.	*%*	*No.*	*No.*	*No.*	*%*	*No.*
May 1904	4,779	*64*	609	2,058	2,667	*36*	7,446
November 1904	5,481	*73*	322	1,752	2,047	*27*	7,528
November 1905	5,463	*71*	438	1,762	2,200	*29*	7,663
November 1906	5,397	*71*	493	1,711	2,207	*29*	7,604
November 1907	5,266	*71*	534	1,637	2,171	*29*	7,437
November 1908	5,047	*71*	526	1,531	2,057	*29*	7,104
November 1909	5,034	*69*	652	1,606	2,258	*31*	7,292
November 1910	5,102	*67*	795	1,768	2,563	*33*	7,665
November 1911	5,070	*66*	806	1,758	2,564	*34*	7,634
November 1912	5,052	*66*	828	1,732	2,560	*34*	7,612

27 Macey and O'Hara (2005–2006); page 570.
28 Committee of Members Minutes 20 April 1904; Stock Exchange Archive; Guildhall Library. Michie (1999); page 85.
29 Quoted in Michie (1999); page 86. Committee for General Purposes Minutes April 1922; Stock Exchange Archive; Guildhall Library.

	Members		*Clerks*				*Total*
			Authorised	*Non-authorised*	*Total*		
	No.	*%*	*No.*	*No.*	*No.*	*%*	*No.*
November 1913	4,971	*67*	816	1,669	2,485	*33*	7,456
November 1914	4,822	*67*	765	1,562	2,327	*33*	7,149

As if to prove that the London Stock Exchange was obliged to be constantly wary of potential competition, the attempt to cap membership was followed in 1909 by the creation in London of a competing exchange known as the Mincing Lane Tea and Rubber Brokers' Association which sought to take advantage of speculations in plantation company shares.

As the Exchange was independent, and there was no external oversight mechanism, there was no formal means by which the rules of the Exchange could be directly affected by the views or interests of parties other than the Exchange's members so that the rules exclusively reflected the members' interests as they perceived them.

The Exchange's Rules

At the heart of an exchange's practices lie its rules, for they specify how trading is to take place, mitigating the risks that professional traders take when trading through the exchange and protecting the benefits that result from the creation of the exchange.

Rules vary between markets as to the different perceptions of exchange members of their own risk appetites and those of the outside interests which they exist to serve. Markets may for example offer greater or less liquidity, speed of execution and transaction cost. Different combinations of these may better suit the predilections of members and prospective clients in different places and at different times. The trade-off between speed of execution and transaction cost appropriate to one period or one place may prove unsuitable at another time or in another place. Similarly, the riskiness of the securities in which exchanges are prepared to facilitate trading and the efficiency with which that riskiness is signalled to prospective clients by mandatory disclosure or other means will also vary according to the exchange's perception of its clients' risk appetite.

Arriving at rules that reflect perceptions of risk appetite is unlikely to be a perfect process, however, for in practice there are likely to be barriers that may prevent an optimal outcome. As an example of this problem, requiring mandatory disclosure in prospectuses of information aimed at permitting a realistic assessment of the riskiness of a business might be useful to investors but will impose costs that are only borne by the shareholders of that firm. The result may be a resistance to imposition of the disclosure requirement. If most firms voluntarily make the disclosure nonetheless, and the judgement that the information is significant is shared by prospective investors, the result is likely to be a material discount in the market valuation of the shares of non-disclosing firms. If, in contrast, few firms make the disclosure, then the discount for non-discounting firms will be correspondingly smaller.[30] Ideally an exchange should be in a position to balance interests and to create rules that create benefits for investors and traders until the benefits are outweighed by the costs that they involve. In this sense, the self-interests of an exchange's members will lead to rules that meet the self-interests of investors.[31]

In 1914, the rules of the London Stock Exchange sought to achieve three principal objectives: that members could trade confidently through the Exchange because counterparty risk was to some extent mitigated; that the benefits of the Exchange were as far as possible protected for the benefit of proprietors and members (i.e. that the problem of free-riding was controlled); and that investors would be as confident as they wanted to be that the risk attached to investment was being managed. As members were motivated to maximise the volume of business, not least by maximising the stocks listed by the Exchange, the rules did not focus on the quality of listed investments: that was left to the commercial judgement of members and their clients. Although on occasion the committee might decide to exclude a stock from listing, this did not necessarily prevent members from dealing in stocks on the floor of the Exchange, as permission was frequently given to trade in shares that were not included in the Official List and which came, eventually, to be included in a supplementary list.

As far as counterparty risk was concerned, the rules sought to provide comfort that members would be dealing with counterparties for whose reputation other members had vouched, whose assets stood wholly behind Exchange business, whose creditworthiness, at least in the

---

30 Akerloff (1970); page 488.
31 Mahoney (1997); page 1459.

early years of membership, was supported by the guarantees of fellow members, and whose solvency was not at risk by exposure to other business interests outside the Exchange.

These objectives were achieved by a number of detailed rules which provided that membership of the Exchange was not open to a company but only to individuals who were usually nominated by an existing member, although some applications could be entertained without nominations.[32] Each candidate had to be recommended by three members of not less than four years' standing who had fulfilled all engagements. Each recommender was expected to undertake to make a contribution to the applicant's creditors in the event that the applicant was declared a defaulter within four years of his admission.[33] No member (or his wife) was allowed to be a principal in any business outside the Stock Exchange and no partnership of members was permitted to include any individuals who were not members.[34] No member was allowed to advertise for business or to issue business circulars to anyone other than his own clients.[35] No member was to try to enforce by law a claim against another member arising from a Stock Exchange transaction.[36]

Counterparty risk was not eliminated completely, however: there was a constant trickle of member failures which had reached a peak in 1894. It would have been possible to reduce the number of failures, or at least to reduce the losses that they caused, by requiring that all trading should take place on a cash basis against delivery of scrip as was to be required during the 1914–1918 war.[37] As a member, Gerald Williams, observed in November 1918:

> *'The one outstanding feature in dealings in the "House" during the past four, inherently difficult, years has been the well-nigh perfect safety for all concerned. Not only did the cash basis of our transactions effectively reduce to – practically – zero the risk involved in the ultimate completion of each bargain, but it tended to stabilise markets in a most salutary and hitherto unknown manner.'*[38]

Beside reducing counterparty risks, most of these rules also served to reduce the risk of free-riding: of outside interests taking advantage of the Exchange without themselves being

---

32 Rule 26(1). The specified application form made clear that applications were invited from individuals. Rule 28(1) prescribed the process for applications without nominations.
33 Rule 32(1).
34 Rule 30.
35 Rule 74.
36 Rule 72(1).
37 Sonne (1915); page 46.
38 Rules and Regulations Committee Minutes 27 November 1918; Stock Exchange Archive; Guildhall Library. Quoted in Michie (1999); page 189.

members. Thus the rule that a company could not be a member should have excluded banks and insurance companies from direct access to jobbers: strictly they should have routed their deals through brokers. The rule banning partnerships between members and non-members would have had a related effect. Only members were entitled to use the name and address of the Exchange on notepaper: thus marking a distinction from non-members. That this distinction mattered is evident from the number of non-members who tried to open offices as close to the Exchange as possible.

The quality of securities traded on the Exchange was not a principal concern although the committee was empowered to approve the quotation in the Official List of any security 'of sufficient magnitude and importance'.[39] Beyond this, the conditions for an application for listing only required a declaration that the prospectus complied in all respects with the requirements of company law and that all of the required documents had been filed with the Registrar of Companies.[40] Disclosure in prospectuses was thus a matter for the general law, presumably to ensure that companies were not deterred from seeking a listing on the London Exchange by the imposition of requirements not matched by other exchanges.[41]

As for members, the Exchange's rules had effects beyond the straightforward mitigation of risks. Requiring that membership was only open to individuals ensured that incorporated businesses such as clearing banks, discount houses and investment trusts could not compete directly with members by trading through the Exchange. Insisting that members might only trade individually or in the form of a partnership, coupled with a restriction on the number of members' clerks who might be recognised by the Exchange,[42] ensured that there was a restraint on the scale of Stock Exchange businesses.[43] As a result, members' businesses tended to be small and under-resourced and the protection from competition ensured that an

---

39 Rule 151(1).

40 Appendix 36 to the rules. From time to time, the rules had lightly anticipated changes in the law. For example, the Stock Exchange required that companies included in the Official List should appoint auditors before the Companies Acts were amended to this effect.

41 The risk of such a deterrence effect was cited in the Report of the Select Committee on Loans to Foreign States (1875): page xlvii.

42 Rule 56.

43 The Partnership Act 1890 imposed a maximum number of partners. Income Tax law restrained the retention of moneys within a partnership (by comparison with the rules for taxation of limited companies) that became more serious with the increase in the rates of tax following, for example, the introduction of Super Tax. Restriction of the number of clerks limited the maximisation of partners' profits by increasing the gearing between the number of partners and the number of clerks.

eccentric refusal to adopt new technologies was, for a time, tolerable. The histories of broking firms testify to these tendencies before the 1914–1918 war:

> *'In 1906 the novelty of the telephone had not lost its appeal. Very few firms possessed one and until some years later this now hard-pressed instrument was regarded as a mixed blessing. It was beneath the dignity of important people to use the telephone as the view was taken that business should be dealt with either by correspondence or in person.'* [44]

The bar on advertising ensured that members' businesses remained largely personal in nature and, more particularly, that the attraction of new clients was a largely personal matter. This in turn meant that, when considering the introduction of new members, firms would be alert to possible applicants who would bring new connections and opportunities as, in the final analysis, these were vital to the survival of any firm. Michie cites a number of examples of this:

> *'The Wagg's deliberately recruited Lord Walter Campbell in 1877, and then Arthur Haydn and Cyril Russell in 1888, in order to develop private client business, and so reduce their dependency upon Rothschilds for orders. Similarly, Pember & Boyle in the 1890s greatly widened the range of activities they covered by recruiting as partners FC Stapylton who brought in private clients, OC Bevan and CA Campbell who had strong banking connections, and FH Anderson who had links with the discount houses. For the same purpose, de Zoete & Gorton recruited William Mackenzie in 1896 because of his Far Eastern connections, and then extended that to Greece, Egypt and the Middle East with Pericles Nassif in 1900 and Hugh Pritchard in 1910.'*[45]

Thus although family connections would always have been taken into account when considering nominations, hard reality usually ensured that potential contributions to the business were considered. Failure to have regard for this would in the end lead to ruin.

Although banks, discount houses, investment trusts and other incorporated entities were denied direct access to the market, members, especially jobber members, would not have wanted to deny access to the business they could introduce. After all, banks in particular had regular access to those of their customers who were investors: better access than was available to the Exchange's broker members. Moreover, the gradual amalgamation of regional banks was leading to larger institutions that could take a broader view of the investment of their reserve assets. Before 1909, the members' interest in making access available had

44 Anon (1963); page 47.
45 Michie (1999); page 101.

combined with the institutional investors' interest in gaining access and had led to the development of informal arrangements by which institutional investors would pass their instructions to jobbers, either directly or by way of a friendly broker at a nominal commission. Other informal arrangements between brokers and banks enabled banks to trade directly between themselves rather than through the Exchange. Similar arrangements provided access to London jobbers for provincial brokers.

When pressure from broker members, occasioned by the same pressure on income that had led to a cap on membership, and a need to ensure that business did not bypass the Exchange led in 1909 to enforcement of the ban on double capacity, these informal arrangements were disrupted. This was the intention, for it was an explicit attempt to prevent free-riding:

> *'By direct communication with our Dealers, country brokers were enabled to deal on the London market on as good terms as a London Broker, while evading the heavy expense and responsibility of London membership.'*[46]

In effect, business was being facilitated by members of the Exchange but transacted in a manner that denied the Exchange any benefit from charges that would have become payable if the business had been transacted through the Exchange and would thus have contributed to the costs of maintaining the Exchange.

At first, the ban on double capacity was not effective as members found alternative means of implementing their previously informal arrangements; for example, brokers found jobbers who would pass trades through their books for a negligible fee. In 1912, this led the committee, under continuing pressure from small broker members, to introduce minimum commission rates, which forced members to charge for every transaction they handled, and a ban on shunting (the practice of London jobbers undertaking instructions from provincial brokers). To mollify banks that had previously benefited from informal arrangements with brokers, it was agreed that a broker could offer to a banking client a rebate of 50% of the fee charged. The effect was that brokers could continue to benefit from bankers' introductions of business from smaller investors and were not themselves obliged to consider how to access this retail business directly. Subsequently, a series of cases referred to the committee led to

[46] General Purposes Committee minutes; Stock Exchange Archive; Guildhall Library. Cited by Michie (1987); page 22.

the examination and in some cases termination of existing arrangements that were alleged to contravene the new rules.[47]

The committee was thus responding to the concerns of members and to the increasing influence of broker members when compared with the influence of jobber members. Jobbers had regarded provincial exchanges as useful complements to their business, whereas brokers had regarded provincial brokers as annoying competitors aided by the branch networks of the joint stock banks which enabled them to gain access to small investors nationwide. By taking the side of small broker members, the committee's rule changes formally treated provincial exchanges as competitors. The informal arrangements that provided provincial brokers with access to the London market were not to be used in the immediate future as the basis for a national network of exchanges and the Stock Exchange became more restrictive.[48]

In this instance, the power of rule-making was being used for an anti-competitive purpose which diverged from the interests of investors outside the Exchange and resulted from the overall market's structure. Management of a share-trading market in London by a private body that, as will be seen, had resisted attempts to grant it exclusive rights to regulate share trading, had left space for the development of competing exchanges not only in London but also in the rest of the country. To represent their interests, a Council of Associated Stock Exchanges had been formed in 1890, representing exchanges in Glasgow, Manchester, Liverpool, Birmingham, Dublin, Edinburgh, Leeds and Sheffield, with a total membership of about 550 brokers. By 1914, nine further exchanges had joined the association although one had later withdrawn.[49] Although in general these exchanges adopted rules which were similar to those in London, some aspects of the London rules were difficult to match. In some places, for example, the scale of the local activity made it impossible to copy the London Exchange's rules on members not undertaking other types of business.

In London, introduction of minimum rates of commission served the interests of smaller firms and individual brokers. It did not serve the interests of the larger or better-established firms which were more likely to be dealing with institutional investors or the interests of jobbers.

---

47 Michie (1998); Bellringer and Michie (2014); pages 129–130

48 Davis and Neal (1998); page 44. Michie (1999); page 142.

49 Bristol and Cork joined in 1899. Bradford, Cardiff and Swansea joined in 1908. Aberdeen, Halifax, Dundee and Huddersfield joined in 1912. This still left a number of exchanges outside the association, notably Newport, Greenock, Nottingham and Oldham. Thomas (1973); pages 193–210.

The result was an arrangement that suited best the smaller firms' perception of their interests, even though there was concern that business from institutional investors would be driven to other exchanges. Concern on these grounds was indeed voiced to the committee.[50]

These developments also demonstrate the way in which the committee used its discretion to limit the collateral damage that conflicts between groups of members could cause. Just as had been the case with enforcement of the rule on double capacity, the committee's enforcement of the rule on minimum rates of commission appears to have been flexible. This was perhaps understandable since even for smaller scale trading, the minimum rates of commission were a deterrent to business. In response to them, in 1912, at the instigation of its City Editor, Charles Duguid, the *Daily Mail* launched a low-cost dealing service which matched buyers and sellers through small advertisements on its City pages. This service continued until August 1915 and, notably, continued in operation when the Exchange itself closed on the outbreak of war.[51]

In spite of these occasional lapses from clear-sightedness, there was advantage in the Exchange having the freedom to change its rules to reflect members' perceptions of their interests. The structure of the Exchange tended to balance conflicting interests against each other so that all were motivated to maximise the volume of business transacted through the Exchange. The result was a market place that successfully reflected the character of the markets it existed to serve and was able to change as those markets changed.

Character of the market: traded securities

In the 40 years before the 1914–1918 war, the number and value of securities quoted on the London Exchange increased substantially.

---

[50] Committee for General Purposes Minutes; 13 July 1914; Stock Exchange Archive; Guildhall Library.

[51] Michie (1999); page 115. Roberts (2013); pages 190–191.

Table 2.2: Nominal value of securities quoted in the Stock Exchange Official List 1873–1913 (£m)[52]

	1873	*1883*	*1893*	*1903*	*1913*
British government and UK public bodies	858.9	914.6	901.6	1,102.2	1,290.1
Colonial and foreign governments, public bodies	486.5	975.1	1,031.5	1,411.4	2,034,4
UK and foreign railways	727.6	1,475.3	2,419.0	3,082.4	4,147.1
Banks and finance	113.2	102.2	199.5	440.5	609.1
Canals and utilities	32.9	101.8	140.3	200.1	435.8
Commercial and industrial	32.6	43.0	172.6	690.9	917.6
Mines, oil and plantations	8.8	22.4	34.6	50.8	116.4
TOTALS	2,270.4	3,634.4	4,899.2	6,978.2	9,550.5

As the scale of the market grew, its composition changed, with a decline in the proportion of United Kingdom government securities coupled with a rise in the proportion of railway stocks (chiefly foreign railway stocks as the United Kingdom railway companies were experiencing poor profitability) and in commercial and industrial shares.

Table 2.3: Nominal value of securities quoted in the Stock Exchange Official List 1873–1913 (%)[53]

	1873	*1883*	*1893*	*1903*	*1913*
British government and UK public bodies	37.8	25.2	18.4	15.8	13.5
Colonial and foreign governments, public bodies	21.4	26.8	21.1	20.2	21.3
UK and foreign railways	32.0	40.6	49.4	42.0	43.4
Banks and finance	5.0	2.8	4.0	6.3	6.4
Canals and utilities	1.4	2.8	2.9	2.9	4.6
Commercial and industrial	1.4	1.2	3.5	9.9	9.6
Mines, oil and plantations	0.1	-	-	0.1	0.3

52 Quoted in Michie (1999); page 88.
53 Quoted in Michie (1999); page 89.

Not only did the market grow absolutely, it also grew in its significance within the United Kingdom economy and relatively in comparison with foreign exchanges.

Table 2.4 : Stock market values of domestic corporate equities quoted on major national exchanges at the beginning of 1900[54]

Country (and stock exchange)	*Number of companies with listed equity*	*Value of domestic equities at market prices*			*Sector shares*		
		Total ($m)	*Per capita %*	*Ratio to GDP %*	*Rail %*	*Finance %*	*Other %*
United Kingdom (London)	783	4,300	104	49	49	17	34
France (Paris)	429	2,139	55	34	43	26	31
USA (New York)	123	2,860	37	15	62	7	30
Germany (Berlin)	719	1,110	20	14	9	45	47

Hannah (2007b) comments:

> *'London – capital of a country with just over half the USA's GDP – was still, in absolute terms, larger than New York, even for domestic corporations alone. Paris – with a national GDP only one-third the USA's – was not much smaller, and again, larger if its quoted international equity is considered; and it was also nearly twice the size of Berlin. The puzzlingly small size of Berlin . . . is partly explained by the relative insignificance of rail issues there, while a similar gap – financial issues – appears in the New York market. These 'missing' equities are . . . largely the result of government policy. Germany had nationalised its major railways, and their fixed interest indebtedness only appeared as government securities. In the USA, branching was substantially banned, so the thousands of American banks were mainly too small for a NYSE quotation, while the less numerous European banks were larger and often quoted.*
>
> *'. . . it is rather striking that at this time the value of all British investments in the United States alone . . . was about the same as the value of all the common stock listed on the NYSE . . . the equity culture was not fully developed anywhere at this time, but shareholding was more widespread in Britain and France; western Europe also clearly had the more experienced and sophisticated investors.'*[55]

---

54 Table in Hannah (2007b); page 404. Based on data in Dimson et al (2002); pages 23–26. Statistics to establish a similar point but prepared on a different base are quoted in Michie (1990); page 97. Further estimates of London Stock Exchange market capitalisation expressed as a percentage of GDP are set out in Musacchio (2010); Appendix A. These estimates are broadly consistent with those in Dimson et al (2002). However, Musacchio (2010) was a response to other calculations in Rajan and Zingales (2003) which suggested that certain civil law countries (including France and Germany) had larger stock markets than common law countries, a view with which Dimson et al (2002 and 2014) would not agree.

55 Hannah (2007b); pages 405–406.

The outcome was that, when the New York market was slow to respond to demand for finance for a new industry, the London market was ready to supply capital. Similarly, the London Exchange was ready to accommodate Dutch businesses when the Amsterdam Exchange proved unready, as it was also welcoming to Canadian ventures.[56] In short, London was a readier market for risk capital.

The expansion in the number and value of shares quoted on the Stock Exchange did not occur steadily.

Character of the market: promoters of new issues

For years before 1925, it is not easy to be certain how many issues occurred in each year and who was responsible for them.[57] Some issues were the responsibility of brokers alone, specialising in the promotion of issues, although, in view of the shallowness of the organisation available to support them, introduction of new securities to the Exchange and finding potential shareholders to take holdings in securities would be beyond the resources of most broker members. As a result, introduction of new securities and contact with new shareholders became in many cases an opportunity for non-members.

Not in every case, however. Some firms developed expertise in the introduction of certain types of security as, for example, did R Nivison & Company, J&A Scrimgeour and Mullens Marshall & Company, which between them acted in the introduction of most loan stocks issued by British local authorities and colonial governments represented by the Crown Agents.[58] Other firms, such as Foster & Braithwaite,[59] Panmure Gordon,[60] Helbert Wagg &

56 Michie (1997); page 140. Hart et al (1997); page 114. Armstrong (1997); page 56. Similarly, in the 1890s, the London Stock Exchange was used as the base for flotation of United States brewery shares promoted, among others, by Samuel Untermeyer, a lawyer who was subsequently to be related to enquiries into the 1907 and 1929 crashes.

57 In 1929, the first issue of the *Issuing House Yearbook* was published. That issue reported all new issues from 1925 to 1929 of securities that were dealt on the Exchange, identifying the issuing house responsible and the sponsoring broker. Subsequent issues were covered by later editions of the yearbook although publication did not take place in every year. Although *The Times Book of Prospectuses* is a source for new issue data, that publication does not include new issues not covered by advertisements published in *The Times* and the new issue statistics that it sets out also appear incomplete.

58 Robert Nivison formed his firm in 1887 having specialised in colonial government issues whilst working with Westminster Bank; Michie (1999); page 101.

59 Reader (1979); page 94. Foster & Braithwaite were engaged in the flotation of a number of electrical engineering concerns.

Company[61] and Sperling & Company[62] specialised in the introduction of new issues. Significantly, however, Helbert Wagg & Company and Sperling & Company were to forsake membership of the Exchange in 1912 and 1915 respectively to concentrate on their new issues activity.

Substantially, however, most of the work of bringing new issues to the Exchange was undertaken by agents outside the Exchange. Here, too, a degree of specialisation was evident.

Some houses, including Baring Brothers and NM Rothschild, specialised in acting for foreign governments in launching new loans often jointly with houses in other capitals; but also became involved in the flotation of larger manufacturing companies. Baring Brothers, for example, had acted in connection with the flotation of Guinness in 1886 and subsequently in the flotation of Whitbread & Company and Combe & Company.[63]

In some rare cases, companies promoted their own flotations using as advisers their usual accountants and solicitors.[64] Most commonly, however, company promotions were undertaken by specialist operators beyond the more established City houses who were generally known as company promoters, although this term fell into disrepute and many would not have used it of themselves:

> *'In my presence I was spoken of as a great financier – in my absence as a successful company promoter.'*[65]

It was not the formal process that drove businesses into the hands of promoters. Technically, the process of promotion was not unduly demanding: it required an aptitude for form-filling and record-keeping possessed by many in business.[66] Under the Companies Act 1862, the process was largely a matter of completing the right forms in the right order and filing them

---

60 McDermot (1976); pages 38–40. Panmure Gordon was engaged in the flotation in 1898 of Lipton & Company, the tea merchants, and with the flotation of a number of breweries including Ind Coope, Newcastle Breweries and Plymouth Breweries.

61 Roberts (1992).

62 Diaper (1990); page 76.

63 Orbell (1985); pages 53–54.

64 O'Hagan (1929); Volume II, page 23. Rubinstein (1977). Harrison (1981); page 171.

65 Bottomley (1892); page 7. Roberts (1993); page 33: 'by the 1920s the name "company promoter" . . . virtually suggested dishonest behaviour'. Nye (2012); page 238, observes: 'In the day census of 1911, just eight firms admitted to being "company promoters", employing twenty-four staff in total.'

66 Harrison (1981); page 172.

with the Registrar of Companies. As for the Stock Exchange, the requirements were a little more onerous. It was necessary for a company to appoint a member of the Exchange authorised to:

> *'. . . give full information as to the formation of the undertaking . . . and able to furnish the committee with all particulars they may require.'*[67]

But the information required was similar to that required by the Registrar of Companies and did not otherwise require the involvement of a specialist intermediary.

There were, however, two contributions that an expert promoter could make, both of which concerned marketing and arose from the likelihood that vendors would be ignorant of the Exchange and of possible purchasers of shares. Harrison describes such a circumstance:

> *'Mr Hopper was entirely ignorant of the condition of the money market here as regards flotations, and having an absolute faith in the business itself needed little persuasion as to the furious demand there would be on the part of the public to take shares in such a company, and Mr Wilson and Mr Nowell were almost equally simpleminded.'*[68]

Even though a business's owners might be convinced of its commercial prospects, a successful flotation depended upon potential investors sharing that conviction. It was the role of the promoter to use a knowledge of company law and the Stock Exchange's rules to ensure that each issue's prospects were presented in the best light by whatever prospectus or offer document was to be circulated. It was also his role to know where and how potential investors might be reached and convinced. To assist in the process of marketing new issues, some promoters affected a flamboyant lifestyle, presumably to attract attention and to demonstrate the profits that had been earned from their promotions:

> *'Everything was swagger. Swagger directors, swagger officers, swagger bankers, a swagger house at the West End, a swagger palace down at Surrey, a swagger yacht down at Cowes, swagger entertainments – all matched each other. The whole thing was a gorgeous vulgarity – a magnificent burlesque of business.'*[69]

---

[67] Rule 151(4).

[68] Messrs Hopper, Wilson and Nowell were partners in a business floated in 1913 as F Hopper and Company Limited. Harrison (1982); page 19.

[69] Van Oss: 'Whitaker Wright Finance'. *Blackwood's Edinburgh Magazine*; March 1904; page 400. For evidence of the effect of promoters' management of their image see: Sisman (2015); page 13.

Some promoters[70] sought election to the House of Commons as a platform for self-publicity and as a means to gain access to prominent public figures who could be invited to join company boards. Many published their own newspapers to advertise their promotions.[71] Nye (2012) reviews these and other means by which promoters strove to market issues.

The most prominent promoters had many imitators: lured by the prospect of substantial profits. Unfortunately, many gave way to the temptation to exaggerate the merits of less satisfactory propositions and to burden what might have been satisfactory propositions with capital that they could not service. Many indeed may have been encouraged to do this by vendors who had unreasonable expectations of the value of the shares they were hoping to sell. This especially occurred when bull markets had passed their peak. At such times, investors incurred losses and, not infrequently, the promoter's excesses were exposed:

> *'Company fraud flourished in periods of intense financial growth. The speculative booms of the 1840s, 1860s, 1890s and 1920s afforded promoters their greatest opportunities for fraud. During upswings in the business cycle, investors were more confident and trusting in the disposal of their capital. Disreputable promotions found it easy to hide themselves among the crowded field of new companies.'*[72]

Writing about an earlier period (1866–1883), Shannon estimated that one-sixth of all new promotions during the nineteenth century were fraudulent.[73] Not infrequently, a promoter's career led to bankruptcy, which was the fate of Albert Grant in 1877,[74] Ernest Terah Hooley in 1898 and 1911[75] and Horatio Bottomley in 1912.[76] So successful were some promoters' attempts at self-promotion that it is easy to assume that they were wholly responsible for the excesses that occurred. This would be a mistake. There were company vendors who used the

---

70 For example, Horatio Bottomley, Sir Edward Watkin and Davison Dalziel were all MPs. Birch Crisp stood for election on several occasions but failed to be elected.

71 Horatio Bottomley published *John Bull*. In 1892, Edward Beall used the *Financial Gazette* to push his shares. Sir Edgar Vincent owned the *Statist* between 1892 and 1898. Sir Geoffrey Isaacs, who was interested in Welsh granite and gold mining, started *British Mining* in 1900 which was used to carry favourable articles about the prospects for Welsh gold mining companies. Armstrong (1997); page 125.

72 Robb (1992); page 95. Excesses of this type were not unique to England. Similar problems occurred for example in the United States of America, Canada, France and New Zealand. Indeed, they continue to occur in some jurisdictions: 'How Xijian Zhou. An Unknown Chinese MLM Promoter, Made $5 billion in a Matter of Months'; *Forbes*; 9 June 2015. Downloaded from www.forbes.com/sites/antoinegara.

73 Shannon (1933); page 295.

74 Robb (1992); pages 100-101.

75 Robb (1992); pages 105-107.

76 Robb (1992); pages 110-112.

services of promoters to secure prices for their shares that exceeded prudent estimates of their value.

This study focuses on the activities of Clarence Hatry, a company promoter who came to prominence after the 1914–1918 war, who was to become for many the embodiment of the company promoter and whose crash in 1929 was said to have precipitated the Wall Street crash.

Hatry was the son of Julius Hatry, a trader in silk, who had come to England in the 1870s. By marriage, his family based in Zweibrucken had acquired an interest in a silk mill, Escale Frères in Sarreguemines in Lorraine,[77] which had been ceded to Germany after the Franco-Prussian war of 1870. In the aftermath of the war, it was no longer possible to sell through Paris the mill's output of silk velvet and plush for top hats. Julius Hatry was then sent to London and set up in Southwark to sell plush to British hat manufacturers.[78] Clarence Hatry had taken over his father's business on his death from lung cancer in 1906 but it had closed in 1910 after some unsatisfactory dealing in bills of exchange which left Hatry (and his mother) bankrupt.[79] In 1909, while in Brighton to recuperate from illness, Hatry met not only Violet Ferguson, who was to become his wife in the spring of 1909,[80] but also Deighton Patmore, an insurance broker, who was to become his partner. Patmore had clients who wished to borrow money against their expectations of inheritance but could not provide the necessary references. Hatry suggested to Patmore a way of circumventing this problem by getting his clients to sign each other's loan application forms;[81] on its success they went into partnership with Bruce Logan, a noted oarsman,[82] as Patmore Logan and Hatry Limited. Almost immediately, their offices were moved from Patmore's former address in Leicester Square to 180 Piccadilly. Their insurance

---

77 Census records and register details provided by the Archives Municipales, Sarreguemines.

78 There were several hat factories in Southwark around which were grouped a number of suppliers of materials for hats, including representatives for the principal silk mills in Lorraine. It was generally believed that French silk plush was superior to British silk for the manufacture of top hats as it was less likely to become discoloured through the application of heat. *The Hatters' Gazette.*

79 Mrs Hatry's public examination in bankruptcy on 18 May 1911: National Archives; file B 9/717. Clarence Hatry's public examination in bankruptcy on 12 January 1911: National Archives; file B 9/563. The bills of exchange transactions involved British Bank of Commerce, whose two partners were declared bankrupt after the bank became involved in share speculations on behalf of customers and the partners had withdrawn excessive funds for personal expenses: National Archives; files B 9/559–562.

80 This was before Hatry's 21st birthday. The marriage certificate shows a false birth date.

81 Pearson (1961); pages 109–110.

82 The rowing connection was valuable as it provided introductions. For example, Peter Haig Thomas, who was to serve as director of many companies for Hatry, was also a noted oarsman and was for many years coach of Oxford University Boat Club.

and loan broking business proved so lucrative that Hatry was able to pay all of his (and his mother's) debts.[83] As importantly, Hatry and Patmore became known for their skills as loan brokers among the impecunious young men who frequented the hotels around Piccadilly and especially the notorious Cavendish Hotel by Hatry's office.[84]

Hatry's next scheme involved selling insurance to East European migrants to the United States of America.[85] Through a network of agents in the Balkans, intending migrants were offered a policy that undertook to pay the cost of a return passage to Europe in the event that the migrant was denied entry to the USA on arrival at Ellis Island. Having set up the business, Hatry sold it to Union Emigrants Association Limited, a company that he formed with an impressive board of directors,[86] and proceeded to sell its shares. As that scheme worked well, Hatry then established a further company, Union Emigrants Association (Italy) Limited, which acquired from the first company the right to sell insurance to migrants from Italy, and proceeded to sell the new company's shares as well.[87] By this time, Hatry had made the acquaintance of Osborne O'Hagan, a successful company promoter who lived at Albany, and O'Hagan's solicitor, Sir Frank Crisp, who was the foremost company lawyer of the day.[88]

Hatry then went on to prepare for what would have been his first promotion of a public company, the Planet Insurance Company Limited. He acquired this company in January 1914 and converted it into a public company with the intention that it should compete with German insurance companies for reinsurance business. Closure of the Stock Exchange on the declaration of war and the imposition of controls on new issues put paid to this scheme and the company was not to be floated.

Hatry's success in gaining admission to the world of company promotion after his experience of bankruptcy testifies not only to his networking and financial skills but also to the openness

83 National Archives; files B 9/717; B 9/563.
84 Wood and Wood (1954); pages 57–58.
85 In the years immediately before the 1914–1918 war, there was a great migration from Eastern Europe: First Report of the Departmental Committee on Shipping and Shipbuilding (1916). Zahra (2016); page 34 et seq.
86 Notably Lord Ribblesdale, who was politically connected to the Liberal Party and who, when in London, resided at the Cavendish Hotel..
87 National Archives; file BT 31/222000/135157.
88 Albany is located on the north side of Piccadilly close to 180 Piccadilly. Sir Frank Crisp was the senior partner of Ashurst Morris Crisp and the legal adviser to the Liberal Party.

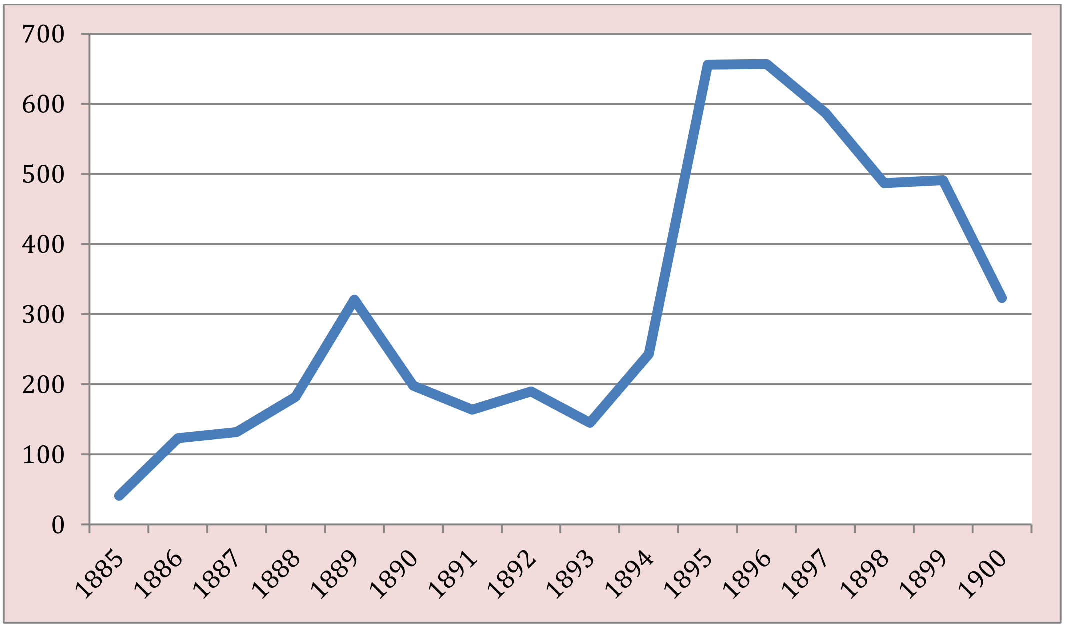
of the City to people who appeared able to introduce profitable business, whatever their background.

Character of the market: new issues

Clarence Hatry was merely the most notorious of those involved in the business of company promotion. At times there were many promoters, some involved in a large number of transactions and some engaged only in one or two. Not only did the scale of activity vary between promoters, so did the type of activity in which they were engaged.

For his study of company promotion practices before the 1914–1918 war, Nye attempted to calculate the number of promotions during the period 1885 to 1900 and the amount of cash that they raised by using the Board of Trade's statistics for the amount of money raised by shares issued by new companies and applying a number of filters to that data. Nye acknowledges that the process is imperfect but suggests that the results provide a useful indication of the trends experienced.[89] The following chart shows Nye's estimates of the numbers of promotions from 1895–1900:

Chart 2.1: Number of company promotions 1885–1900 per Nye (2012)



89 A full description of the process appears in Nye (2012); pages 177–180.

In the same exercise, Nye calculated that the cash raised by these promotions varied between £0.7 million in 1885 and £16.7 million in 1897.

Because the Board of Trade's practice changed in 1900, Nye could not extend this exercise to 1914 but instead relied upon analysis of the names of companies formed between 1900 and 1914. It was common practice for company promotions to begin with the formation of a small syndicate whose members would finance the early stages of a promotion in which a company would be restructured in preparation for offering its shares for sale. The members of the syndicate would then share in the promotion profits. Nye identified companies registered in each year with the word 'syndicate' in their name. This work showed a serial pattern similar to that evident in the chart above, a gradual increase in the numbers of promotions or syndicates to a peak after which there was a rapid fall.

The peak in the 1890s was characterised by a boom in gold mining shares which were heavily promoted, and in 1911 there was a similar boom in rubber shares.

These statistics, whatever their limitations, reflect a market that grew in a series of spurts which were attended by increasing speculation and ended with failed promotions and bankrupt companies. That the London market continued to grow in spite of these periodic collapses suggests that investment through the market was perceived both by potential investors and by business owners to offer comparative advantages that outweighed the risks.

As far as investors were concerned, the relative returns to equity investment compared with bonds were attractive.

Table 2.5 : Nominal and real returns to investment in equities, bonds and bills 1900–1913[90]

End December			*Nominal*	*Inflation %*			*Real*
	Equities return %	*Bonds return %*	*Bills return %*		*Equities return %*	*Bonds return %*	*Bills return %*
1900	1.3	1.1	4.2	2.1	-0.7	-0.9	2.0
1901	-3.9	-1.0	3.3	1.0	-4.9	-2.0	2.2
1902	3.3	1.9	3.0	1.0	2.3	0.9	2.0
1903	-2.0	-2.5	3.5	1.0	-3.6	-3.5	2.5
1904	6.0	3.5	2.7	0.0	12.3	3.5	2.7
1905	12.3	3.7	2.5	-0.5	6.8	4.2	3.0
1906	6.3	-1.0	3.7	1.5	1.7	-2.5	2.2

90 Dimson et al (2014); pages 185–186.

End December	*Nominal*			*Inflation %*	*Real*		
	Equities return %	*Bonds return %*	*Bills return %*		*Equities return %*	*Bonds return %*	*Bills return %*
1907	3.0	0.3	4.7	3.0	-3.7	-2.6	1.6
1908	3.2	3.3	2.7	1.4	1.5	1.8	1.2
1909	-0.8	1.7	1.9	0.5	7.7	1.2	1.4
1910	3.0	-1.2	3.2	0.9	5.6	-2.1	2.3
1911	8.2	0.3	3.0	2.3	-0.1	-2.0	0.7
1912	6.6	0.7	3.4	1.8	2.3	-1.1	1.6
1913	2.2	-1.4	4.6	-0.4	1.7	-1.0	5.0
1914	4.1	-1.0	3.1	9.5	-15.3	-9.6	-5.9

For the decade 1900–1910, these returns imply that the real capital gains on equities were −0.3%, the real return to investment in bonds was −2.1% and the equity risk premium against bonds was 1.8%, which was to rise for the subsequent decade (1910–1920) to 5.1%.[91]

These results continued a trend in the returns to investment in bonds that had been evident for several decades:

Table 2.6 : Yield on Consols 1863–1902[92]

	Old 3% Consols	*New 2.5% Consols*
1863–1872	3.25	3.25
1873–1882	3.12	3.12
1883–1892	2.72	2.70
1893–1902	2.35	2.22

As Armstrong (1990) comments:

> *'. . . rentiers who depended on Consols as their sole or main source of income saw a continuous and worrying decline in money income.'*[93]

Armstrong also points to the decline at this time of the attractiveness of land as an investment.[94] During this period when yields on alternative investments had been declining, some of the factors that had led investors to avoid equities had been reduced by changes in corporate practice. In particular, there had been a decline in the practice of issuing partly called shares which exposed holders to the risk of further calls being made.[95] The relative

91 Dimson et al (2014); page 182.
92 Armstrong (1997); page 119
93 Armstrong (1997); pages 119–120.
94 Armstrong (1997); page 121.
95 Jefferys (1946). Jefferys (1938). Acheson et al (2012).

attractiveness of equity shares was heightened by changes in the incidence of Income Tax. In the decade before 1914, the standard rate of Income Tax had been increased, Super Tax had been introduced and the effective rate of income tax applied to investment income had been increased above that applied to earned income.[96]

From the point of view of business owners, the share vendors, the Stock Exchange offered a cheaper source of finance than was available to unlisted businesses and the attraction of a liquid and active secondary market.[97] Internationally, the London Stock Exchange was regarded as a favourable source of finance as, before the 1914–1918 war, the equity risk premium in London was among the lowest of the pre-eminent exchanges internationally.

Table 2.7 : Equity risk premia in major exchanges 1900–1910[98]

Exchange	*Premium %*
United Kingdom: London	1.8
France: Paris	2.0
Germany: Berlin	6.3
South Africa: Johannesburg	3.0
Australia: Melbourne	11.3
Canada: Toronto	4.0
United States of America: New York	8.7

The reasons for London's pre-eminence have long been debated. Michie suggests that the London Exchange:

> *' . . . offered a home to almost all securities that required a market and could expect to generate business.'*[99]

Cheffins takes a similar positon:

> *' . . . even for companies seeking an official quotation, Stock Exchange requirements were not rigorous.'*[100]

96 The following changes all took effect before increases were imposed in 1914 in consequence of the onset of war. The standard rate of income tax was raised for the year 1909-1910 from 1s to 1s 2d in the £. The rate of tax on unearned income was distinguished from that on earned income for the year 1907–1908. Super Tax was introduced for the year 1909–1910 at rate of 6d in the £ on incomes above £5,000. Statistical Abstract (1921); pages 16–18.

97 Foreman-Peck and Hannah (2013); page 541. Michie (1999); page 141.

98 Dimson et al (2014); pages 182, 101, 107, 157, 63, 81, and 191. The world average equity risk premium was estimated at 3.3%.

99 Michie (1987); pages 184–185.

100 Cheffins et al (2013); page 196.

The suggestion that requirements in London were less rigorous than elsewhere is questioned by Foreman-Peck and Hannah who suggest that it is based on a limited analysis of formal requirements and not on corporate governance practice in London, which they suggest was more rigorous.[101] O'Sullivan, examining the evidence Anglo–American brewery issues between 1888 and 1892, suggests that such companies complied with requirements in London that were more restrictive than in New York. She also cites Samuel Untermyer, a New York lawyer who promoted brewery companies in the 1890s but subsequently was influential in the development of securities laws in the 1930s, who in an interview in 1890 suggested that London's attraction lay in:

> *' . . . investment companies . . . played another role, which was to secure demand for Anglo-American brewing securities in advance of their public offerings through underwriting agreements. It was that guarantee that allowed promoters to offer attractive terms to US brewers, thereby sealing the deals, but without assuming all of the risk of delivering on them. Since underwriting also contributed to the chances of securing an official quotation on the [London Stock Exchange], it meant, as Untermyer explained, that the business would have "a value dependent upon its earning power, rather than upon its assets, while in this country the value of a business is gauged to some extent by the assets that are back of it."'*[102]

Thus, according to Samuel Untermyer, London's advantage lay in the network of financial organisations that surrounded and supported the Exchange.

Against this, the disclosure requirements for public companies were more onerous than those for private companies so that becoming a public company involved some loss of privacy, although even what might have appeared to be deterrents for business owners were not as fierce as they seemed. Nominally, access to the Stock Exchange appeared to require a business's previous owners to cede control, because the rules specified that not less than two-thirds of the class of shares being issued should be available for trading. However, in practice the original owners could hold on to control by varying the company's capital structure as the rule did not require that all classes of a company's shares should be listed.[103] Once a company had been listed, there were few practical constraints on the directors' freedom of action:

---

101 Foreman-Peck and Hannah (2015); page 3. See also Hannah (2015).

102 O'Sullivan (2015); page 1383.

103 Thus a company could decide to apply for preference shares to be listed while its ordinary shares were not listed. See Cheffins et al (2013); page 668. Cheffins (2008). Rule 151(2); Appendix 36; paragraph 2.

> *'In the United Kingdom at the turn of the twentieth century company directors operated in a laissez-faire (some might say Wild West) environment with almost no formal rules to regulate their behaviour and few measures for redress available to shareholders.'*[104]

There was usually no constraint on individual directors' freedom to trade in shares as they wished[105] or their freedom to manage their businesses as they thought most appropriate. That freedom was supported by the application of voting structures that protected the directors' freedom (for example withholding votes from preference shareholders unless the dividends to which preference shareholders were entitled were in arrears). Moreover, directors were less troubled by the powers of shareholders than they would have been by the powers of a bank that had lent money to their company against security in the form of charges over the company's assets.

Of course this measure of freedom for directors implied a weakness in the ability of shareholders to protect their own interests: a weakness that is to some extent reflected in research comparing the investor protection regimes of major countries.[106]

Trading in an incorporated form presented one further advantage to owners. Since the reform of death duties in 1894, there had been advantage in settling property on the youngest members of a family to defer the incidence of estate duty. For an unincorporated business, this presented some difficulty since with ownership went management control, thus settlement of ownership on the youngest members of a family entailed devolving management control. In incorporated business, management control was divorced from ownership, which could be settled without disturbing existing arrangements for management control. If for some reason estate duty had to be paid, and it was necessary to realise some part of the family's holding, it might often be possible to do this without disrupting day-to-day control of the business.

---

104 Braggion et al (2013a); page 577.

105 Usually assured by provisions in a company's Articles of Association.

106 A general review of this work is in Musacchio (2010); Table 10. The issues covered include: proxy voting by shareholders, proportion of capital required to requisition a shareholders' meeting, pre-emptive share acquisition rights for shareholders and rights to challenge directors' decisions. However, Foreman-Peck and Hannah (2015) suggest that the poor rating of shareholder protection measures in London reflects a failure to distinguish between differences between the practice of private and public companies; and that, with some limited reservations, listed companies adopted more stringent practices. This conclusion they regard as consistent with the conclusions of their work on the willingness of UK vendors to separate ownership and control of their businesses: Foreman-Peck and Hannah (2012). Foreman-Peck and Hannah (2013).

Character of the market: investors

Although it has long been accepted that shareholding spread more widely during the last quarter of the nineteenth century,[107] there has been dispute about the identity and interests of the people who became shareholders. Some, for example, have suggested that even though shareholding grew, it 'remained an activity largely reserved for the wealthy'.[108]

Circumstantially, however, other developments suggest that there was a wider interest in shareholding. The launch of two financial newspapers in London in the 1880s (the *Financial News* and the *Financial Times*) that were widely distributed outside London suggests that their proprietors thought that there was a wider audience for financial news than before. These two titles were followed by many others. By 1914, there were at least 104 separate papers concentrating on financial issues.[109] There was also a growth in periodicals such as the *Financial Review of Reviews*, founded in November 1905, concentrating on investment and brief texts intended to introduce new investors to the mysteries of investment thus establishing that book publishers also believed that there was an audience.[110] This did not necessarily mean that prospective investors would be well informed by reading the financial press, for newspaper owners' motives were conflicting:

> *" . . . the alliance with finance grows closer every year, either by financiers purchasing a controlling share of newspapers, or by newspaper proprietors being tempted into finance . . . the entire dependence of the Press for its business profits on the advertising columns has evolved a particular reluctance to oppose the organised financial classes with whom rests the control of so much advertising business."*[111]

Nonetheless, research based on analysis of shareholders' lists suggests that the publishers were correct. One study suggests that in the two decades before the 1914–1918 war, the average size of shareholdings had been falling:

107 Cairncross (1953); page 85. Robb (1992); page 3.
108 Powell (1919); page 127. Cheffins (2008); page 191.
109 Porter (1986); page 1.
110 Duguid (1901). Duguid (1904). Hirst (1911).Rollaston (1905). Rollaston (1912).
111 Hobson (1902); page 60.

Table 2.8 : Size of shareholdings[112]

	£0–£100 %	*£100–£500 %*	*£500–£1,000 %*	*£1,000–£10,000 %*	*£10,000– %*	*Average holding £*
	Percentage of holdings in each nominal range					
1870–1879	32.2	37.7	11.3	18.1	0.8	930
1880–1889	30.8	46.2	11.6	10.3	1.1	837
1890–1899	33.0	37.4	11.6	16.0	2.1	1,446
1900–1909	36.9	38.9	11.2	11.5	1.7	1,106
1910–1919	49.8	32.4	8.7	8.3	0.7	689

The same research suggests that women represented a growing proportion of shareholders:

Table 2.9 : Male and female shareholdings by number and nominal value[113]

	Percentage of individual shareholdings			
	Number		*Value*	
	Female %	*Male %*	*Female %*	*Male %*
1870–1879	15.0	85.0	5.0	95.0
1880–1889	23.5	76.5	7.6	92.4
1890–1899	25.3	74.7	10.8	89.2
1900–1909	32.9	67.1	13.1	86.9
1910–1919	33.8	66.2	15.7	84.3

Many of the female shareholders identified in this research must have held relatively small numbers of shares in view of the disparity between the percentage of shareholdings held by women by number and by value.

Thus, this and other evidence[114] suggests that, although there undoubtedly were numbers of very wealthy and substantial investors, there were growing numbers of investors with comparatively small holdings of shares. This posed a challenge for the broker members of the Stock Exchange whose businesses were based on personal relationships with their clients. The economics of a relationship with an investor with a number of larger holdings would be stretched when an investor with a number of smaller holdings was involved. Commission

112 Rutterford et al (2011); page 168.
113 Rutterford et al (2011); page 169.
114 Broadbridge (1968). Anderson and Cottrell (1975). Reed (1975). Turner (2009).

income would be limited by the number and value of the transactions that could be expected and be less likely to support the maintenance of an active personal relationship. In this context, the members' campaign for the introduction of minimum rates of commission is not surprising, nor is the introduction by the *Daily Mail* of an inexpensive dealing service for readers, recommended as it was by the *Daily Mail's* City Editor, Charles Duguid, whose text for ingenue investors, *How to Read The Money Article*, had been reprinted on a number of occasions.

In some ways, the involvement of greater numbers of investors was a mark of the Stock Exchange's success, for by this means the growing savings of the middle class were made available to finance the expansion of industry at home and abroad. But it also created dangers for it tended to introduce to shareholding a class of investors with a lower appetite for risk:

> *'On the other hand, as the shareholder population grew and the significance of these kinds of investment increased, so the effects of stock market booms and busts were more widely felt. The impact of failure, in particular, tugs at traditional concerns relating to the relative vulnerability of women and inexperienced investors left at the hands of rapacious and unscrupulous puffers and pushers of dubious shares and other financial schemes designed to prise them from their money. Indeed, the social and personal cost of financial failures was a central element in the plots of several widely read novels of the period, such as* Little Dorrit *(1857) by Charles Dickens,* The Way We Live Now *(1875) by Anthony Trollope, and* The Whirlpool *(1897) by George Gissing.'*[115]

The broadening of the sector of the population interested in investment challenged old assumptions about the basis on which an investor could place trust in the investments being offered, for as the market grew, so did the risk of fraud:

> *'As reliance on reputation became riskier, verification of information and assets assumed heightened importance. Just as the market kept evolving, so too did the manner in which trust was distributed, often through processes ever more elaborate and suspicious, . . . This was a world of process and specialisation, where the excesses and risks of self-interest were meant to be held at bay by, in part, objective evaluation. The sociability in which Adam Smith had placed his hopes for harnessing self-interest was not a sufficient safeguard in the sometimes criminal capitalism of the ruthless free market. Instead trust was built through a series of deliberative approaches created or enhanced over a century.'*[116]

115 Rutterford et al (2011); page 181. Easson (2000). Wagner (2008). Michie (2011).
116 Klaus (2014); page 231.

The legal framework

The process of liberalisation of the British law on the creation of limited companies led to the Companies Act 1862, which consolidated the many Acts that had preceded it. In devising the legislation, the extent of any protection for the interests of shareholders was a critical issue. Difficulty existed because there was no parallel in company law for provisions of partnership law that served to protect the interests of partners: the duty of openness and fair dealing of partners to each other, the right of each partner to be involved in the management of the partnership and the right of each partner to have access to the partnership's documents.[117] Moreover, there was no equivalent in company law to the right of partners to terminate the partnership and to withdraw capital.[118]

To limit the effects of this difficulty, the 1862 Act included a section entitled 'Provisions for Protection of Members'[119] which included provisions requiring companies registered under the Act to hold an Annual General Meeting[120] and empowering members to invite the Board of Trade to appoint inspectors to investigate the books and affairs of the company. In addition to these provisions, the 1862 Act included provisions specifying a number of disclosures that were required to be made in prospectuses issued in connection with the creation of new companies: including, for example, details of any contracts entered into by the new company.[121]

In practice, these provisions were to prove disappointingly ineffective. Annual General Meetings were (and are) useful, requiring directors to demonstrate their accountability to shareholders, but of limited value unless there is full disclosure in preparation for the meeting. Similarly, although the appointment of Board of Trade inspectors could lead to valuable exposures, the Act required any application to be supported by shareholders holding at least one-fifth of the total capital, which could be difficult to arrange and involved shareholders in

117 Lindley (1888); page 303 et seq.
118 Blair (2003); page 427.
119 Sections 180–190; Companies Act 1862. This part of the Act *followed* a section entitled 'Provisions for Protection of Creditors'.
120 Section 49; Companies Act 1862.
121 Section 38; Companies Act 1862. The requirement was for the disclosure of the dates and names of the parties to any contract entered into by the company or people on its behalf before the issue of the prospectus. In practice the requirement proved onerous because of its 'wonderful comprehensiveness': Buckley (1891); page 570.

underwriting the cost of the inspection.[122] New companies offering their shares to the public were to find the prospectus provisions easy to dodge by the simple device of inviting applicants for shares to agree a waiver of the provisions.

Moreover, there were some notable omissions from the Act. For example, it did not impose rigorous annual disclosure requirements;[123] and it did not require that company annual accounts should be audited.[124] Further, as Campbell and Turner have pointed out, the Act did not contain many of the protections that have subsequently been added to company law and which were to some extent included in the investor protection regimes of other countries at the time:

> *'In addition, rights viewed by La Porta et al as playing an important role in protecting minority shareholders were absent: insider trading was legal; it was not compulsory for firms to have proxy voting; minority shareholders had no rights to force the company to purchase shares when they disagreed with fundamental management decisions; the issuance of shares with unequal voting rights was not regulated; shareholders did not have a pre-emptive legal right to buy new issues of stock; and the percentage of share capital required to call a meeting was not mandated.'*[125]

In subsequent years, dissatisfaction with these provisions led to further consideration and amendment. Under the Companies Act 1879, passed after the collapse of the unlimited City of Glasgow Bank, banking companies were permitted to re-register as limited companies and all banking companies registered after the Act was passed were obliged to subject their accounts to annual audit.[126] The Court's decision in Derry v Peek[127] led to the Directors' Liability Act 1890 which imposed strict liability on directors for disclosures in prospectuses.[128] Under the

---

122 Section 56; Companies Act 1862.

123 It has been argued that it was the lack of such provisions that prevented unwelcome takeover bids: a form of market activity which was in the twentieth century to prove an effective spur to boards and corporate performance. Campbell and Turner (2011); page 573.

124 This had been a requirement of one of the predecessor acts and, from the 1860s, it was a requirement of the London Stock Exchange that the annual accounts of newly listed companies should be audited. However, it was only after 1900 that the Exchange required that listed companies should circulate their balance sheets to all shareholders.

125 Campbell and Turner (2011); pages 573–574. La Porta et al (1998); pages 1126–1128.

126 Sections 4 and 7; Companies Act 1879.

127 The case concerned a prospectus which suggested that a company had the right to operate a tramway without a requirement for further Board of Trade approval. This was incorrect and, it was argued, the directors should have known that it was incorrect. The court held that although the statement was incorrect, the directors were not under an obligation to make enquiries personally which would have demonstrated that it was incorrect. Derry v Peek; 14 Appeal Cases 337.

128 Section 3; Directors Liability Act 1890.

Companies Act 1900, waivers of statutory provisions were banned.[129] Under the Companies Act 1907, the disclosures required to be made in prospectuses were again extended. [130]

Serial attempts such as these not only demonstrate that there was continuing unease about the protection offered to shareholders by the law, but also suggest that it was proving technically difficult to secure formal protection that shareholders would find adequate. The banning of waivers in 1900 shows why this was the case. It was intended to stop companies using waivers to avoid the 1862 Act's disclosure requirements and the liability provisions of the 1890 Act. In this instance, the legislator's objective was not secured by simply banning waivers, as a way was found to offer shares for sale without issuing a prospectus. Rather than offering its shares directly to the public, at which point a prospectus had to be published, a company could issue its shares to a third party which would then offer to sell the shares to the public, a transaction for which a prospectus was not required (i.e. an offer for sale). Thus whenever disclosure was regarded as potentially troublesome, a sale would be organised as an offer for sale. This is merely one demonstration of a tightening of the law being followed by attempts to frustrate its purpose.

This analysis of the weakness of the legal framework for the protection of shareholders may seem counter-intuitive, as one might have thought that relatively weak legal protections for investors might have been a deterrent for investors: suggesting that they had little reason to be confident that they could assess trading risks on a secure basis. Yet the London Stock Exchange had proved very successful both in attracting vendors seeking a market for their shares and prospective investors seeking return for their funds. Assuming that prospective investors would generally act rationally, the Exchange's success in attracting investors implies that they believed that they could assess their risks reliably and take appropriate steps to mitigate their risks even though the legal framework may have been weak. Shareholders may, for example, have been able to rely on informal signs of a company's relative strength. Alternatively, the framework's weakness could be exaggerated. Both of these conjectures may have some merit.

There is evidence that in practice potential shareholders were able to distinguish between new company flotations by being alert to 'signals': the identity of a company's directors and its

129 Section 10; Companies Act 1900.
130 Section 2; Companies Act 1907.

governance structure,[131] the identity of the flotation's promoter,[132] the form of the transaction,[133] the treatment of goodwill[134] and, generally, City sentiment.[135] It has also been suggested that in many cases, shareholders came largely from the locality in which a company was based and thus had some knowledge of, and may well have been known by, the directors: knowledge which may have been the foundation for trust between them.[136] Some have suggested that shareholders would take account of a company's dividend record: consistent dividend declarations being taken to imply sound management.[137] Yet others have suggested that favourable or unfavourable treatment of a company and its associates in newspapers was critical for shareholders,[138] although newspaper criticism was clouded in practice by proprietors' conflicts of interests and their willingness to succumb to a need for advertising income and other forms of financial support.[139]

There is also some suggestion that, however weak the legal framework may have been, the mechanism by which shares came to be listed in London was effective to some degree in limiting the incidence of initial offering failures and signalling higher risk of failure. A study reported by Burhop, Chambers and Cheffins compared a sample of flotations on the London market between 1900 and 1913 with a sample of flotations on the Berlin market, where the rules on public offerings of shares had been made more rigorous by virtue of reforms introduced in 1884 and 1896.[140] The study found that public offering failures:

> *' . . . were considerably rarer on the relatively strictly regulated Berlin Stock Exchange than on the laissez faire London Stock Exchange.'*

However, it also found that in London:

---

131 Cheffins (2006); pages 1273–1338. Campbell and Turner (2011); page 594. Foreman-Peck and Hannah (2013); pages 540–561.

132 See letter from Robert Fleming to J Cox: Dundee University Archives: reference MS/66/II.

133 Some were wary of 'offers for sale': *The Economist.*

134 The inclusion of goodwill as an asset of the company being floated. Commentators often warned investors of the possibility that the value of goodwill may prove illusory. Withers (1910); pages 73–74. Rutterford suggests that the normal practice was to issue debentures and/or preference shares up to the balance sheet value excluding goodwill and to issue ordinary shares to the vendors against the goodwill. A departure from this 'normal practice' would have constituted a signal to prospective investors. Rutterford (2011); page 881.

135 The effectiveness of City networks is examined in Cochrane (2009).

136 Franks et al (2008).

137 Campbell and Turner (2011); page 594.

138 Duguid (1901); pages 99–102. Porter (1988); pages 49–60. Johnson (2010); pages 204-207. Taylor (2012); page 649. Taylor (2013a); page 700.

139 Porter (1986); pages 1–17. Kynaston (1988); pages 53-54. Porter (2000); pages 71–96.

140 Burhop (2011); pages 13–17.

> *' . . . the failure rate of the more tightly regulated Official Quotation IPOs was considerably lower than that of the less regulated Special Settlement sector.'*

More precisely, the study found that of the Berlin sample, only three of the 335 companies that had carried out public offerings between 1900 and 1913 in Berlin had de-listed within five years, whereas seven of the 267 companies that had carried out an 'Official Quotation' offering in the same period (3%) had de-listed. Of the total public offerings in London, 114 out of 825 (13.8%) had de-listed within five years, which implies that of 'Special Settlement' offerings,[141] 107 out of 558 (19.2%) had de-listed.[142]

At the least, this study suggests that acceptance by the Stock Exchange of an application for a security to be added to the Official List should have been a powerful signal of lower risk for potential investors, coupled as it was with a high degree of voluntary disclosure of financial data including balance sheets and profit track records, which would at least have been an indication that the directors who authorised such voluntary disclosure were not defensive about their company's record. The tendency was for larger, more established businesses to seek an Official Quotation and for smaller, more speculative companies such as natural resource prospecting and mining companies to avoid the Official List.

This suggests that the effect of the rules imposed by exchanges such as Berlin operated was achieved not by enabling investors to assess the risks of particular investments but by denying access to the market to smaller, riskier companies.[143] Conversely, it also suggests that the London market was open to smaller, riskier ventures; and that, although it was not surrounded by a legal framework as strong as those elsewhere, it was surrounded by a network of informal signalling which the well-attuned investor could use to assess and mitigate trading risk. Correspondence in 1920 between Robert Fleming and his old associate, John Cox, of Cox Brothers, Dundee, suggests, for example, that he and others would be wary of the companies

---

141 Companies could apply to the committee for dealings to take place in their shares, even though no application was made for inclusion in the Official List. The committee would generally approve such an application, nominating a 'special settlement' day: i.e. the first day on which deals could be settled. Rule 133. All bargains reached before a 'special settlement' day had been nominated would be contingent upon that approval and unenforceable. Schwabe (1905); page 7. Parkinson (1925); pages 24–25. The effect of this arrangement was that dealing in such shares was possible although the shares were not obliged to comply with the full requirements that applied to shares that were officially listed.

142 Burhop et al (2012); pages 29 and 32.

143 Burhop et al (2012).

promoted by particular people.[144] Of course, this informal network would have been less effective for investors at some distance from the market; but for those close to the market it must have been sufficiently effective for them to believe that the risks of investment through the market did not exceed their risk appetite.

The literature suggests that the risk appetite in London was very different from that evident on other exchanges. This is implied by calculations of the equity risk premia in various markets. Significantly, the premium calculated for the London Stock Exchange seems not only to have been consistently lower than New York but also Berlin, which was more successful than London in limiting the occurrence of failed IPOs.[145] In turn, this suggests that one reason for the outstanding success of the London Stock Exchange internationally was its openness to riskier IPOs.

Acceptance of regulation by private bodies

In 1914, share trading was not the only commercial activity to be managed in this way by private bodies such as the London Stock Exchange: there were others, many of them professional associations. There were indeed similarities between the rules promulgated by the Exchange and those promulgated by other such bodies. For example, it was common for such organisations to bar the use of advertising, to forbid involvement in other commercial activities and to ban practice through a company.[146]

There was, however, at least one dissimilarity between the Exchange and many of these other bodies. Many of them were by charter or statute given the exclusive right to control the provision of a particular service or the right to use a particular title. Thus, various Institutes of Chartered Accountants were granted control of the title 'chartered accountant'.[147] Under the

---

144 This observation is also consistent with conclusions reached by others in respect of shareholders in earlier periods. Campbell and Turner (2012) conclude that whilst there certainly were naïve investors during the British Railway Mania in 1845–1846 there were also many 'highly experienced' investors. Campbell and Turner (2012); page 23.

145 Dimson et al (2002) and (2014). Burhop et al (2012).

146 Carr-Saunders and Wilson (1933); pages 432 and 446. Indeed, the earliest disciplinary cases to be considered by the Institute of Chartered Accountants all concerned infractions of these rules, not shortcomings in the quality of professional work or advice: Minutes of the Council of the Institute of Chartered Accountants; Guildhall Library. This is in some ways a parallel to the Stock Exchange's concentration on members' business irregularities rather than on the quality of traded securities.

147 See Carr-Saunders and Wilson (1933); page 208 et seq; which cites The Institute of Chartered Accountants in England and Wales by virtue of a charter granted in 1880. Notoriously, they were not granted control over use of the title 'accountant' which continued to be used freely.

Solicitors Acts, it was an offence for anyone to claim to act as a solicitor without the recognition of the appropriate bodies.[148] Naturally there was a price for this public grant of exclusivity. For example, grant of exclusivity by way of a charter involved submission to oversight by the Privy Council. Although this did not impinge on day-to-day management of the institution, it did limit its freedom to amend its rules, as any changes required Privy Council approval and thus the approval of the government of the day.

In the Stock Exchange's case there was no such exclusivity: either of the description 'stockbroker' or of the provision of 'stockbroking services'. Anyone could thus offer such services, try to create a market similar to the Exchange or indeed advertise that he was a stockbroker. The lack of exclusivity was not an accident as the issue had arisen and reform been rejected in the 1870s.

Possible reforms of the Exchange's constitution were considered by a select committee of the House of Commons in 1875. Having enquired into the terms on which loans were floated in London on behalf of foreign governments and into various abuses which had occurred, the committee considered whether the Exchange was fitted by its constitution to discharge a responsibility for protecting the investing public from the abuses of the syndicates floating the loans. Whilst the committee was of the view that the Exchange's committee was not fit for this purpose,[149] it also concluded that it could not recommend how it could be reformed:

> *'It was suggested by some witnesses that the evils which your Committee have described would be met by legislation rendering illegal all contracts before allotment. But your Committee were distinctly told by the Chairman of the Stock Exchange Committee, that if such a law were framed that Committee would expel a member who, having dealt in a loan before allotment, refused to fulfil his contract on the ground of its illegality. In all cases when a contract is made illegal for some reason which does not carry with it a moral taint, a legal debt is changed into a debt of honour, and thus the payment, instead of being prevented is made more certain. So long as the Stock Exchange has the power of expelling one of its members without appeal or redress, it can be bound by no law which it does not choose to obey. When it loses that power, its means of self-government are gone, and the Society as at present constituted is at an end.'*[150]

---

148 Carr-Saunders and Wilson (1933); page 21.

149 Report of the Select Committee on Loans to Foreign States (1876); page xlvii: 'Such a body is not fit for the exercise of judicial powers.'

150 Report of the Select Committee on Loans to Foreign States (1876); pages xlvii–xlviii.

The question was considered again three years later by a Royal Commission appointed after concern about the flotation of loans for foreign states was reinforced by evidence of fraudulent company promotions in which the creation of artificial markets in shares was used to persuade the public to invest. As far as new issues were concerned, the Commission doubted whether it was appropriate for the Exchange to be responsible for investigations to detect fraud and proposed that where it was 'deemed necessary for the public protection' to investigate a new loan or company that investigation should be undertaken by a public functionary and enforced by law.[151] The report did not suggest who that functionary might be.

As far as the Stock Exchange's constitution was concerned, the report recommended that the Exchange should be incorporated either by the grant of a Charter or by Act of Parliament. The Commission was concerned that the Committee for General Purposes was regenerated each year and could not bind any successor committee, creating the possibility that even if the Commission's recommendations for changes in the rules were implemented, they could subsequently be changed with ease. The proposal for incorporation was thus accompanied by a proposal that changes in the incorporated Exchange's rules should be made subject to approval by the President of the Board of Trade or some other competent public authority. It was also envisaged that the newly incorporated body should be exclusively empowered to grant applicants a licence to act as stockbroker.[152]

Although the Commission was principally concerned with London and the report was silent on the precise scope of this suggestion, it was presumably intended that the proposal for licensing would have extended to the whole country, as otherwise it might have proved ineffective. Notably, this recommendation would have involved public oversight of the constitution and rules of the Exchange to accompany the Commission's recommendation that in certain cases investigation of new issues should be a public and not a private responsibility of the Exchange.

These recommendations were not unanimously supported by commissioners. In a note of reservation, Hon Edward Stanhope[153] noted:

> *'To attempt to regulate the manner in which business is conducted in the great money market of England is going far beyond the province of the State, nor is any*

---

151 Report of the London Stock Exchange Commission (1878); page 20.
152 Report of the London Stock Exchange Commission (1878); pages 25 and 26.
153 Conservative MP for Mid Lincolnshire.

> *Government department in any way qualified to undertake it. The report indeed recommends that external control should be exercised with a sparing hand. But experience seems to show that the first commercial crisis, or the discovery of any gigantic fraud, would cause a pressure for further restrictions which the department entrusted with these duties could not possibly withstand.'*[154]

Mr Stanhope's reservations were supported by two other Commissioners, one of whom, Septimus Scott, observed:

> *'This Royal Commission has been sitting more than 12 months yet no important or reliable evidence has been volunteered of a character adverse to the general practices, or conduct of business on the Stock Exchange.*
>
> *'If proof be required that the internal legislation and administration of the Stock Exchange enforce a higher standard of morality than the law can reach, or enacts for the regulation of other trades, such proof is to be found in the fact that recently the Committee of the Stock Exchange were assailed at law by a member whom they had expelled on a charge of dishonourable conduct, the law suit being based on the ground that the action of the Committee was not justified in law.*
>
> *'The trial . . . proved abortive.'*[155]

In short, Scott was suggesting that the Exchange had been an effective, if reactive, regulator of its affairs, accepting the evidence of such as Hall Rokeby Price, a member of the Exchange's committee, to the effect that whenever anything nefarious had become known, the committee had endeavoured 'to stop the gap'.[156] With this foundation, and the Commission's lack of unanimity, it was an easy matter for the Exchange to persuade Parliament not to act on the recommendation. That the Exchange adopted this position is attributable to the Exchange's wish to stand aloof from other traders, the value that it saw in being able to manage its own rules without oversight and perhaps a scepticism about the commercial value of the monopoly that might be granted by way of charter. Other bodies that were at the time campaigning to be granted a charter were soon to discover that such apparent monopolies could be subverted.[157]

Nonetheless, the recommendations of the 1878 Commission demonstrate that, whilst there was strong support for the principle that private bodies may be left to supervise activities on which many members of the public relied, acquiescence in the position of the London Stock

---

154 Report of the London Stock Exchange Commission (1878); page 28.
155 Report of the London Stock Exchange Commission (1878); page 30.
156 Minutes of Evidence of the London Stock Exchange Commission (1878); Q1917; page 71.
157 Edwards et al (2005); page 240 et seq.

Exchange was neither unquestioned nor unconditional. Indeed, the fact that the 1878 Commission was only one example of a series of enquiries suggests that the Stock Exchange's ability to command public confidence was regularly questioned.

Typically, enquiries were commissioned in response to public anxiety over evidence of losses being suffered by members of the wider public as a result of abusive trading or flotations. After all, this is what had led to the appointment of a Royal Commission in 1877[158] and the earlier select committee in 1875.[159] In subsequent years, it was to lead to the commencement of further enquiries into the winding up of companies at the end of the 1880s and into company law in the 1890s. In effect, it was a condition of sustaining the Stock Exchange's position that the wider investing public was not exposed to losses occasioned by abusive behaviour. In part this depended upon the success of the general law in limiting the vulnerability of the wider investing public to such behaviour. To the extent that this failed, however, it was important that the effects could be mitigated by use of the civil law and that the public's appetite for retribution could be assuaged by the criminal law which would also have the effect of deterring repetition.

In 1914, there was evidence that none of the conditions for sustaining the Exchange's position were being met successfully.

Between 1870 and 1914, the wider investing public grew materially. It has been estimated that between 1870 and 1914, the number of holders of securities rose from about a quarter of a million to a million. Although this remained a relatively small proportion of the population and by 1914 industrial and commercial securities still only accounted for a modest proportion of the nominal value of all securities quoted on the Exchange.[160] As Michie notes:

> *'Among those with significant savings in British society the direct holding of securities became increasingly popular and this led more and more to experiment with types of securities which had once been the preserve of small groups of well-informed insiders.'*[161]

---

158 Report of the London Stock Exchange Commission (1878); page 4.
159 Report of the Select Committee on Loans to Foreign States (1875); page iii.
160 Johnson (2010); page 199. Morgan and Thomas (1961); Table V pages 280–1.
161 Michie (1997); page 72.

That this wider investing public were not 'well-informed insiders' exposed them to abuse and there were many who took advantage of the opportunity. There were of course highly speculative issues floated normally through the Exchange.

In addition, around the Stock Exchange there grew up many 'bucket-shops' operated by non-members or unlicensed share dealers. In 1911, the editor of *The Economist* wrote that some operated as:

> *'. . . unloading shops which advertise to catch investors . . .'*

while others were:

> *' . . . gambling shops which offer facilities to speculators.'*[162]

Porter traces the name 'bucket-shop' to the United States where it had been the practice to use a bucket to catch the paper tape on which were printed the latest stock prices.[163] Osborne observed in 1929 that:

> *' . . . the origin of the term matters little, as whether the tape goes into the bucketeer's bucket or not, it is very certain his client's money does.'*[164]

These organisations, run by non-members, were by definition beyond the reach of the Stock Exchange[165] but were in essence parasitic in that they sought to appear respectable by creating the illusion of a connection with the Exchange:

> *'Bucket shops attracted investors by adopting most of the techniques of normal trading: a good address near the London Stock Exchange, an attractive name with the description 'stockbrokers' or 'stock and share dealers'; plausible market advice to establish confidence; and occasionally some bait of an actual short term profit. The end product was the same, large numbers of investors parting with their money which they would never see again.'*[166]

Ephemeral bucket-shops would spring up in a bull market but would disappear quickly when prices fell and customers realised that they had been duped.[167]

---

162 Hirst (1911); page 253.
163 Porter (2006); page 104.
164 Osborn (1929); page 70.
165 However, the Exchange had an interest in stopping free-riding by such shops. To this end, its rules sought to prevent transactions being arranged between broker members and outsiders to prevent outsiders taking advantage of contrived market deals: Rule 83.
166 Newman (1984); page 63.
167 Porter (2006); page 105.

As a further consequence of the growing interest of investors who were not 'well-informed insiders' there was an opening for journalists to supply information and advice: an opportunity that was recognised in 1884 with the launch of the *Financial News*.[168] That the *Financial News* met a demand is evident from the fact that within a year, the paper was available throughout London and in 11 provincial centres 'including from no less than a dozen vendors in Bradford alone'.[169] Four years later, the advent of the *Financial News* was followed by the launch of the *Financial Times* which grew from the *London Financial Guide*. The nature of the need that the *Financial Times* sought to meet can be gauged by the campaigns that were launched during its first year of publication. One was aimed at guinea pig directors (i.e. noblemen who were appointed to the boards of new companies for their social attractiveness to potential directors). Another was targeted at outside brokers (i.e. brokers who were not members of the London Stock Exchange)[170] and at the 'bucket-shops' that outside brokers ran. An early editorial criticised the *Financial News* for both exposing the dangers of such shops and accepting their advertisements:

> *'Our advice to all our readers is to leave this class of business alone; but if they will try their luck, then let them be careful to deal only with houses of known respectability, whose code of honour – at any rate in this matter – is not that of the* Financial News'.[171]

Whilst in publishing this editorial, the *Financial Times* may have been taking advantage of an opportunity for a new publication to undermine a more established rival, it was pointing to the danger that otherwise respectable newspapers would be compromised by financial support from outside brokers through advertising or otherwise.[172] There was to be no lack of coverage for the losses incurred by the wider investing public when they occurred.

As a result, whilst in 1914 the Stock Exchange remained a private body managing its own affairs, the developing interest in share ownership coupled with the development of a class of people dedicated to taking advantage of the comparative ignorance of investors had tended to increase the vulnerability of that position and to emphasise the importance of satisfying the other conditions for continued reliance upon a private body to manage these affairs.

168 Morgan and Thomas (1961); page 165. Edwards (1993); page 430.
169 Kynaston (1988); page 13.
170 Hirst (1911); page 253. Osborne (1929); page 70.
171 Kynaston (1988); pages 18–19.
172 Porter (1986). Porter (1998). Porter (2006).

The continued incidence of abuse suggests that attempts to use general law to support the protection of investors were failing.

There had been repeated attempts to reform company law to ensure that companies had to provide sufficient relevant information in prospectuses to potential investors. These attempts had led to significant reforms in 1867 and 1906; but also to changes in the legal responsibility of directors for making the necessary disclosures. Yet it is evident from the continued abuses that these attempts at reform, however well intended, had failed to achieve their objective. There had always been some scepticism over the prospect of disclosure eliminating the risk of abuse.[173] After all, the information that the law required to be disclosed in prospectuses was not designed as a basis for assessing the potential performance of a company, being more directed towards the company's constitution and governance. Moreover there was an acceptance that a prospectus was intentionally a 'selling' document and that it was appropriate to allow some latitude to directors in describing their company's prospects:

> *'A certain spirit of optimism in a prospectus is to be expected. A favourable view of the proposed undertaking may be expressed. A mere expression of expectation will not amount to a misrepresentation so long as there is at least a reasonable basis for that expression of expectation. There are, however, limits to the expectation which may be expressed as Lord Chelmsford said in the Central Railway of Venezuela v Kisch: "But although, in its introduction to the public, some high colouring, and even exaggeration, in the description of the advantages which are likely to be enjoyed by the subscribers may be expected, yet no misstatement or concealment of any material fact or circumstances ought to be permitted."'*[174]

Perhaps most fatefully, professional investors in the City, in Michie's terms the 'well-informed insiders', would not rely upon a prospectus in isolation from their knowledge of the people sponsoring an issue and the advice of their networks of City contacts; this appears to have been an significant signal for investors.[175] Since it was distance of the wider investing public from such networks that was the cause of difficulty, it was unlikely that formal disclosures in a prospectus would be effective in allowing prospective investors to mitigate their risks.

In practice, it was unrealistic to expect that a small investor could seek redress for an unreasonable loss by recourse to civil law. In most instances, a single shareholder would not

[173] See for example the evidence of the Vice Chancellor Sir Richard Malins to the Select Committee on the Companies Acts 1862 and 1867 (1877); page 139 et seq.

[174] Spafford (1921), page 13. Central Railway of Venezuela v Kisch (1867) LR 2 HL 99. Lobban (1996).

[175] Hannah (2007a). De Long (1990).

have had access to the information needed as the basis for an action. Moreover although the Companies Act 1862 provided a means by which information could be sought,[176] the cost of any resulting investigation had to be underwritten by the applicant. Even if the necessary information was found, the judgment in Foss v Harbottle[177] prevented a single shareholder from taking an action against directors and accepted that infractions could be legitimated retrospectively by a majority vote of shareholders. Of course the shareholder may have had grounds for an action against a fraudulent promoter or trader; but often the promoter would have disappeared and even if he had not the amount of the small investor's loss might be unlikely to justify the potential costs of a civil law action, however material the loss may have been to the investor.

Taylor suggests that, in the 1880s and 1890s, there had been significant improvements in the effectiveness of prosecution as a means of reinforcing the morality of the City. He suggests that the creation in 1879 of the office of the Director of Public Prosecutions, and reform in 1890 of the law of company winding up, had created a more centralised approach to the prosecution of company fraud. To this was added a more consistent attitude on the part of judges. As a result, he suggests that the standards expected of judges became higher and that the duties expected of investors shrank.[178]

In a series of cases cited by Taylor, bucketeers and promoters had been prosecuted, convicted and severely punished: John Grunell was sentenced to four years' penal servitude in 1895; Herbert Krahn was sentenced to four years' penal servitude in 1897; Edward Morgan was sentenced to five years' penal servitude also in 1897; and Louis Lupton was sentenced to five years' penal servitude in 1898.[179] Even these sentences were not the limit of the punishment that might be meted out. In 1895, Jabez Balfour, the promoter of the Liberator Group of companies was sentenced to seven years' penal servitude for offences in each of two indictments to run consecutively not concurrently. In 1904, Whitaker Wright, Managing Director of the London and Globe Finance Corporation, was sentenced to seven years' penal

---

176 Section 56; Companies Act 1862.
177 (1843) 67 ER 189.
178 Taylor (2013b); page 252.
179 Taylor (2013b); pages 243–246.

servitude: a punishment that he did not serve as he died before he could be taken to prison after swallowing a cyanide capsule.[180]

Indeed, Taylor (2013b) suggests that in the late nineteenth century, prosecution was the principal means by which abusive activity was deterred and thus, to some extent, regulated. He cautiously cites the 1901 opinion of the Inspector General in Companies Liquidation:

> *'Gangs of "unscrupulous and fraudulent promoters" who used to operate in darkness had now been uncovered and "many of these have been brought to justice and removed from the sphere of active enterprise, while others have found in the scanty response made by the public to their schemes, that the business is no longer of a profitable or attractive character."'*[181]

Taylor concludes:

> *'The criminalization of fraud was increasingly seen as essential, not only in the name of commercial morality, but of economic stability. The increased number of prosecutions was not a temporary experiment but established a new norm which came to be accepted by government, business, the courts, and the general public alike. There was to be no stepping back from two key principles: first, that certain transgressions by company directors, managers and promoters were criminal, and second, that the state had a responsibility to prosecute at least some of them.'*[182]

Taylor suggests that:

> *'Major criminal prosecutions helped to restore confidence at key points of crisis, as we have seen with the City of Glasgow Bank and Liberator prosecutions in the 1870s and 1890s. The stream of smaller cases, taking place not only in London but at assizes throughout the country, had a cumulative impact, reinforcing societal values and standards and reminding company managements that acts of misappropriation and misrepresentation were not committed without risk, and that if prosecuted, they stood a good chance of imprisonment.'*[183]

He supports this suggestion by pointing to evidence that successful prosecution came to be reflected in popular fiction 'as an agent for retribution', citing Headon Hill's 1896 novel, *Guilty Gold: A Romance of Financial Fraud and City Crime*, in which Horace Vardon and his conspirators are prosecuted.[184]

---

180 Taylor (2013b); pages 230 and 254.
181 Tenth General Annual Report by the Board of Trade under Section 29 of the Companies (Winding-Up) Act, 1890. Parliamentary Papers. Cited in Taylor (2013b); page 247.
182 Taylor (2013b); page 248.
183 Taylor (2013b); pages 257–258.
184 Taylor (2013b); page 258: citing Headon Hill's novel published in 1896: *Guilty Gold: A Romance of Financial Fraud and City Crime.*

Whilst it may have been the case as Taylor and others have suggested that successful prosecutions had contributed to the City enjoying a reputation as a reasonably safe place for business,[185] prosecutions were limited in their effect which was necessarily retrospective: they only took place after the deed had been done and the losses incurred. It can have been little comfort to a prospective investor who could not afford to lose money that if a company failed and an investment proved unwise, even though recovery of the money would be unlikely the malefactor would be punished. Other than by deterring fraudsters, prosecutions did little to prevent fraud and, as Taylor himself admits, they plainly did not eliminate fraudulent practices:

> *'Even the prospect of imprisonment was insufficient to deter those determined to defraud, for the potential gains were too enticing. And for those managing honest but failing businesses, the temptation to conceal losses in the hope of better times ahead was too great, for if the deception worked it was unlikely ever to be discovered.'*[186]

In any case, many believed that even when the fraud was evident, the prospect of prosecution was not certain either because the malefactor was not pursued or because he absconded.[187]

It is difficult to escape the conclusion that these imperfections were widely regarded as an unavoidable cost of a pattern of market organisation that was generally accepted. As it was expressed by John Stuart Mill:

> *'. . . as a general rule, the business of life is better performed when those who have an immediate interest in it are left to take their own course, uncontrolled either by the mandate of the law or by the meddling of any public functionary. The persons . . . who do the work, are likely to be better judges than the government of the means of attaining the particular end at which they aim.'*[188]

Mill concluded:

> *'. . . laissez-faire, in short, should be the general practice: every departure from it, unless required by some great good, is a certain evil.'*[189]

Ideas of this sort dominated British political thinking until the end of the nineteenth century. Few regarded the state as more than a means of securing necessary conveniences or as anything but a collection of individuals who took care to pursue their own interests more

---

185 Hannah (2007c); page 666.
186 Taylor (2013b); page 257.
187 Taylor (2013b); pages 257–258.
188 Mill (1848); pages 515–516.
189 Mill (1848); page 524.

effectively than any other person, functionary or agency could be expected to do.[190] It was thus not only an intellectually satisfactory convention, it was desirable in practice because it appeared realistic and efficient. The ideal was a freedom in which people could seek their particular ends, either individually or in voluntary association with each other, unconstrained by external controls.

It was in this context that organisations such as the London Stock Exchange flourished. To outsiders, the ways of the Stock Exchange seemed arcane, so that it was easy to believe that management of its business would be 'better performed' by those 'who have an immediate interest in it'.

This is not to say that the prevailing orthodoxy was not challenged. Arnold, for example, had attacked it as:

> *'. . . the specially British form of Quietism, or a devout, but excessive reliance on an over-ruling Providence.'*[191]

Attacks of this sort had been used to support campaigns for social legislation dealing with matters such as factory inspections and workers' compensation, which were significant departures from laissez-faire principles.[192] There was, in short, a growing recognition that problems of maintaining wealth and competitive advantage may require approaches different to those that were appropriate to a period of rapid accumulation of wealth. In his 1902 book, *Liberalism*, Herbert Samuel attempted to deal with three principal objections to what he saw as a desirable change from an outdated orthodoxy. Dealing firstly with the objection that a classical liberal or laissez-faire approach had already achieved improvement in people's condition and, if left alone would continue that process, Samuel suggested that the improvement that had already been achieved owed much to actions of the state and could not be attributed to some general evolutionary process.[193] The second objection considered by Samuel was that improvement required the elimination of the unfit and that this was best achieved in conditions of free competition. He responded by suggesting that a laissez-faire environment had not shown itself to be effective in eliminating the unfit.[194] Finally, he dealt

---

190 Arnold (1869); quoted in Jay et al (1986); page 170.
191 Arnold (1869); page 124.
192 Green (1881); quoted in Jay et al (1986); page 182. Greenleaf (1983); page 142 et seq.
193 Samuel (1902); pages 13–17.
194 Samuel (1902); pages 18–20.

with the objection that the state is incompetent and that people when left alone will find a way out of their difficulties whereas social reform tended to weaken self-reliance:

> *'Let governments abstain from war, let them practise economy, let them provide proper protection against violence and fraud, let them repeal restrictive laws, and then the free enterprise of commerce will bring prosperity to all classes, while their natural ambitions on the one hand, the pressure of need on the other, will stimulate the hindmost to seek and to attain their own well-being: such was their doctrine. . . Liberalism became a negative policy . . . in the same spirit . . . State interference as a whole was condemned as injurious to commerce and relaxing to character.'*[195]

Samuel responds that if this attitude continued to prevail, the social reforms of the 1890s would not have proved possible and continuing reform would also prove impossible. A changed approach was justified by the growing effectiveness of the machinery of government, and changes in circumstance. Regulation could prove an aide to fulfilment rather than a hindrance.[196] Samuel was echoing the thoughts of John Simon who in 1897 had written that in parallel with:

> *'. . . the idea of individuality as secure from legislative interference there has grown up, in apparent contradiction, the idea of individuality as secured by legislative interference.'*[197]

Thoughts which were to be reflected in 1912 by JM Robertson who was to suggest that laissez-faire might be reasonable when state intervention was proposed in the interest of a privileged group but was not reasonable when the proposed intervention was 'scientifically planned' and intended to serve:

> *'. . . the well-being of the entire community.'*[198]

They also lay behind the developing trade unions[199] and such reforms as the introduction of the National Insurance Act in 1911 which created a contributory insurance scheme for illness and unemployment.[200]

---

195 Samuel (1902); pages 20–21.
196 Samuel (1902); pages 21–29.
197 Simon (1897); page 109.
198 Robertson (1912); page 24.
199 Currie (1979); page 26 et seq.
200 Proposed by David Lloyd George in 1908, when Chancellor of the Exchequer, following a visit to Germany in which he became aware of the reforms implemented there two decades earlier.

However, for as long as the principles of laissez-faire commanded wide support, not only for their intellectual coherence but also for their effectiveness in practice, organisations such as the London Stock Exchange would continue to be accepted as an appropriate form of market organisation.

Conclusions

Although superficially the pre-1914 Stock Exchange appeared successful, pressures were already evident that, after the war, would lead to fundamental change. The widening of interest in share ownership, which was to be enormously encouraged during the 1914–1918 war, was already evident before 1914. Pressure on the incomes of members had been evident for some years and had led members to look to the rules to protect their interests by insisting on strict compliance with the rules governing double capacity and access to the market, especially for provincial brokers. That members were relying on the rules in this way may suggest that they were not entirely confident in the London market's ability to maintain its position through vigorous competition even before its ability to face competition not least from overseas exchanges was tested by the war.

CHAPTER THREE: 1914–1918 – SURVIVING A WAR

Introduction

The onset of war in 1914 led the London Stock Exchange to close: opening again five months later in January 1915. Reopening only became possible when agreement had been reached on a measure of protection for members from calls to meet liabilities contracted before the onset of war and on controls to govern wartime trading. Trading controls were unprecedented and proved dysfunctional as they were promulgated in the form of Temporary Regulations of the Stock Exchange which did not apply to off-market trading. They thus served as an incentive to enter into transactions off-market which were not permitted on-market, which both undermined the purpose of the controls and frustrated the Exchange's members. In 1919, members saw the abolition of controls as the means by which their livelihood could be restored with the result that an attempt by the Treasury to impose lasting controls proved a humiliating failure.

The onset of war

The life of the London Stock Exchange was dramatically disrupted by the declaration of war. Austria's ultimatum to Serbia and the diplomatic exchanges which followed, communicated on 23 July 1914, contributed to growing international tension which was in turn reflected in volatile trading in many European exchanges[201] and in stock prices in London.[202] Between Monday 20 July 1914 and Thursday 30 July 1914,[203] 2.5% Consols fell by 8.9%. Equities suffered similar falls: Great Eastern ordinary shares falling by 12.5%. The greatest falls were registered by international stocks, many of which were traded in London but held by investors outside the United Kingdom who found it convenient to trade in London. Between the same dates, Rio

---

201 The volatile trading led to decisions to suspend or close many exchanges: Vienna (26 July), Budapest (26 July), Paris (27 July), Brussels (27 July), Oslo (27 July), Lisbon (28 July), Oporto (28 July), Madrid (28 July), Montreal (28 July), Toronto (28 July), Amsterdam (29 July), Antwerp (29 July), Berlin (29 July), Milan (29 July), Rome (29 July). Roberts (2013); pages 8–9.

202 *The Economist*; 8 August 1914.

203 The last day for official quotations. Withers (1915); page 1 et seq.

Tinto Copper ordinary fell by 23.6% and Canadian Pacific common fell by 14.6% as investors attempted to realise their holdings.[204]

Such rapid price falls exposed the weakness of the thin capitalisation of most members of the Exchange. Both brokers and jobbers relied on two sources of finance: bank borrowing secured on holdings of securities and the fortnightly timetable for settlement. Both of these sources of finance were challenged by the increasing uncertainty. As stock prices fell, so did the value of the securities which members had pledged to their banks as collateral for their loans. In turn this led to a demand for additional security to be pledged.[205] Quite apart from this, many members had borrowed from foreign banks to take advantage of lower interest rates and found that, with the coming of war, many foreign banks decided to terminate their loan facilities and to demand repayment. Although in many cases English banks proved ready to replace these facilities, there was a penalty in terms of higher interest rates.[206] As far as investors' balances were concerned, the onset of war meant that settlement became less prompt and thus less certain.

The inevitable consequence of this financial pressure was that members failed. On 29 July 1914, a fortnightly settlement day, seven firms were hammered: six brokers and one jobber which had specialised in Rio Tinto Copper. On 30 July 1914, the Paris Bourse announced that settlement was to be postponed by one month. This challenged all members involved in arbitrage business between London and Paris, for they would be obliged to wait until 31 August to receive the proceeds of sales in Paris whilst being expected to make payment immediately for purchases in London. That day brought the failure of four more firms of members.[207] That the financial challenge arose partly from the uncertainty of international investment and settlement resulted in the failures affecting not only small firms involved only in domestic business, but also larger well-respected broking firms such as JG Eiser & Company and Derenburg & Company.[208]

---

204 Closing prices quoted in *The Times*.

205 '*The Bankers' Magazine* for September showed that the 387 representative securities whose movements it periodically records, marked in the ten days July 20 to 30 an average fall of 5.6%.' Withers (1915); pages 18–19.

206 Roberts (2013); page 10.

207 Michie (1999); page 191.

208 *Financial Times*; 30 July 1914; page 8. 31 July 1914; page 1.

At the beginning of the week, as the market was becoming more volatile, some newspapers had called for the market to be closed.[209] A proposal to this effect was considered by the committee when it met on the afternoon of 30 July 1914; but perhaps because they were reluctant to interrupt members' freedom to go about their business the committee decided only that it would meet again in the morning of Friday 31 July.[210] After hours, a number of major firms told the Secretary that if the Exchange opened on 31 July, they would be obliged to default largely because they:

> *'. . . had incurred liabilities on behalf of foreign firms who could not or would not remit . . . option dealers . . . had been badly caught in the frightful slump in prices precipitated by the war scare. Others had been financing speculative railways, harbour works, mines, &c. A select few were money brokers, who had borrowed millions from the banks and discount houses to relend them to members of the House with little or no margin.'*[211]

In the face of such representations, which were reportedly supported by the Bank of England, the joint stock banks and the major merchant banks, the Chairman and Secretary determined that the Exchange should close: a view which the committee endorsed when it met at 1000 hours. Thus began a closure that would last until Monday 4 January 1915: a period of 157 days.[212]

At first the closure was welcomed, for it brought immediate relief.[213] In a market bereft of purchasers, prices would have fallen rapidly even if members had been willing to quote prices which increasingly they were not. Business would have been thin and bank borrowings would have been uncovered by the declining value of assets pledged as security: a problem that would have affected many outside the Exchange let alone members. However, this sense of relief gradually changed. Closure meant that there was no formal trading, which in turn meant no income for members. Although there was some street trading, this was at best a poor and unsatisfactory substitute for there was no public recording of trades or prices and settlement outside the rules of the Exchange was riskier. Moreover, there was a tendency for investors to find other means of trading: such as the *Daily Mail's* service. In short, as time went on, members began to press for the Exchange to reopen.

---

209 *Financial Times*; 29 July 1914. *The Economist*; 1 August 1914.
210 Stock Exchange Committee minutes, 30 July 1914; Stock Exchange Archive; Guildhall Library.
211 Lawson (1915); pages 54–55.
212 *Financial Times*; 1 August 1914. *Financial Times*; 1 August 1914.
213 *Financial News*; 1 August 1914.

Closure also thwarted plans of people outside the Exchange who must also have supported attempts to secure an early reopening. One such group involved Clarence Hatry.

For some time, he had been planning to launch a new reinsurance company to compete with the well-established German reinsurance businesses. At the time, the British insurance companies largely relied upon reinsurance treaties with German and Austrian companies with which business amounting to about £20 million was placed each year (largely consisting of fire risks).[214] As it was, there was an opportunity for a British company to compete for this business; but the coming of war magnified this opportunity by disrupting established relationships as the newspapers reported:

> *'It is reported that in many cases in the United States merchants have been instructing their brokers to replace their German marine policies by American and British policies . . .'*[215]

In November 1913, to take advantage of these opportunities, Hatry's insurance broking company, Patmore, Logan and Hatry Limited, had acquired the Planet Insurance Company Limited, a small insurance company which had been formed in 1908 by Reginald Luck, an insurance manager. In March 1914, reorganisation of the share capital was authorised by the Court and in April 1914, the company had re-registered as a public company. These constitutional changes suggest that a public offering of the company's shares was in prospect. In this project, Hatry was assisted by Sir Frank Crisp, the leading company lawyer and legal adviser to the Liberal Party, who was to act as Hatry's solicitor until his death soon after the end of the war.[216] Crisp invited his neighbour, Sir Douglas Dawson, who after a diplomatic career became Secretary of the Order of the Garter in 1904[217], to become a director as Sir Douglas later recalled:

> *'In August 1914, shortly after the war broke out, I was approached by my old friend and neighbour Sir Frank Crisp regarding a certain reinsurance company which was to be brought out on the board of which he suggested I might like to take a seat. He had frequently listened to my views regarding the German Menace to peace in Europe,*

[214] There were thought to be about 40 German companies concentrating solely on reinsurance; and a further 40 German companies involved in both reinsurance and direct business. There were thought to be a further 40 reinsurance companies in Austria. *Insurance Journal*; 15 October 1914; page 39.
[215] *The Times*; 28 September 1914; page 14.
[216] At which point, his son, Sir John Crisp, took on the role.
[217] In the Lord Chamberlain's office before the war, he had also been involved in theatre censorship.

> *and he told me there was a chance to get a score off the German. Hitherto, he explained, German and Austrian financiers had in England enjoyed a monopoly of the business of reinsurance, making thereby an annual profit which he estimated at eight millions sterling. It was proposed to start a small British reinsurance company, with a small capital at the outset, to take over the business of the foreigner banished by the War.'*[218]

These plans were confirmed by a press report in January 1915 that a new reinsurance company, to be known as 'the Planet' was to be formed with a capital of £1 million.[219]

There were thus many interested in the Exchange reopening; although it was not to be straightforward. Closure had been accomplished without government action by a decision of the committee to stave off the threat of insolvency for many firms. Reopening without appropriate protections would simply have exposed firms to the same threat. Avoiding that consequence required government assistance. Unfortunately, the government was not initially enthusiastic.

Restoration of Exchange business on normal lines required that arrangements should be made to deal with three different classes of liability:

> *' . . . the loans and contangoes existing at the end of July carry over; next, the differences on bargains executed between July 27 and 31; and third, the cash bargains entered into in Throgmorton Street while the House was closed.'*[220]

The first class of liability was covered initially by the government's general moratorium which eventually expired on 4 November 1914. Its imminent expiry represented a problem in the form of the short-term debts of London Stock Exchange members (£81 million) and provincial exchange members (£11 million).[221] As the government declined to provide direct assistance to members, this was eventually resolved by an agreement with joint stock banks that had received assistance from the government that they would not call loans until one year after

---

[218] Dawson (1927); pages 349–350.

[219] *Insurance Guardian*; February 1915; page 3. In fact the authorised share capital had been increased to £500,000 in March 1914 and again to £1,000,000 in October 1914. The further increase in October 1914, which incurred a Stamp Duty charge of about £1,270 suggests that a public offering of the company's shares remained in contemplation: even during the Exchange's closure. Similarly the newspaper report in February 1915 suggests that the plan had not been abandoned by that stage notwithstanding the introduction of controls on new issues.

[220] Lawson (1915); pages 134–135.

[221] The amounts of the loans were established by the committee which circularised members. *The Economist*; 17 October 1914.

the end of the war.[222] For such banks, the government did not provide a guarantee against losses. In the event that a lender tried to sell the securities, the Stock Exchange would take action against the lender under the Courts (Emergency Powers) Act. It had however been a condition of the government's approval of this scheme that its consent should be sought for any proposal that the Exchange should reopen. The government thus increased its power and influence over the Exchange.[223] Once this agreement had been reached, the outstanding settlement, which had been deferred on closure, went ahead on 18 November 1914 without significant difficulty.[224]

As for street trading while the market was closed, dealers were left to settle bargains on the basis agreed between the parties.

By chance, the deferred settlement took place on the same day as the launch of £350 million[225] 3½% War Loan which was to prove disappointing in that the Bank of England was obliged to subscribe for large amounts surreptitiously to create the impression that the stock had been oversubscribed. It had been thought feasible to launch the new stock whilst the Exchange was closed; but in retrospect this was one of the factors that had made pricing more difficult.[226] In any event, after this experience, the Treasury was more amenable to discussions of reopening, which were made easier because of a rise in the prices of shares on the street market to the levels of 27 July 1914.[227] Negotiations led to an agreement which was announced on 23 December 1914. The House was to reopen on 4 January 1915, but was subject to a number of restrictions intended to protect the market against the forced realisation of securities, to eliminate operations to depress prices and to close the market to the enemy. Trades were to be settled in cash and not 'continued from day to day'. Minimum prices were to be specified for stocks so that the value of securities lodged with banks as security could not be undermined. Admission to the Exchange was to be limited to British-born and naturalised

---

222 The assistance had been in the form of currency note facilities. For other lenders, the government arranged that the Bank of England would advance 60% of the value of securities held against outstanding loans valued at the prices ruling before closure of the Exchange. Interest was to be charged at 1% over Base Rate. The Bank also undertook not to press for repayment of the loans until twelve months after the end of the war.

223 Morgan (1952); page 26.

224 *The Economist*; 21 November 1914. *Financial News*; 19 November 1914. One firm, Williams & Wimbrush failed; *Financial Times*; 19 November 1914.

225 Roberts (2013); page 189 et seq.

226 Wormell (2000); pages 85–87.

227 Morgan (1952); page 27.

members and clerks. Naturalised members originating in enemy countries had to satisfy the committee that they had been 'de-nationalised in their country of origin'. No dealing would be permitted in any new issue made after 4 January 1915 unless 'specially allowed by the committee and approved by the Treasury'.[228]

New issue controls

The arrangements for approving new issues were set out in a Treasury announcement on 19 January 1915 and contained four provisions. Issues for United Kingdom businesses would only be approved if they were shown to be in the national interest. Issues for businesses in the British Empire overseas would only be approved if there were shown to be urgent necessity or special circumstances. Issues for businesses outside the British Empire would not be approved. Issues relating to the renewal of instruments for foreign and colonial governments, municipal corporations, railways or other undertakings were expected to be generally exempt from these restrictions.[229]

This agreement resulted from private negotiations between the Treasury and the Stock Exchange; and for effect it relied not upon public law but upon contract law as it applied to the relationship between the Exchange and its members. Although this mechanism had the advantage that enforcement through the Exchange's normal arrangements could be swifter than a court process, it also had disadvantages. The agreement only applied to the Exchange's members: it could not apply to others such as the members of provincial exchanges, with whom there appears to have been no attempt to negotiate parallel agreements. Neither could it apply to traders who were not members of any formal exchange.

Moreover, the approval of new issues was to be in the hands of a new committee established by the Treasury which contained no members with current involvement in trading in the market: a decision which was later to lead to frustrations.

[228] Temporary Regulations; 23 December 1914. Sonne (1915); pages 45–48.
[229] Sonne (1915); pages 49–50.

Table 3.1: Initial members of the Treasury Fresh Issues Committee

Name	*Background*[230]
Viscount (later Earl) St Aldwyn[231]	Former Conservative Chancellor of the Exchequer. Director of London Joint Stock Bank and Yorkshire Penny Bank. Later: Chairman of the Committee of London Clearing Banks.
Lord Cunliffe	Governor of the Bank of England.
Sir Frederick Banbury	Conservative MP for City of London. Director of the London & Provincial Bank. Chairman, Great Northern Railway.
Sir Thomas Whittaker	Liberal MP for Spen Valley, Yorkshire. Former regional newspaper editor. Chairman and Managing Director of Life Insurance Institution. Temperance campaigner.
Capt EG Pretyman	Conservative MP for Essex, Chelmsford. Parliamentary Secretary, Board of Trade 1915–1916.

Above all other considerations, the December 1914 agreement showed the Exchange and the Treasury in pragmatic mood. Faced with the demands from members to reopen the market, and the need to arrange some financial protection for members from the effects of the declaration of war, the committee compromised in accepting the Treasury's controls which in other circumstances would have been an anathema. For their part, having established the right to sanction the reopening of the Exchange, the Treasury compromised by allowing the Exchange to reopen in return for some measure of control and restriction for the sole purpose of ensuring that the war effort was not undermined.

Reactions to the agreement were mixed. Some welcomed it as the means of permitting the Exchange to reopen and accepted that it was reasonable to limit the risk of speculation at a

[230] From Who Was Who.
[231] Known widely as 'Black Michael' after the villain in 'The Prisoner of Zenda'. Hicks Beach (1932); page 388. Lord St Aldwyn resigned in April 1916 (through his wife) in view of his ill health and imminent death. Lord Cunliffe succeeded him. Hicks Beach (1932); page 355.

time when there should be a concentration of resources on the war effort.[232] Newspaper reports also suggested that the wartime regulations offered an opportunity:

> *'. . . for experimenting under most unusually favourable conditions with what, but for the political truce now existing, we should be disposed to call a 'practical socialism'. For many years past, a section of public opinion has been agitating . . . in favour of some form of control by Government over all public issues of capital . . . We have now reached the stage where no new issues of capital can take place in this country without the sanction of the Treasury; but we venture to think that it is perfectly well understood that the Treasury's sanction implies no guarantee of business success . . . the establishment of this system of Treasury control had done much to protect the British investor from many ill-considered schemes with which the market would otherwise have been flooded . . . The primary object of the Treasury regulations was doubtless to prevent the export of capital. A secondary object, which has been equally well achieved has been the prevention of loss to the average investor.'*[233]

Others mused that the restrictions may have gone too far:

> *'For a public department, however powerful, to attempt to muzzle the financial and commercial institutions of the country is a pretty strong step not to be easily justified. But when it goes farther, and forbids any new financial business to be undertaken without its express permission, we begin to rub our eyes and to ask ourselves, "Can this be the country to which the gospel of laissez-faire flourished only a few years ago, and Mr Lloyd George was one of its prophets?" . . . There is just a bare possibility that the Minister who arrogates to himself this autocratic power may not be infallible.'*[234]

At the time, there was little information about the way in which the new controls would operate. Apart from the brief statement of the purpose of the new issues control, there were no statements of the policy to be followed by the new advisory committee and no guidance on the criteria which it would apply.[235] Presumably this omission was intentional for the Chairman was strongly urged by the Chancellor of the Exchequer to reduce the number of issues to the

---

232 *The Accountant*; 30 January 1915; page 149. *Money Market Review* reported that the controls had met with general approval and an acceptance that all other issues 'must be subordinated to the paramount necessity of harbouring the country's financial resources'. *Money Market Review*; 9 January 1915; page 21.

233 *The Accountant*; 5 April 1915; page 437. See also: *Money Market Review*; 23 January 1915; page 50.

234 Lawson (1916); page 234.

235 This omission was later to be compared unfavourably with the practice adopted by an equivalent committee formed in New York. *Financial Times*; 9 January 1919; page 2. The US Capital Issues Committee was inaugurated in January 1918 as a committee of the Federal Reserve Board to express an opinion on whether a proposed issue was compatible with the national interest. It was in essence a voluntary arrangement without legal basis although certain stock exchanges (such as the New York Stock Exchange) made a favourable opinion a prerequisite for listing. Shortly thereafter, in March 1918, legislation was passed providing a legal framework for the committee and creating the War Finance Corporation which took over responsibility for the committee. Willoughby (1934); chapter 1.

unavoidable minimum.[236] Equally, there was no guidance on the process which it would follow and the way in which its decisions would be communicated. All of this was left to be settled in practice. This allowed the market to believe initially that new issues could still be launched as can be seen from the newspaper suggestions in February 1915 that Hatry's new insurance company, the Planet, was still to be launched.

Growing concern

As time went by and the Committee's modus operandi became clearer,[237] the negative voices became stronger and more insistent.

The first sign of concern emerged in June 1915 after the London Chamber of Commerce had established a 'financial section', whose first objective was to report on new capital issues.[238] Two weeks later, a second sign appeared in the form of a letter from Mr AA Bauman, the Chairman of the chamber's new section, reporting his concern at the Treasury's refusal to approve an issue with which he had been involved: a proposal to amalgamate the Rubber Share Trust and the Culloden Tea and Rubber Trust. The scheme involved the shareholders of the two predecessor companies exchanging their shares for shares in a new company, the Culloden Consolidated Company, which would take over their operations. Although this exchange of shares did not itself require any transfer of cash, the scheme also involved the raising of some cash for working capital; and although the Treasury's Committee did not offer reasons for its decision it was inferred that the raising of working capital had been critical.

A similar complaint emerged a few months later, over a proposal that Barclays Bank should take over the United Counties Bank. This proposal also involved a cashless exchange of shares although again the opportunity was to be taken to raise a small amount as additional capital. The committee's refusal of this proposal was excoriated by the newspapers:

> *'The unanimous decision of the Press, and we believe of the highest financial authorities, was that the scheme is a beneficial one, and that the last possible objection to it was removed when the proposal to raise additional capital was abandoned . . . The fact appears to be that the Advisory Committee of the Treasury simply blundered. As to the reasons for the blunder, it would, perhaps, be unwise to inquire, except that we may point out that all the principal members of the*

236 Letter dated 17 April 1915 from the Chancellor of the Exchequer. Hicks Beach (1932); page 329.
237 Kynaston (1999); page 11.
238 *Financial Times*; 12 June 1915; page 2.

> *Committee are very busy men . . . A more unpleasant impression, however, is left by the refusal to discuss the matter, for if the directors of Barclays Bank are treated this cavalierly, what chances have the lower lights in the financial world of securing reasonable consideration?'*[239]

The sustained strength of the reaction, coupled with the fact that it attracted political attention, led to a reversal of the committee's decision: at least as far as the amalgamation was concerned.[240]

The force of this reaction to the committee's decision on the Barclays proposal was undoubtedly strengthened by the collapse of the Bleriot Manufacturing Aircraft Company, whose shareholders decided on 15 January 1916 that the company should be wound up.[241] The company had survived less than six months from the date on which its shares were offered to the public, having received the approval of the Treasury's Committee on the recommendation of the War Office which wanted to encourage the manufacture of aircraft.[242] The company's failure was widely attributed to the predations of its promoter, Harry Lawson. The juxtaposition of the rejection of what was widely seen as the solid Barclays proposal and the approval of the ill-fated Bleriot issue was poisonous.

The reaction to such apparently inexplicable decisions was exacerbated by the manner in which both the committee and the Treasury went about their business. Applications to the committee were considered on the basis of formal submissions in response to formal questionnaires. Personal representations were not invited or permitted. Frequently, decisions were long delayed and were always issued without explanations so that the market was left to infer the grounds on which a decision had been reached and thus how any future application might be considered. Mr Bauman described the committee's procedure in the following way:

> *'I submit that [the Committee's] powers are not exercised justly, because the parties seeking permission to issue are not heard. The parties are obliged to make their case in writing and are left in ignorance as to how much of their case is laid before the Committee and in what terms. This conduct on the part of a committee responsible to*

239 Editorial; *Financial Times*; 6 November 1915; page 2.
240 *Financial Times*; 18 January 1916; page 2.
241 *Financial Times*; 14 January 1916; page 4.
242 *Financial Times*; 21 January 1916; page 2.

> *no one but the department which appoints it is a confusion of administrative and judicial functions which is dangerous to the community.'*[243]

These procedures were criticised roundly in correspondence published in the Financial Times:

> *'The Committee as constituted is a secret or Star Chamber, superior to the law, and its methods are arbitrary, autocratic and guided neither by logic or precedent.'*[244]

Concern about such questions had arisen early; but it proved difficult to engage the Treasury's interest. By mid-July 1915, the new financial section of the London Chamber of Commerce had prepared a report on cases of hardship and injustice alleged to have arisen from the Treasury Committee's decisions.[245] It was not until January 1916 that the chamber was able to report that a deputation had 'waited upon the Treasury' to discuss the complaints and that:

> *'. . . a promise had been made that the representations of the deputation would receive special consideration.'*[246]

Whatever consideration may have been given to these representations, there was no discernible change in the committee's procedures and the opprobrium in which it had come to be held, as the Chairman of the London Chamber of Commerce suggested in a letter to the *Financial Times*:

> *'Since its formation in January 1915 . . . the Committee has been condemned to bear an ever-increasing load of unpopularity . . . the unpopularity arose from the arbitrary manner in which the Committee carried on its operations, the absence of any indication of a clear line of policy guiding its decisions, and the fact, which speedily became known, that it had no statutory sanction for its existence or legal power to enforce its views. The Committee was like the ancient tyrant of who we are told in Holy Writ – "Whom he would he slew and whom he would he kept alive".'*[247]

By this stage, it had become clear that the committee was disinclined to approve any new issue which involved the subscription of cash, even where it was arguable that the issue would

243 Letter to the Editor; *Financial Times*; 22 June 1915; page 3. This description was largely consistent with a subsequent description given by the Chancellor of the Exchequer (R McKenna) to a question: *Financial Times;* 16 January 1916; page 2.
244 *Financial Times*; 10 June 1916; page 2.
245 *Financial Times*; 10 July 1915; page 4.
246 *Financial Times*; 14 January 1916; page 3. The delay in meeting the Treasury (and the chamber's frustration at it) is described in a letter from the chamber's Chairman, Mr F Faithful Begg: *Financial Times*; 6 June 1916; page 2.
247 Letter from Mr F Faithful Begg, Chairman of the London Chamber of Commerce: *Financial Times*; 2 May 1916; page 2.

serve the national interest.[248] Whilst on the one hand the London Chamber of Commerce and others campaigned against what they regarded as an unsatisfactory state of affairs, others looked for ways around the problem.

Finance raising alternatives

Many resorted to the most obvious alternative: borrowing from banks or from the Ministry of Munitions. This was the course adopted by companies such as Spillers & Bakers Limited, Leyland Motors Limited and United Brassfounders. In each case, new manufacturing capacity to meet wartime requirements was financed by bank loans.[249] This represented a departure from peacetime practice by which companies would have financed investment in productive fixed assets by retaining profits or issuing shares, and implied a higher level of gearing than most would have been prepared to contemplate. Whilst this might have been relatively risk-free in a wartime context in which many companies could expect that all of their production would be bought by the government, by the end of the war it would increase pressure to issue shares to replace bank borrowing as indeed was done by Spillers, Leyland Motors and United Brassfounders.[250] As a variation of this approach, some companies accepted loans or deposits from shareholders in the expectation that, at the end of the war, they would be exchanged for shares.

Bank borrowing was often not available to finance new ventures. In such cases, the purchase of an existing quoted company provided an alternative. In Hatry's instance, the Planet acquired from Austrian and German interests a controlling interest in City Equitable Fire Insurance Company, a small quoted insurance company which specialised in fire reinsurance. In short order, the company's capital was reorganised, presumably with a view to issuing shares at some stage, and the controlling interest was then sold to interests led by Gerard Lee Bevan,

---

[248] An example of the committee appearing to ignore a national interest was provided by Spillers & Bakers Limited which proposed to raise cash to increase its food manufacturing capacity, arguingit was important to support the war effort. The proposal was refused. *Financial Times*; 8 May 1916; page 2.

[249] In the case of Spillers, the capacity was required to meet the food requirements of the forces in France. Leyland Motors Limited supplied all the heavy lorries required by the Royal Flying Corps. The whole of United Brassfounders' production was diverted to the manufacture of munitions designed for trench warfare.

[250] Leyland Motors and United Brassfounders were both to become clients of Hatry. Leyland Motors became a client by the summer of 1918 at the latest (i.e. before the end of hostilities) when planning began for a public offer of shares, in part to replace bank borrowing. United Brassfounders' issue occurred somewhat later, in 1920, and was a private rather than a public issue. Gerard Lee Bevan memorandum dated 7 September 1920. National Archives; file HO 144/2745.

the senior partner of Ellis & Company, stockbrokers.[251] Taking the profit from this sale, Hatry and his associates then acquired from investment trusts controlled by Viscount St Davids[252] a controlling interest in Commercial Bank of London Limited, a small quoted bank which had been formed in 1906 to finance trading between England and Japan. When it proved difficult to develop that business satisfactorily, it had been acquired by Viscount St Davids and his associates to concentrate on banking business within England but on the commencement of war had reduced its activities. Hatry used the bank, which he augmented by the acquisition of Reuters Bank,[253] as his main vehicle for stock market operations.

A third alternative to an issue of shares on the London Exchange was a private issue of shares outside the market, which of course remained possible because the wartime restrictions on new issues only applied to the London Exchange. This possibility was taken up quickly, especially by shipping interests as reported by the *Financial Times*:

> *'One of the striking effects of the high freights that can now be earned by vessels of almost any description is the revival of the one ship company that was a prominent feature of joint stock promotions in certain cities about fifteen years ago . . . The very fact that no new issues of capital are sanctioned by the Treasury except of public utility and importance – and not necessarily then – makes the danger the more insidious, as many of these one ship companies are private and the funds to float them will be privately solicited.'*

The newspaper's report listed 88 such companies with a combined capitalisation of about £2.5 million.[254]

The attractions of this business had led firms to forsake membership of the Exchange. Some firms such as Helbert Wagg & Russell had followed this course before the war, commencing business as an issuing house under the name Helbert Wagg & Company.[255] In 1915, they were followed by Sperling & Company which in due course was to concentrate upon shipbuilding and ship repairing companies.[256] There was sufficient activity to justify the creation of new

---

251 Vander Weyer (2011); page 96.
252 Viscount St Davids was a prominent supporter of the Liberal Party, and would have been known to Hatry's solicitor, Sir Frank Crisp, who was legal adviser to the Liberal Party.
253 Emden (1951); page 221.
254 *Financial Times*; 22 November 1915; page 3.
255 The new firm was established on 1 January 1913. Roberts (1992); page 364.
256 Diaper (1990); page 75.

firms such as BST Limited which, in 1915, was established by a group of provincial brokers to specialise in new issues.[257]

Exchange reactions

Whilst all of this activity was helpful in sustaining businesses, it was frustrating for Exchange members. Trading in the market was in any event depressed by the war; and most of the activity that was taking place off-market would in other times have been expected to take place on-market. Pelion was heaped on Ossa by the fact that former members of the Exchange such as the partners of Sperling & Company were actively participating in the off-market activity denied to continuing members:

> *'It is a scandal that while members of the Stock Exchange have loyally observed [these restrictions] since reopening the Exchange, outside firms have been allowed not only to conduct speculative three monthly and option accounts but to issue literature generally in the form of gratuitously circulated newspapers inciting the public to do business on these lines.'*[258]

A similar report appeared in December 1916:

> *'It is absurd to prohibit speculation in securities under the . . . safeguards of the Stock Exchange while permitting irresponsible people to circulate and advertise publications registered as newspapers inducement to gamble without safeguards. Something more drastic than the present mild warnings which the responsible newspapers advertise gratuitously is needed.'*[259]

Admittedly the controls improved some aspects of trading:

> *'The one outstanding feature in dealings in the 'House' during the past four inherently difficult years has been the well-nigh perfect safety for all concerned. Not only did the cash basis of our transactions effectively reduce to – practically – zero the risk involved in the ultimate completion of each bargain, but it tended to stabilise markets in a most salutary and hitherto unknown manner.'*[260]

---

257 The new business was led by Edgar Crammond, who was the secretary of the Liverpool Stock Exchange, a position he left in 1918 to become Managing Director of BST. Subsidiary companies were established in major cities around the country to secure support from provincial brokers in obtaining a bigger share of underwriting for new issues which gravitated towards London. In the mid-1920s, the network was re-organised under a new holding company and re-named British Shareholders Trust Limited. *The Times;* 26 June 1918; page 10. 20 June 1924; page 22.

258 *Money Market Review*; 16 September 1916; pages 163–164.

259 *Money Market Review*; 20 December 1926; page 371.

260 Letter from Gerald Williams to the committee; Rules and Regulations Committee minutes; 27 November 1918. Stock Exchange Archive; Guildhall Library.

Yet in the long term, such improvements in trading did not outweigh the cost of business being diverted to off-market trading.

Treasury frustration

The Treasury was also frustrated by the extent of off-market activity, for the only device available to limit this activity was the occasional issue of public notices urging restraint.[261]

Presumably this device proved ineffective, for the Treasury appears to have consulted Parliamentary Counsel in 1916 on replacing the Stock Exchange's Temporary Regulation by a new Regulation under the Defence of the Realm Act 1914 (DORA) to control new issues. Such regulations were a straightforward and quick way of issuing legislation. At the time this was thought impracticable as the War Ministry's lawyers took the view that regulations could not be issued under DORA that were not closely related to military requirements.[262]

As a result, the Treasury was left with responsibility for a control that not only fell short of achieving the objective of controlling new issues and share trading but was also attracting considerable business and, at times, political criticism.[263]

Cabinet review

Towards the end of 1917, this criticism led to a review of the controls as one element of the Cabinet's consideration of a proposal from the French government for a co-ordinated economic offensive.[264] The Cabinet committee's report accepted that:

> *' . . . it is essential . . . that not merely undertakings directly connected with the war, but also others upon which the national well-being depends, or which involve expenditure of capital for urgent matters of reconstruction should receive the Treasury consent more readily and much more promptly than has been the case in the past. We have had before us various instances of delays and refusals which we cannot but regard as contrary to the national interest and indeed injurious to the successful prosecution of the war.'*[265]

261 For an example of such warnings see T*he Times;* 8 March 1917; page 12.

262 Letter from Parliamentary Counsel dated 24 October 1918. National Archives; file T12200/37031.

263 There had been a series of Parliamentary Questions.

264 Appointment of a committee to consider an economic offensive; National Archives; Cabinet minutes; 20 August 1917; page 5; CAB/23/3/68.

265 Interim Report Number 7 of the Economic Offensive Committee; National Archives; Cabinet minutes; CAB/24/4/34.

The committee recommended that, as a matter of urgency, a new Cabinet committee should be established to consider appeals by government departments in cases where a new issue had been approved by a government department but not approved by the Treasury within two weeks. This recommendation was subject to the reservation that:

> *'It is perhaps hardly necessary to add that promoters' schemes, purchase of patents, fancy additions for the purchase of goodwill and other forms of watered capital should all be discouraged, and that only genuine issues of capital for the purposes described should be sanctioned.'*

In effect, the committee had accepted criticism of the speed with which the Fresh Issues Committee worked, and its recommendations were accepted by the Cabinet after receiving a memorandum from the Ministry of Munitions:

> *' . . . there is money available for speculative issues which is not attracted by war loans; if the New Issues Committee would allow issues of shares by aircraft companies and by companies requiring capital for extension of mining and certain industrial, chemical , and alloy steel processes, the speculators' money would be brought to the service of the State and relieve the Ministry of making advances to such companies, advances which have to come out of the proceeds of war loans.'*[266]

When announced, this change in practice was not warmly welcomed:

> *'The concession has not been made a day too soon and may lose much of its value if the composition of the Cabinet Committee is not more practical than that of the New Issues Committee itself . . . the best thing of course would be to reform the Committee on the lines of, say, the Board of Referees for Excess Profits Duty,*[267] *but not to give too great an affront to the members who are personally irreproachable, we suppose we must accept the Cabinet Committee as an Appeal Court.'*[268]

---

[266] National Archives; Cabinet minutes; 21 February 1918; page 1; CAB/23/5/43. The recommendation was approved after circulation of a memorandum by the Ministry of Munitions which suggested that the manufacture of munitions had been held up by the Treasury control; National Archives; Cabinet minutes; CAB/24/40/82. The memorandum had been written by Sir Laming Worthington-Evans who was Parliamentary Secretary to the Ministry of Munitions but before the war had practised as a solicitor who was knowledgeable about company law and, indeed, was a published author on the subject. In 1915 and 1916, as a backbencher, he had asked Parliamentary Questions about the committee's processes.

[267] The Board of Referees was created to minimise parliamentary objections to the detailed provisions of Excess Profits Duty. External to the Inland Revenue, it comprised 'persons sufficiently experienced in general business to appreciate the issues involved'. Its 29 members included nine accountants and successive senior partners of Price, Waterhouse & Company served as members. The first appointments were announced on 7 December 1915. Stamp (1932); page 170. Billings et al (2014); page 93.

[268] *Financial Times*; 5 March 1918; page 2. Similar sentiments were expressed in *The Accountant*; 16 March 1918; page 227.

Thus, in the spring of 1918, none of the parties involved were entirely satisfied with the Fresh Issues Committee's operation. For businesses needing to raise money, the introduction of an appeal mechanism did little to assuage their concerns about a system that seemed to them autocratic, unfair and even capricious. For the Stock Exchange, an appeal mechanism did nothing to curb the resentment of members that their patriotic co-operation had led to difficulty for their clients (i.e. companies wishing to raise money) and had also led to a loss of business through diversion to off-market activity. For the Treasury, the review had largely accepted the market's criticisms of the way in which the Fresh Issues Committee and the department had applied the controls: an outcome that cannot have been welcomed. Moreover, the control's effectiveness was threatened by the development of off-market activity. If the Treasury considered that controlling speculative activity around new issues mattered, introduction of an appeal mechanism did nothing to correct the weakness inherent in the control.

Above all of this, experience of the control had left many businesses in a sub-optimal position. Those which had not obtained approval for proposed share issues and had financed new fixed assets by bank borrowing were left with higher gearing than they desired. Many that would have preferred to issue shares through the Exchange had resorted to off-market issues. All of those businesses are likely to have looked forward to the end of the war as a moment when they could regularise their finances, assuming that the new issues control would be relaxed.

Reconsideration in 1918

Perhaps sensing that there was an opportunity for change, the Exchange chose this moment to renew its complaints to the Treasury about off-market activity. On 6 May 1918, the committee sent the Treasury a circular from Graham Marsh & Company, an outside broker;[269] and a further circular from the same company was sent on 6 June 1918.[270] Finally, on 24 September 1918, the Exchange sent a letter enclosing a memorandum circulated on behalf of Sperling & Company and complaining:

---

[269] National Archives; file T18210.

[270] National Archives; file T12200/22511. The Stock Exchange appears to have submitted similar circulars on other occasions as an internal Treasury memorandum refers to circulars in respect of Russo-Canadian Development Corporation Limited, Kwall Tin Fields of Nigeria and Harmony Transvaal Development Company: National Archives; file T12200/37071. Documentary evidence of these submissions does not appear to have survived.

> *'The Committee desire to point out that a considerable hardship is inflicted on Members of the Stock Exchange owing to lack of efficient Government control over outside issuing houses and that the Public are being educated to the knowledge that issues of fresh capital can be made irrespective of the interests of the country or the wishes of the Treasury provided no use is made of recognised Stock Exchanges.'*[271]

The memorandum which was the subject of this letter had been circulated by Clarence Hatry on behalf of Sperling & Company, soliciting subscriptions for shares in Northumberland Shipbuilding Company (NSC).[272]

For some time, Hatry and Sperling & Company had been co-operating with each other to take advantage of commercial opportunities in shipbuilding and ship repairing. In 1917, Hatry had acquired interests in three small dockyard companies: H&C Grayson, Jos Eltringham, and Irvine's.[273] it was expected that the end of the war would be followed by a boom in shipbuilding as merchant fleets sought to replace ships that had been destroyed during the war. When the acquisition of H&C Grayson had been announced, *Money Market Review* had commented:

> *'. . . there is no doubt that owing to shipping losses and the very large accumulation of deferred repairs to ships now running under war conditions businesses of this character will enjoy considerable after war prosperity.'*[274]

NSC was owned by Furness Withy Group who decided that the business should be sold. With Sperling & Company's support, in July 1918 the company was acquired by Robert Workman, a London ship broker, who had family connections with shipbuilding in Belfast. Sperling & Company, with the support of Kleinwort Sons & Company and others, planned to use NSC as a base for rationalising the shipbuilding industry. Whilst Sperling & Company appears to have been a prime mover in designing the scheme, Hatry's contribution was to market the proposal to potential investors. The memorandum which attracted the Exchange's attention was a part of that marketing.

The Exchange's letter was eventually considered by a then junior official, Otto Neimeyer, who recommended that, in view of the need for regulation of new issues to continue after the war, a regulation instituting formal control should be considered:

---

271 National Archives; file T12200/37071.
272 Kleinwort & Sons Archive; London Metropolitan Archives.
273 Diaper (1990); page 80.
274 *Money Market Review*; 2 June 1917; page 321.

> *'It seems to me that we must once again consider whether strong methods should not be taken against offenders. . . I can see no administrative step that we can take on present powers which is likely to be effective.*
>
> *'Specific legislation forbidding capital issues except with the approval of the Treasury is I take it impractical but there still remains the possibility of a Defence of the Realm Regulation. When this was discussed in September 1916 . . . Parliamentary Counsel saw considerable objection to using the [DORA] to deal with matters only indirectly connected with the Defence of the Realm, but I am not quite sure that this objection holds, in view of the things we have done under the Act. It is not much more violent I should have thought to prevent various forms of diverting possible subscriptions to War Bonds by a regulation than it is to prevent as we do selling securities abroad unless we approve of it. I believe not only Stock Exchange but public opinion would support the rule which had the result of preventing wild cat speculations and I suggest that the question for such a rule ought now to be reconsidered. There is it seems a good deal to be said for starting the policy now, when we should have the support of the Stock Exchange Committee, in view of the possible post-war control which will surely be very necessary.'*[275]

With the approval of the Permanent Secretary, Sir John Bradbury, and the First Parliamentary Counsel, work on this proposal was started. In mid-December a draft regulation was sent to the Stock Exchange for the committee's comments and, once the committee's observations had been taken into account, a final version of a regulation was completed.

Regulation 30F

What was to become Regulation 30F prohibited the issue of shares stock or securities, for cash or otherwise, by any person unless it had been licensed by the Treasury. But in addition to this provision, which extended the remit of the existing Stock Exchange regulation to all outside issues, Regulation 30F prohibited the sale of any security which had been issued since January 1915 without Treasury sanction. In other words, Regulation 30F would have obliged companies which had issued shares since 1915 outside the Stock Exchange to seek Treasury approval retrospectively.

The new regulation was announced on 24 February 1919 in the form of a press release;[276] and elicited a furious response.

---

[275] Memorandum dated 1 November 1918: National Archives; file T12200/37071. The change in approach to DORA reflected differences in legal interpretations of the meaning of 'the necessity of war' rather than an increasing laxity in applying DORA. The background to the different interpretations is described in Hull (2014).

[276] Treasury press release C10917. Reproduced in *Sperling's Journal*; March 1919; pages 20–21.

The extension of the wartime regulation was not welcomed. As soon as the armistice had been signed, there had been a call for relaxation of the controls.[277] Moreover it was known that there was pressure to make new issues[278] from businesses which had been looking forward to the end of the war as an opportunity to repair unsatisfactory financing that they had been obliged to accept during the war. But they may have been assuaged by announcement of a re-casting of the Fresh Issues Committee to include market experience which should have offered a prospect of a more pragmatic approach from the committee. Moreover, the extension of regulation to off-market issues might have been welcome as a means of discouraging abusive selling of shares to unsophisticated investors. After all, the need for this had been recognised in two recent reports.[279] But the retrospective application of the regulation to issues since January 1915 would have been a grave disappointment to businesses involved in such issues which had expected to regularise their position at the end of the war and promised to destabilise markets in a way that neither the Treasury nor the Stock Exchange had foreseen.[280]

The effect of the regulation would have been to undermine the value of any share that had been issued without Treasury sanction as it could not be sold. Such a share would not have been acceptable to a bank as security for a loan as it could be realised by the bank in the event of the debtor's default. As a result, Regulation 30F would have required banks that had accepted such shares as security for existing loans to oblige their debtors to provide valuable security to cover the loans or to repay them.

In the face of a storm of complaint, the government had no choice but to climb down. Three days after the announcement of Regulation 30F:

> *'. . . all that Mr Bonar Law could do was to ask for mercy and turn a somersault. "Do not judge us too harshly," he said; "we are doing our best", and after defending the retrospective clause as perfectly just, he said it would nevertheless be cancelled. It*

---

277 *The Times*; 13 November 1918; page 13.

278 *The Times*; 6 December 1918; page 13. 10 March 1919; page 17.

279 The report of the Wrenbury Committee on Company Law Amendment included a reservation by a member, AS Comyns Carr, warning of the risk that many new investors would lose money as a result of abusive share advisers. Wrenbury report (1918); pages 13–14. The report of the Vassar-Smith Committee on Financial Facilities made a similar point. Vassar-Smith report (1918); page 8.

280 *The Times*, somewhat unpersuasively, argued that arguments about retrospection were not significant and that the prime interest lay in 'what sort of new issues are now to be much more freely sanctioned'. *The Times*; 6 March 1919; page 15.

> *came into force on Tuesday morning and was withdrawn on Thursday evening. What a government!'*[281]

It then took some time for a revised version of the regulation to be published: a delay that attracted further complaint in the press:

> *'It seems that the delay in drafting the amended Order had been due to the absence in Paris of the Chancellor of the Exchequer – an example of the way in which our affairs are managed nowadays . . . Really the case in favour of control is unanswerable but where doubt comes in is with regard to the competence and the judgement of the controllers. They have made some howling blunders in the past four years.'*[282]

For the time being, the New Issues Committee remained in operation; but its decisions were regularly marked by withering comment on contentious decisions such as the refusal (subsequently reversed) to approve an issue by the South Perak Rubber Syndicate;[283] its refusal to sanction a share splitting scheme proposed by Commercial Union;[284] and its approval on 6 March 1919 of an issue by the Co-operative Medical Bottle Company Limited which *Truth* described as:

> *' . . . the most recent promotion of a notorious gang (with an ex-convict among them) whose joint-stock ramps ought to have led to a prosecution long ago.'*[285]

When the revised Regulation 30F was issued, attempts to control domestic issues ceased immediately and attempts to control issues on behalf of overseas undertakings eventually ceased later in 1919.[286] The first domestic prospectus to appear under the new arrangements was published on 21 March 1919 on behalf of Wiggins Teape.[287]

---

281 Article headed 'Our Financial Muddlers'; *Truth*; 5 March 1919; page 330. A proposal to issue the regulation had been approved in November 1918 by Stanley Baldwin as Financial Secretary at the Treasury and by Bonar Law when he was still Chancellor of the Exchequer. Its announcement in February 1919 was made by Austen Chamberlain who had become Chancellor, on Bonar Law's becoming Leader of the House.

282 Article headed 'The New Issues Farce'; *Truth*; 19 March 1919; page 423.

283 *Truth*; 12 March 1919; page 375.

284 The Commercial Union proposed to divide its £10 shares into two shares of £5. *The Times*; 22 February 1922; page 1919.

285 *Truth*; 19 March 1919; page 423.

286 On 12 September 1919, letters were sent to members of the New Issues Committee thanking them for their services which would no longer be required. National Archives; file T172/1039.

287 *The Times*; 21 March 1919; page 19.

From February 1919, for discouragement of 'wild cat speculation' such as had occurred soon after the armistice,[288] the Treasury pragmatically relied upon other restraints on Stock Exchange trading. In 1915, the Stock Exchange's Temporary Regulations, which had been agreed by the Treasury and were expected to apply until 'the end of the war', specified that trading had to be settled in cash on a day-to-day basis and options business was not permitted. In the event, although hostilities had ended in November 1918, a formal declaration of the end of the war was considerably delayed which meant that the Temporary Regulations remained in force.

For the press, this would have been too subtle. At the end of March 1919, *Truth* lamented:

> *'Down to a few days ago, [the government] argued very strongly – and I think irresistibly – that in view of the national financial situation it is essential that control of new issues should be maintained. But, having no will of its own on any subject, the Government is always amenable to pressure, and so, after its usual habit, it has swallowed everything that it said and reversed its decision. There was, of course, the difficulty that fatuous blunders were made in granting or refusing permission for new issues, but it would not have been impossible to find men and devise means for ensuring a more judicious and efficient control. As it is, a great deal of money will now be diverted to all sorts of unnecessary and undesirable propositions, and the shadier class of company promoters will have the time of their lives.'*[289]

With hindsight, it is evident that the 1914–1918 war had given fresh impetus to changes in the character of the market that had begun before 1914. In large part, the war had been financed by the issue of government stock leading to a great increase in the national debt from 25% of GDP to 135%.[290] Much of this debt had been acquired by small investors who had not previously held securities tradeable through the Stock Exchange and had been sold to them by agents such as Arthur Wheeler[291] who were not members.

At the time, there were some who understood some of the risks that this change would create. Reports of two of the many committees established to consider questions that would arise on the close of the war foresaw that people who had become investors through buying War Loan would be vulnerable to abusive share traders in the boom that was expected would follow the

---

288 An example of such speculation was provided by trading in the shares of Hudson's Consolidated. *The Times*; 26 November 1918; page 11.
289 *Truth*; 26 March 1919; page 466.
290 Skidelsky (2014); page 167.
291 Subsequently knighted for his efforts.

war. In July 1918, AS Comyns Carr commented in a minority reservation to the Wrenbury Committee report:

> *'We have seen during the war a remarkably widespread diffusion of money, and a wonderful growth in the habit of investment, among classes of the population to whom both are a novelty . . . After the war it may be expected that a large number of people who never were investors before will be willing to entrust their savings to commercial companies but will not be very well equipped to select those which are worthy of their confidence. Simultaneously there will be a large crop of new schemes . . . offering unique opportunity to the fraudulent and over-sanguine . . .'*[292]

The committee's majority added a waspish comment that Carr had not attended most of the committee's meetings and took no account of his observations. Carr was at the time legal adviser to the Ministry of Reconstruction[293] which sponsored another committee which was to comment on the risks of share trading fraud. That committee, whose members included Sir John Bradbury[294] and Sir Alexander Roger,[295] was chaired by Sir Richard Vassar-Smith, the Chairman of Lloyds Bank. Its report, published in November 1918, generally supported extension of the Treasury's control of new issues but went further, suggesting that:

> *' . . . permanent measures would be taken to prevent, or make more difficult, the promotion and issue of unsound propositions.'*[296]

The report went on to suggest that banks:

> *' . . . should undertake some responsibility for the bona fides of undertakings on behalf of which they agree to accept subscriptions.'*[297]

This understanding of the changing character of the market and the risks it created does not appear to have been shared widely by Exchange members. Neither was it shared by another committee that considered post-war conditions. The Commercial and Industrial Policy report recognised that it might be necessary for exceptional measures to be taken in the immediate

---

292 Wrenbury Committee (1918); pages 13–14.

293 The Minister responsible for the department was Dr Christopher Addison, who had contributed a foreword to Carr's 1912 book on National Insurance.

294 Permanent Secretary to the Treasury.

295 Former Chairman of Commercial Bank of London Limited, acquired by Hatry in 1916, and Director General of the unit that had been responsible for the production of munitions for trench warfare during the war.

296 Vassar-Smith report (1918); page 8.

297 Vassar-Smith report (1918); page 10.

aftermath of the war but that in general only capital issues on behalf of foreign governments or states should be controlled.[298]

There were other examples of the Exchange not seeing clearly the direction of the market. Rapid withdrawal of Regulation 30F was a humiliation forced upon the Treasury through a failure to appreciate the effect that a retrospective reinforcement of the wartime controls would have upon existing bank loans. Treasury officials might well have expected that this was the type of issue the Stock Exchange's practical men of finance would have spotted when shown a draft of the new regulation.

A further example is provided by the failure at the beginning of the war to appreciate that the existence of an unregulated space in parallel to the regulated marketplace provided by the Exchange would provide an opportunity for businesses to subvert the new issue controls. As the wartime controls depended for their effectiveness entirely upon the Exchange's Temporary Regulations and not upon public law, there was little that could be done by either the Exchange or the Treasury to restrain off-market activity that was supported by banks and estimable City houses such as Kleinwort & Sons. Although businesses had begun by seeking ways to achieve their objectives within the regulated market in spite of the controls, when this proved impossible they had been prepared to operate off-market. By lobbying in 1918 for controls over the unregulated space, the Exchange acknowledged that the unregulated marketplace was beyond its influence. By making Regulation 30F retrospective in its effect, the Treasury signalled its recognition that the existence of an unregulated marketplace had undermined its dependence on the Exchange's Rules alone.

Conclusions

Thus both the Exchange and the Treasury came to reconsider and adjust their respective positions.

For its part, at the beginning of the war, the Exchange's traditional position was to resist government control and to refuse proposals that it should be responsible for overseeing any share trading activity not carried on by its members. By December 1914, it was prepared to welcome government controls of new issues as a condition of being able to open again. By December 1918, it was lobbying for the institution of controls over all share trading, wherever

[298] Commercial and Industrial Policy report (1918); page 42.

it was carried on. This was a tacit acceptance that, however effective the Exchange might be in regulating the conduct of its members, their interests could be at risk unless off-market activity was also controlled. Unfortunately, the committee had misjudged the view of members about the best way to protect their interests. Having been supportive of controls in January 1915, members' support had withered as it became clear that the benefits of membership were being eroded. Off-market activity was not only possible but profitable and they were not allowed to participate in it. In 1919, they did not support the Committee's view that their interests would best be served by formalising the controls so that they applied to all trading wherever it took place. Members preferred that controls should be removed altogether.

As for the Treasury, the war demonstrated that it needed the support of the market. Financing the war through the issue of debt would have proved impossible without a properly functioning exchange. But, in addition, the effectiveness of the new issues controls in part depended upon their acceptance by the market. As the market came to realise that the controls were to be applied inflexibly by a committee that appeared not to understand the market, so support waned and a determination to use the unregulated marketplace grew, subverting the controls.

Such failure of market understanding and of management of the controls resulted in both of the regulatory interventions during this period being compromised. The wartime controls were undermined because off-market activity was not regulated. The post-war regulatory arrangement was compromised because rather than regulating all new issues, wherever they were to be traded, reliance had perforce to be placed in discouraging speculation by delaying a return to peacetime conditions. This was at best a blunt instrument, as post-war trading was to demonstrate.

CHAPTER FOUR: 1919–1929 – THE POST-WAR STOCK EXCHANGE

Introduction

The end of hostilities in November 1918 was accompanied by hope that commercial life would return to normality and prosperity.[299] For members of the Stock Exchange this required not simply an end to controls on new issues, which was accomplished by the spring of 1919, but also a release from the constraints on trading. This required the agreement of the Treasury which was not immediately forthcoming.

On their own, however, these two steps were not sufficient to recover prosperity: they were prerequisites of the Exchange beginning to compete to recover its pre-war position. The years of war had isolated the London Stock Exchange from international markets. UK investors had been major sellers of international securities while US investors had been major purchasers. By 1919, the New York Stock Exchange had grown in its significance in international bond trading: a market in which London had been pre-eminent before 1914.[300] At the same time, the provincial stock exchanges had developed and, although London remained the market in which the largest holdings could be traded without affecting the market unduly, for smaller holdings they offered an alternative to London. Members knew that with the end of the war there would be a battle to recover the position that had been enjoyed before the war.

Members were also to find that the investing community was changing in character. Whereas before 1914 investment had largely been the preserve of a class that was to a degree insouciant about risk and the possibility of loss, after 1918 there were many smaller investors who were more vulnerable to loss and who were relatively ignorant about investment. During the war, there had been a material increase in the salaried class reflecting the expansion of four groupings: the professions, civil servants and administrators, managers involved in the running of large-scale industry and those women who were able to hold on to positions that

299 Paxman (2013); page 288.
300 Kirkaldy (1921); page 347.

they had gained during the war. There had also been a concomitant reduction in the real income available for saving or expenditure in the hands of the richest in society.[301]

For their part broker members of the Exchange, whose incomes were in any event squeezed by cost inflation, found that the smaller holdings of many new investors were not sufficient to justify the cost of the traditional relationship between a broker and client.

In short, in 1919 members found themselves competing to recover their trading position and seeking all possible ways of increasing their incomes.

The challenge for stock markets

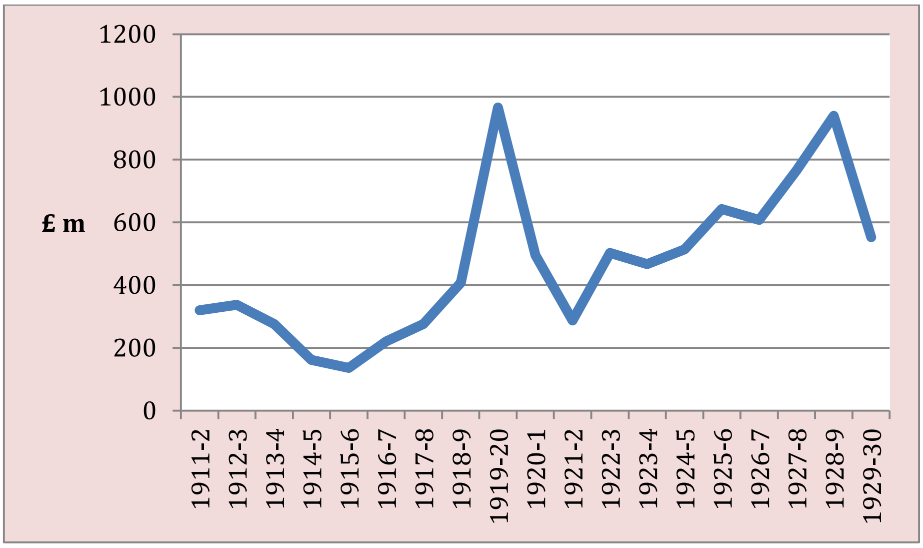
Hopes of post-war success depended upon market activity. To make good the years of poor income during the war, and to accommodate the many partners and staff returning from active service, members required a rapid return to pre-war levels of activity to generate the commissions on which they relied. Although technically it was possible to augment commission income by own account trading, in the spring of 1919 this was expensive because trading had to be settled in cash: the wartime restrictions on trading remained in force.

Nonetheless, people returned to the Exchange expecting that good times would return. Capital restrictions during the war had increased interest in shares issued beyond the reach of the Exchange which appeared to suggest that there would be a surge in activity. Meeting this demand was not expected to be easy as the years of low activity during the war had depleted capital through death and dissipated skills.[302]

Although activity improved in 1919, measured either by market turnover or numbers of new issues, the heightened level was not to be long sustained. Statistics for market turnover were not maintained at the time so that precise measurements of activity levels are not available; but in 1961 Paukert published estimates of the value of transactions in non-governmental securities on the basis of returns of Stamp Duty on share transfers:

301 Marwick (2006); pages 342–343. Bowley & Stamp (1924); pages 57–59.
302 Michie (1999); page 171.

Chart 4.1: Estimated value of dutiable Stock Exchange transactions 1911–1930[303]



When the incidence of inflation is taken into account, Paukert's data emphasise that, after the boom that occurred immediately after the end of hostilities, activity fell back and must have been particularly disappointing.

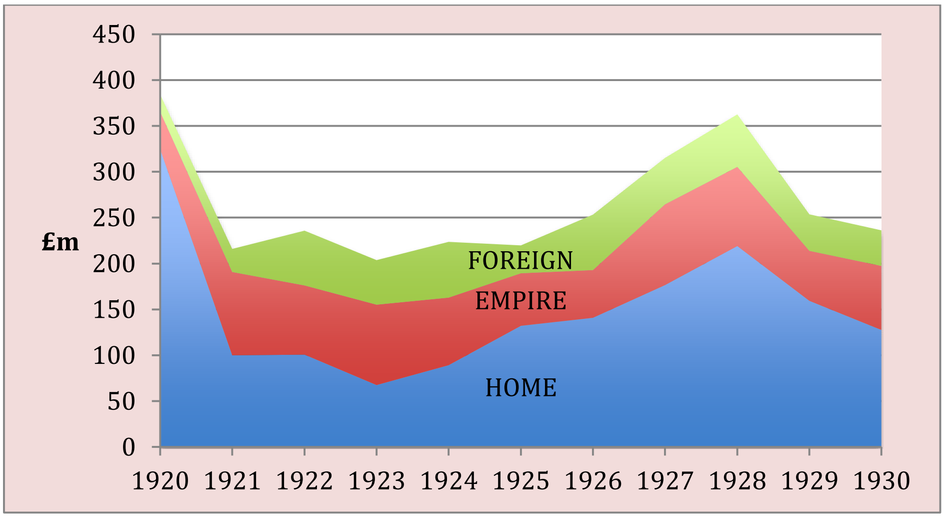
> *'The froth was off the pint, and what lay underneath was worse than anything purveyed under liquor control. Old markets had gone, others had shrunk; the world had too many ships, preferred oil to coal, was trying to operate the delicate nineteenth-century supply and demand mechanism when the conditions in which that had worked not too badly had been irreparably shattered. Unemployment, which averaged 3.1 per cent in the latter half of 1920 rose to 13.5 per cent in 1921 and 13.8 per cent in 1922. The Government reacted in the worst possible way: "reconstruction, when not put in the dustbin, was put on the shelf".'*[304]

A similar pattern is shown by the data for new issues:

303 Paukert (1961); page 304. Paukert extracted the source data from the annual reports of the Commissioners for Inland Revenue. Sales of government securities did not attract Stamp Duty so are not included in the estimates. Paukert compiled a second series based on information from bank clearings on account settlement days (for the period when account settlement was permitted). He concluded that the two series were broadly comparable in spite of a number of differences in their coverage (e.g. the stamp duty data included provincial exchanges as well as the London Exchange).

304 Marwick (2006); page 323; quoting Tawney (1943); page 8.

Chart 4.2: New capital issues of the United Kingdom 1920–1930 [305]



In 1921, after the end of the post-war boom, new issues of home stocks fell sharply and although they reached a new peak in 1928, did not match again the activity which immediately followed the end of the war. To some extent, the decline in activity was offset by a gradual increase in Empire and Foreign issues. However, sponsorship of new Empire and Foreign issues tended to be concentrated among a small group of broking firms so that it would not have offset the effect on many members' incomes of the decline in Home issues.

Some firms were modestly successful in financial terms. Foster & Braithwaite's profit, for example, ranged between about £70,000 and £160,000 in these years.[306] In 1919–1920 James Capel & Company's five partners were able to divide profits of £89,000.[307] Cazenove's profits, whilst variable, were also substantial:

> *'Taking the business as a whole, it was steadily rather than vastly profitable during the first post-war decade. In only two years (1919 and 1921) did the net profit fall below £50,000, while only in another two (1927 and 1928) did it rise above £150,000. In the best year, 1927, the profit of £171,710 would have been less than that earned by several other firms; though at a time when an eight-bedroom house in Belgravia cost less than £5,000 . . . it was a tidy enough sum to be divided among eight partners.'*[308]

---

305 Midland Bank figures. Reproduced in Grant (1937); page 135.
306 The firm had almost failed before the war and was in consequence cautious in trading. Reader (1979); pages 132, 134, 179.
307 Reed (1975); page 74.
308 Kynaston (1991); page 117.

However, Philips & Drew, with five or six partners at the time, might only achieve an annual profit of £10,000.[309]

These few indications of the profitability achieved by some more prominent firms were flattered, especially in later years, by contributions from income other than basic commissions. Cazenove, for example, developed as a sponsor of new issues, either alone or in association with an issuing house.[310] The firm's first steps in this direction resulted from a client, Balfour Beatty, fostering the creation of Power Securities Limited to finance electricity supply companies, presumably to ensure that there was demand for its own construction business. Foster & Braithwaite acted for Hatry's local authority loan issuing business.[311] However, many Members would have enjoyed smaller incomes. Aggregate information drawn from Income Tax returns suggests that in 1927 the overall income reported by stockbrokers and jobbers was no greater in real terms than the income that had been reported by the same group in 1909;[312] and perhaps provides an explanation for the slow decline in the 1920s in the number of members acting as principals of firms.

These years also saw a number of mergers between firms. Michie, for example, draws attention to the merger of Mullens with Steer, Lawford & Company in 1921; and Cazenove with JE Tomkinson, Brunton & Company in 1919.[313] Whilst each merger may have been justified publicly in terms of the new business that the merged business could handle, mergers would have had the additional attraction of increasing profit by squeezing fixed costs to support greater activity.

The evident commercial pressure on members led to campaigning by the Exchange for an end to the constraints imposed by the wartime government. Whilst there had been an early release from the wartime controls on new issues, this had been at the expense of the Exchange's desire to restrict the freedom of outside brokers and had been followed by a long

---

309 Reader and Kynaston (1998); page 11.

310 Cazenove encouraged this by supporting Balfour Beatty in the creation of Power Securities Limited, and then sponsored Power Securities' issues for power companies. Kynaston (1991); page 111.

311 Established in 1925.

312 Worswick et al (1967); page 101. The study reported True Gross Income (i.e. income reported in accordance with Income Tax rules but adjusted to remove permitted tax deductions) of £9,450,000 in 1909 and £15,540,000 in 1927. In the same period, the total income of professions in general had risen from £30,750,000 to £74,650,000. These totals included all who described themselves as stockbrokers and jobbers: not just London Exchange members.

313 Michie (1999); page 226. Kynaston (1991); page 94.

delay in formally declaring an end to the war, with the prospect of returning to account settlement, and the re-commencing of options trading and arbitrage.[314] Although this meant that members could not augment their commission-based income by own account trading,[315] members were not unanimous in wanting a rapid return to trading for the account. Those who could recall events at the beginning of the 1914–1918 war understood the risk associated with holding open positions and argued either for the maintenance of cash trading or compulsory margins between the value of securities purchased and the amount financed on credit. This was an early indication that members' risk appetite was changing. Broadly, before 1914, the Exchange had not been risk averse: its success had depended upon members' extreme competitiveness. In 1919 this had not disappeared, but there were signs that it was waning. 1919 still provided graphic examples of speculative activity[316] that would have contributed to the government's nervousness about the risks of liberating Exchange trading too quickly.

Commercial pressure undoubtedly also led to repeated challenges by members to the Exchange's rules and constitution. Although the committee sought consistently to safeguard the interests of members, in seeking a strategy it was hampered by differences between groups of members.[317] Jobbers did not necessarily share the interests of brokers. Larger firms which tended to concentrate on larger and institutional investors (such as Foster & Braithwaite[318]) did not necessarily share the interests of smaller brokers dealing mainly with smaller private investors. In balancing members' interests, the committee was not assisted by the balance of voting power which tended to favour smaller broking units compared with larger firms and brokers rather than jobbers.

---

314 Michie (1999); page 187.

315 Whyte (1924); pages 64, 78, 82.

316 For example, in 1919, the Beecham Trust, managed by James White, brought together a syndicate (of which Clarence Hatry was a member) to create a corner in the shares of Mexican Eagle. The activities of the syndicate led to wide fluctuations in the market price of the shares. The plan appears to have been to obtain a controlling interest in the shares, create a shortage on the market and then to sell at a substantial profit (a plan that White was to use again in 1927 in dealings in shares in British Controlled Oilfields Limited). *Sunday Express*; February 1930. *The Times*; 13 October 1927; page 5.

317 This was evident in the debates about restoration of account settlement. Although the Government indicated in 1921 that it would no longer oppose restoration of the account, some members opposed restoration on the ground that it helpfully limited the risk of trading on credit.

318 Michie (1999); page 223.

The first constitutional challenge from members came in April 1919 when a number of firms[319] proposed that the members should buy out the proprietors. In proposing this change, the supporting firms argued that:

> *'Under the present arrangement, the greater the exertions of the members to get more business, the higher became the entrance fees and subscriptions, and the bigger is the dividend paid to the proprietors.'*[320]

Underlying this proposal was the Exchange's own financial problem. During the war its income had fallen because members on active service had not been required to pay subscriptions and because membership had not been sustained. The average subscription income of the Exchange for the years 1909–1918 (including the war years) had been about £194,000; but the concessions granted in view of war service had amounted to £55,394 in 1916, £658,163 in 1917 and £78,331 in 1918.[321] Other sources of income such as rents had also fallen. Yet at the same time costs had risen, not least because of rises in staff costs. Although the Exchange had sold property in 1918 to meet a part of the deficit, that did not meet the continuing problem whose solution required either an increase in subscriptions or an increase in the number of members (or perhaps both). Neither of these would have been welcome to members troubled by restoring their own profitability.

The proposal to mutualise the Exchange came to nothing. Buying out the proprietors would have involved paying a capital sum for the income stream they were being invited to forego.[322] Since the proprietors would expect that the capital sum would equal the present value of the expected income stream, the transaction would not have reduced costs to members unless, as a result of gaining control, they could have achieved material reductions in their contributions to the Exchange's running costs. Members obviously were not persuaded that the uncertain potential cost reductions merited incurring the immediate cost.[323] Although this attempt to

---

319 Including Rowe & Pitman, W Greenwell & Company and de Zoete & Gorton. Michie (1999); page 197.

320 Stock Exchange Committee minutes; 7 April 1919. Stock Exchange Archive Guildhall Library.

321 Sir Willam Plender's report; 2 February 1919. Stock Exchange minutes; April 1919; Stock Exchange Archive; Guildhall Library.

322 Estimated at £3.6 million in November 1919 by Sir William Plender. Stock Exchange minutes; Stock Exchange Archive; Guildhall Library.

323 To meet such a payment, each member would have been called upon to contribute £900 or to support the servicing cost of a large loan. A subsequent compromise proposal for ownership of the Exchange by a new company, which would be owned equally by the members and the proprietors was rejected by the proprietors in May 1921.

minimise the cost of membership through restructuring the Exchange came to nothing, the committee and the proprietors were forcefully made aware of the commercial sensitivities of the membership and their expectation that new admissions would be carefully controlled.

Subsequent campaigns over the rules reflected these same sensitivities and the divergences between the interests of different groups of members. Debates over the permitted maximum number of partners in a firm, the maximum number of clerks permitted, the creation of branch offices, the control of commission rates and the sharing of commissions all tended to lead to conclusions in favour of smaller firms that held a majority of voting power and thought themselves at risk from the commercial ambitions of larger, better-capitalised, more profitable firms.

In 1923, the nine largest firms of brokers tried to persuade the committee to liberalise the rules on commissions,[324] reflecting the views of institutional clients:

> *'In the ordinary course of everyday business, I meet businessmen of high position in the City of London, both bankers, merchants and others who are accustomed to dealing on the Stock Exchange, and I find them of the opinion that, if the Stock Exchange is to remain the chief centre of dealings in securities, there will have to be a radical alteration in the existing rules and scales of commissions . . . It is pretty obvious that with lower minimum commissions and in certain cases a greater freedom permitted to brokers to charge their clients what they think right and deal where they might, a much greater volume of business will come to the Stock Exchange, and after all that is the result which must benefit the House in general.'*[325]

The attempt at reform failed although later some relaxation was agreed.

Similarly, debates over double capacity and direct access were settled in favour of broking members who held more voting power than jobbers and felt at risk of being bypassed if country brokers were enabled to approach London jobbers directly.

As the smaller members predominated, the outcome generally favoured retention of the status quo, although at times the effect was perverse. Rather than ensuring that outsiders did not bypass London brokers, the ban on direct access tended rather to encourage provincial

---

[324] A letter to the committee was signed by Mullens & Marshall, Cazenove & Akroyds, Cohen Laming Hoare, Grieveson Grant & Company, Heseltine Powell & Company, R Nivison & Company, Rowe & Pitman, J&A Scrimgeour & Company and J Sebag & Company. Kynaston (1991); page 110.

[325] The views of CP Serocold, a partner in Cazenove. Stock Exchange minutes; Commissions; 14 December 1922. Stock Exchange Archive; Guildhall Library.

and overseas brokers to bypass the Exchange completely. Overseas brokers and banks began to set up their own branch offices in London,[326] and provincial brokers developed trading links between provincial exchanges rather than directing their business to London. Although the individual provincial exchanges could not support market makers, collectively they could. In contrast to the London Stock Exchange, the rules of the provincial exchanges did not prohibit jobbers from dealing with non-members so that they were able to offer a dealing service to members of all provincial exchanges. The most prominent of the provincial jobbers to do this was JW Nicholson & Son, based in Sheffield.[327] These were strategic failures by the Exchange which resulted from the narrow-sightedness of the voting majorities: an underlying weakness of all self-regulating organisations.

All of this activity within the committee rooms of Throgmorton Street was paralleled by members' sustained efforts to maximise income and reduce costs. On occasion, these efforts were pursued almost irrespective of the risks involved, as was for example the case with the gradual degradation of underwriting contracts.

After changes in companies law allowed companies to pay commissions for underwriting newly issued shares,[328] underwriting of new issues had by 1920 become commonplace. Typical underwriting contracts envisaged that the principal underwriters guaranteed an issue: their commission only being paid if all sums due under the issue had previously been paid. If there were defaults, the principal underwriter was called upon to make them good. At some point, probably in 1920, the normal terms of such agreements changed so that the principal underwriter's commission became payable even if there were defaults. Subsequently, practice changed again so that contractually the principal underwriter was relieved of responsibility on appointment of sub-underwriters. As a result, principal underwriters could no longer be held accountable for the creditworthiness of the sub-underwriters they had appointed. In each instance, a contractual change reduced the principal underwriter's exposure. This presumably

---

326 Firms such as de Saint Phalle Limited and Harvey Fisk & Sons were branches of US brokerage houses. National City Bank, Bankers Trust, Guaranty Trust, Equitable Trust and Higginson & Company were all established in London by 1921. Michie (1999); page 218, 243.

327 Thomas (1973); page 218, 221, 237.

328 Companies Act 1900; section 8. Before that date, payment of underwriting commission was held to be illegitimate, on the ground that it was tantamount to the issue of shares at a discount: Mr Justice Kay's judgment in Faure Electric Accumulator Company Limited (1886) 40 ChD 141.

was reflected in the rate of commission payable to the principal underwriter and thus reduced the cost of the transaction. It also had the effect of increasing the risk to investors.[329]

Members tended to react fiercely to any innovation that threatened to bypass them. In 1925, jobbers threatened to boycott loan stock that had been issued by Plymouth Corporation but not offered for public subscription. On that occasion, the difficulty was:

> *'. . . smoothed over at a second meeting of the jobbers in the Consol, Corporation and Colonial markets . . . when they agreed, as regards any further issue, to deal only in stocks that have previously been issued for public subscription. It is known that several other British Corporations have been approached by various people of late, who have offered to take lines of stock at prices that appeal to the City Fathers of the Corporations concerned, such stock to be marketed outside the regular roads that lead directly into the Consol market.'*[330]

However fierce the immediate reaction undoubtedly was, the outcome was that the new approach was allowed to develop, even though it is likely to have been frowned upon by the Bank of England.[331] Although initially suspicious, members would not stand in the way of new business, provided that it did not bypass them.

In short, at the beginning of 1929, the Stock Exchange was nervous rather than content. The membership was beginning to become more polarised. New issues during 1928 show how far the process had gone. Almost 25% of the total subscribed in 1928 arose from new issues sponsored by just five firms:

---

329 Finnie (1931); page 131 et seq. In practice, one consequence was that the creditworthiness of sub-underwriters declined as was to be realised in the aftermath of the 1928 boom. 'The Menace of Weak Underwriting: Cost of Carelessness'; *Financial Times*; 21 June 1929; page 6.

330 *The Economist*; 7 February 1925; page 251. *The Times*; 22 January 1925; page 19. The stock in question was an issue of £500,000 4¾% Redeemable Stock (1943–1955) for Plymouth Corporation. It was the first issue by Clarence Hatry's company, Corporation & General Securities Limited (C&GS). Using his experience in launching commercial issues, Hatry had bought the whole of the stock which had enabled him to undercut the rates offered to Plymouth by brokers competing to sponsor the issue but bypassed the market. The jobbers were assuaged by assurances given on Hatry's behalf by his brokers, Foster & Braithwaite, and C&GS was able to develop its business. Letter dated 16 June 1926 from Cecil Braithwaite to Clarence Hatry; Foster & Braithwaite Archive; Guildhall Library.

331 Previously, the issue of local authority loan stocks had been the preserve of three firms of brokers: R Nivison & Company, J & A Scrimgeour & Company and Mullens Marshall & Company who maintained a queuing system for colonial and local authority stocks which was generally approved by the Bank of England. Attard (2004); pages 200–201. In practice, local authorities had little choice but to accept the rates and prices quoted to them by these brokers.

Table 4.1: New issues in 1928: top five lead brokers ranked by total amount subscribed.[332]

	Number of issues	*Total amount subscribed*		*Average size of issue £*
		£	*%age of total*	
Cazenove	6	8,417,000	7.2	1.402,833
Rowe & Pitman	5	5,719,270	4.9	1,143,854
J&A Scrimgeour	5	5,472,500	4.7	1,094,500
Evans Gordon	3	4,852,500	4.2	1,614,000
R Nivison	1	3,900,000	3.3	3,900,000
Sub-total	20	28,361,270	24.3	1,418,064
Others	268	88,442,437	75.7	330,009
Total	288	116,803,707	100.0	405,568

Of the 20 issues sponsored by these five firms, in eight cases no issuing house was named in the *Issuing Houses Yearbook*, suggesting that the lead brokers concerned had acted directly for the company concerned.[333] Overall, these figures understate the significance of these firms since they exclude bonds, and thus exclude the overseas and home government issues that were to a large extent managed by only four firms: J&A Scrimgeour, R Nivison, Mullens Marshall and Foster & Braithwaite. If lead brokers are ranked by reference to the number of issues managed, a different group of firms emerges:

Table 4.2: New issues in 1928: top five lead brokers ranked by number of issues[334]

	Number of issues	*Total amount subscribed*		*Average size of issue £*
		£	*%age of total*	
T Gordon Hensler	18	3,392,775	6.3	188,488
John Gibbs Son & Smith	15	2,507,050	5.2	167,137
Charles Stanley & Company	16	2,205,500	5.6	137,844
Wood Dunkley	7	2,075,666	2.4	296,524
Tritton Labouchere	10	1,974,250	3.5	197,425
Sub-total	66	12,155,241	23.0	184,170
Others	222	104,648,466	77.0	471,389
Total	288	116,803,707	100.0	405,568

332 List of new issues taken from Anon (1931). Lead brokers taken from *Issuing Houses Yearbook* (1929). Harris (1933) reports that the list set out in Anon (1931) included a small number of errors. However, it did not report these errors in detail or reproduce an amended list: hence the original list has been used. The 1929 yearbook attributed issues to issuing houses and brokers on the basis of information supplied to the publishers by issuing houses.

333 Five of the eight cases in which no issuing house was involved were sponsored by Rowe & Pitman.

334 Sources as for Table 4.1.

The process of polarisation between brokers was merely one reflection of other changes taking place in the investment market, in particular the development of large companies and the development of investment intermediaries.

Large companies and institutional investors

One outcome of the new issue and merger booms was a substantial increase in the number of domestic manufacturing and commercial companies quoted on the Exchange and in their total values. In 1907, there had been only 569 businesses in domestic manufacturing and distribution quoted on the Exchange: by 1924, there were 714.[335] Hannah suggests that quotation permitted the development of major businesses that would have been beyond the resources of most individual owners:

> *'Without the facilities of the stock market for aggregating wealth . . . such companies would not have been formed. In 1919 there was only one such "giant" firm, the J&P Coats sewing cotton combine, in which the family owners had been pioneers in diluting their ownership by a flotation of their capital three decades previously. By 1930, however, a further six companies – Unilever, Imperial Tobacco, Imperial Chemical Industries, Distillers, Courtaulds and Guinness – had attained this "giant" size and the number of such companies continued to increase thereafter.'*[336]

These 'giant' companies were owned by very large numbers of shareholders:

> *'Thus seven very large firms in 1926 (Imperial Tobacco, Courtaulds, Anglo-Persian Oil, Brunner-Mond, Vickers, Dunlop Rubber and Cunard Steamship) with paid-up capital of £119.6 million, had 385,500 shareholders, and 85 per cent of the holdings were £500 or less.'*[337]

In parallel, there was a growth in institutional investment in domestic industrial equity shares. Traditionally, major institutional investors such as life assurance companies had regarded the stability of capital values as more important than the potential for growth: ordinary shares were thought to carry an undue risk of capital loss. This orthodoxy had been challenged by increases in interest rates in the decade before the 1914–1918 war which had led to insurance companies suffering from substantial losses on longer-dated fixed interest stocks. During and immediately after the war, experience had worsened as insurance companies had

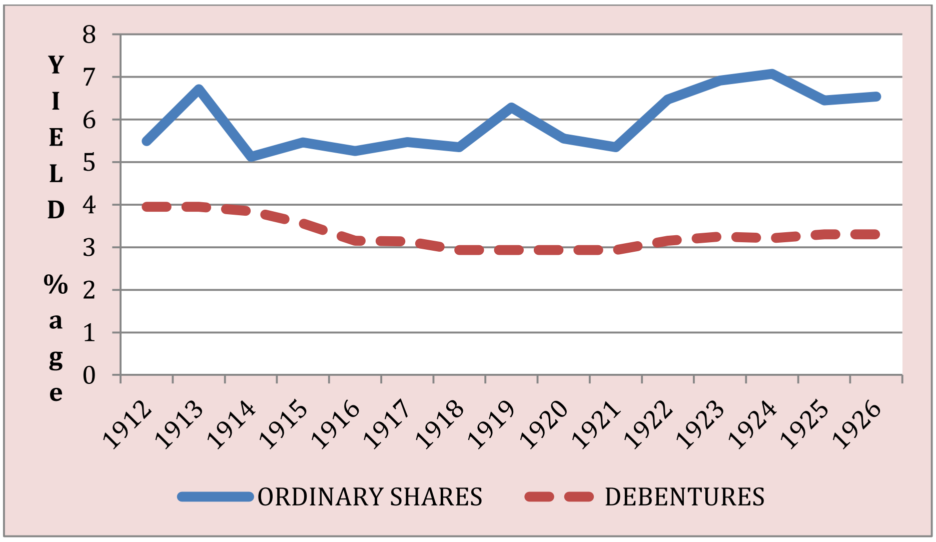
---

[335] Hart and Prais (1956); page 156.
[336] Hannah (1976); page 70.
[337] Foreman-Peck (1984); page 396. Data published by *The Economist* suggested that the number of shareholders in these seven companies was about 265,000. *The Economist*; 30 March 1929; page 691.

accumulated large amounts of undated government stocks whose value had been undermined by inflation.[338]

As investment performance was being hit by such losses, there was a new demand for 'with profits' policies from people whose interest in investment had been kindled by the war but who were unenthusiastic about investing directly. Insurance companies were in competition with each other to attract this new business and thus became more keenly interested in maximising their investment performance.[339] A 1924 study of American experience suggested that between 1866 and 1922 equities had out-performed bonds in terms of both capital and income.[340] In 1927, responding to a suggestion by Keynes that a similar study should be performed in the UK, Raynes found that experience in the UK had been similar to the US experience: ordinary shares out-performing fixed interest securities in both capital and income terms.[341]

Chart 4.3: Income yields on ordinary shares and debentures 1912–1926 as presented by HE Raynes in 1928[342]



---

338 *The Economist*; 21 May 1921; page 1016. Scott (2002); pages 79–80.

339 Johnson et al (1957). The extent of competition and the change in practice reportedly led to an increase in the net interest earned on the Prudential's investment fund from £3.14.8 in 1912 to £5.7.7 in 1928. At the same time, the Prudential's expense ratio fell from 38.5% in 1912 to 24.9% in 1928. *The Economist*; 23 March 1929; page 619.

340 Smith (1924).

341 Raynes (1928). Raynes was an actuary working for Legal & General, which was a major supplier of life assurance and of insurance-based pension schemes.

342 Comparison of return to investor of £54,000 on 31 March 1912, in ordinary stocks or shares, with that of a similar sum invested in the corresponding debenture and preference share issues. Raynes (1928); page 24.

As for the capital value, Raynes calculated that by 31 March 1927 the capital value of a sample of debentures and preference shares would have fallen from £54,000 in 1912 to £42,588, whereas the ordinary shares would have risen in value from £54,000 to £80,073.[343] Although Raynes' study covered a relatively short period, which admittedly was affected by the 1914–1918 war, the result was consistent with the outcome of the earlier American study and, rather than being an unforeseen revelation, had confirmed what many insurance companies had sensed for themselves for they had already changed their investment policy.

The evidence of better returns and the pressure of competition had led insurance companies to become significant investors in equities, either directly or through holdings in the many investment trusts launched in the 1920s.[344] The trend was reinforced by the insurance companies' experience of the post-war boom:

> *'The City view was that the institutions had helped the government in its moment of need and were getting caned for it in the aftermath.'*[345]

During the war, the insurance companies reserved a large proportion of their investment funds for the government by buying gilts, but in 1919 and 1920 the market for gilts was falling and the value of their holdings was depreciating yet they were expected to pay substantial amounts in taxation. In 1920, Sir Gerald Ryan, the Chairman of Phoenix Assurance, reported a gross profit of £636,637, but from that sum had to provide £170,077 for depreciation in the value of investments and pay £438,260 in taxation:

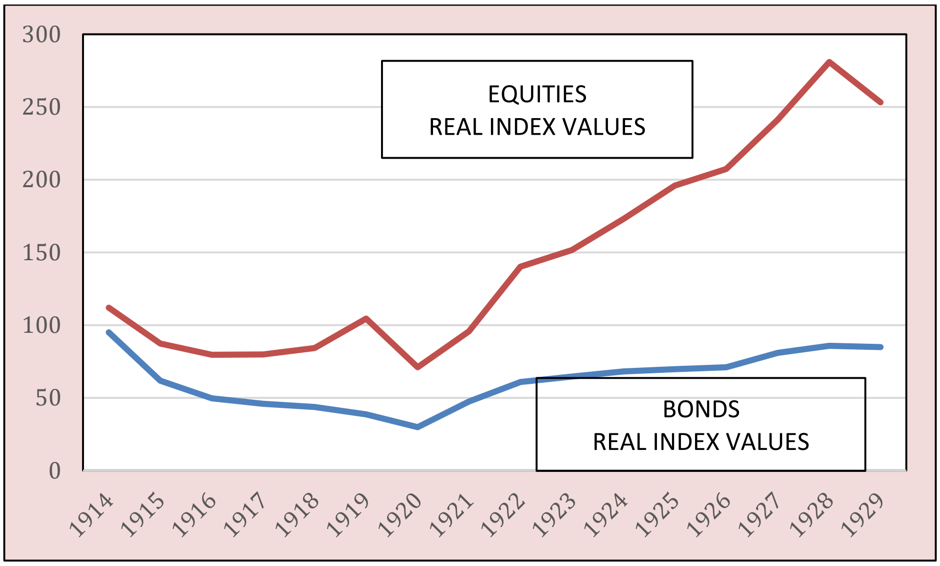
> *'The twentieth century conversion of the offices from insurance companies to investment houses had not a little to do with the tax regimes of these years.'*[346]

When viewed cumulatively and when account was taken of the effect of inflation, the difference was striking:

---

343 Raynes (1928); page 27.
344 82 investment trusts were established between 1925 and 1929. Cassis (1990); page 142. Trebilcock (1998); page 501.
345 Trebilcock (1998); page 494.
346 Trebilcock (1998); pages 493–4.

Chart 4.4: Equities and bonds: indices of real values 1914–1929[347]



Growing interest in investment in equities on the part of insurance offices did not imply that they shared the risk appetite demonstrated by the pre-war market: they were interested in long-term sustainable returns but subject to a controlled degree of risk, as the case of Phoenix Assurance demonstrates:

> *'But the striking defensive move, which clearly paid off for the Phoenix, was the increased commitment to debenture and fixed interest stock . . . By contrast, ordinary shares, in which the markets suffered the most harrowing fortunes, were lightly represented in the Phoenix balance sheets.'*[348]

347 Dimson et al (2014); page 186. 1900=100.
348 Trebilcock (1998); pages 499–501.

Chart 4.5: Percentage of total net investment by insurance companies in corporate securities 1923–1930[349]

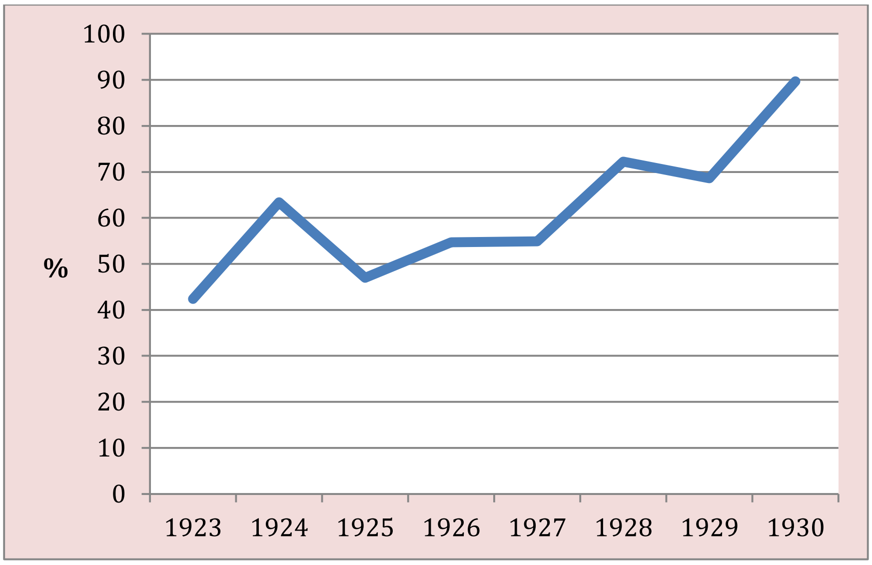
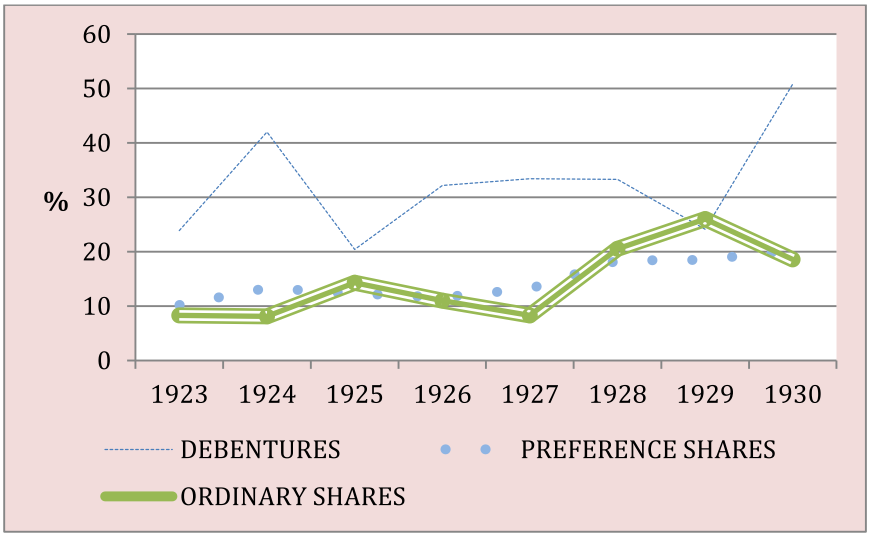


Chart 4.6: Net investment by insurance companies in different types of corporate security 1923–1930[350]



Gradually, institutional investors were to concentrate their business on a small number of brokers. Initially, there may have been an attempt to deal with a number of brokers but this did not last:

349 Scott (2002); page 85. Based on the Board of Trade's annual reports on life and other long-term insurance business.
350 Scott (2002); page 86.

> *'In April 1926 the board approved a list of 55 stockbrokers, including some of the best known London firms such as Laing & Cruickshank, Messel & Co, Kitcat & Aitken and Helbert Wagg & Co. Very quickly the investment department . . . was producing impressive digests of stockbrokers' advice and detailed statistics. Armed with this information the investment committee moved away from investment trusts and began cautiously buying shares on its own account . . .'*[351]

Although the process took time, Standard Life gradually reduced the number of brokers with which it dealt so that, by 1950, Cazenove were handling about one-quarter of the company's transactions.[352]

The result of these changes in investment practice was that institutional investors, insurance companies and others became more important to brokers. To some extent, these developments counteracted the tendency of some businesses to bypass London for the Exchange was the only market place where shares in such large businesses and large transactions could be traded. They also encouraged the polarisation of the membership, for institutional investors tended to gravitate towards the brokers who specialised in corporate business, relying on them not only for trading support but in other ways:

> *' . . . during the late 1920s Standard [Life] was consulted regarding a number of rationalization schemes involving firms in which it was a major shareholder. Despite any concerns regarding their share price impacts, it rejected the opportunity of replying directly in favour of relying on its brokers to make its views known.'*[353]

As the two groups of members began to grow away from each other, so it became more difficult for each to understand the other's business and the implications for management of the Exchange. Moreover, since only a relatively small number of brokers specialised in corporate business, their voting power in Exchange meetings tended to be smaller. It thus became more difficult for the committee to balance the interests of members.

Born of a pent-up demand for financial restructuring created by the wartime restrictions and a general optimism that the end of hostilities signalled a return to pre-war business as usual, the 1919–1920 boom was an aberration.

The pre-war market had been characterised by extreme competition that required investors to be tolerant of risk. In 1919, investment in equities attracted many, both individuals and

[351] Moss (2000); page 194.
[352] Moss (2000); page 195.
[353] Scott (2002); page 94. Moss (2000); pages 194–195.

institutions, who did not share the risk appetite of pre-war investors. Squeezed by poor returns from alternative investments and high rates of tax on unearned income,[354] many people were attracted to investment for the first time. For many, their potential holdings would be small and their sensitivity to loss would be high.

Similar pressures of poor alternative returns and high taxes affected institutional investors such as insurance and pension funds. They tended to be more interested in longer-term sustainable returns, partly because they saw themselves as quasi-trustees of policy-holders' funds but also because they were conscious of competition between funds.

Both of these groups of investors contributed a growing sense of caution.

Vendors

This matched the character of vendors. By the end of the war, it was evident that many businesses would require fresh investment. There was a demand for investment not only in infrastructure but also in new, larger companies to take advantage of economies of scale. It was also evident that some industries required reorganisation to take advantage of the improved manufacturing methods that had been proved to be effective during the war and that had been or were being adopted elsewhere in the world. Whilst there were many opportunities for profitable investment, taking advantage of them would require a longer-term perspective.

Conclusions

Thus the character of the market was changing. There were greater numbers of investors with relatively small holdings of shares seeking higher returns than could be achieved by holding government stocks but who were vulnerable to the risk of loss. They were matched by vendors who increasingly looked to issuing shares as a way of financing the longer-term capital investment that their businesses needed to make. For them, stable, sustainable relationships were preferable to volatility.

Ironically, this was happening at a time of deep uncertainty. Businesses that had devoted all of their wartime production to the war effort found that they had to win back their old customers and markets. The inefficiencies of old established industries had been exposed during the war

---

354 Samuel (1919).

and were being exposed by competition with new overseas suppliers whose development had been encouraged by war. There was no certainty about the future performance of the businesses in these industries. Newer industries, such as automotive manufacturers, had been encouraged by the war and looked to have good prospects but there was no certainty about their ability to take advantage of their opportunities. These factors fed an uncertainty about the future income streams to be expected from investments in these industries although their prospects were assumed to be good. This uncertainty would have extended to the commercial value of businesses and assets, and a need on the part of investors for advice.

This trend had potentially profound implications for the Exchange.

Gradually it led to a polarisation of members between those who acted for largely corporate, institutional investors, and those who tended to act more traditionally for personal investors. They were exposed to the differing requirements of the clients they served, and their experiences can be seen in the many arguments about rule changes that took place in the 1920s. Members acting for corporate clients were behind attempts to change the structure of commission rates, for example. For so long as the smaller, more personal businesses predominated, arguments were decided in their favour, frustrating the larger firms and the direction in which the market was headed.

Equally, insistence by smaller firms on preservation of rules that discouraged the development of larger, better capitalised firms that could better serve the retail investor market frustrated members who wanted to take advantage of this opportunity and ensured that the business went elsewhere.[355]

Traditionally, the Exchange had tended to permit dealing in almost all securities for which applications were made. The committee sought to ensure that applicants had complied with the requirements of company law but little more. As a result, it was possible for issues that were almost meritless to be admitted to the floor of the Exchange and for collapses to occur periodically.

From the Exchange's point of view, this approach was reasonable. It existed to provide a place where shares could be traded at the risk of the principals to each trade. Members' income

[355] One consequence was that there was to be no equivalent in London to the development of Merrill Lynch & Company in New York. Perkins (2003); pages 178–199.

depended upon the volume of trade. Even trading in comparatively meritless stocks produced commission income for members. It was for members' principals to manage their own risks.

However, the post-war changes in the character of the market heightened the risk for the Exchange of this approach, for it assumed that members' principals were able to manage their own risks. Many new shareholders with relatively small holdings were likely to have little knowledge on which to base their investment decisions, nor access to brokers who could advise. Yet it was these shareholders who were also likely to be particularly vulnerable to losses.

Potential small investors were thus left to find support and advice outside the market. In the case of the more prudent, this led them towards the life insurance companies and investment trusts, which tended to increase the weight of institutional investment and further pressure on the incomes of smaller members. In the case of the less prudent, this led them towards less scrupulous outside traders who would trade in meritless securities.

CHAPTER FIVE: 1919–1929 – POST-WAR NEW ISSUES

Introduction

The circumstances that changed the character of demand for and supply of securities, and led to changes within the Stock Exchange also challenged the pre-1914 approach to the launch of new issues. The traditional approach aimed to realise short-term profits at the time of flotation and was thus not in many cases a means of raising money for a business's development but a means to transfer ownership of a business. In an increasingly risk-averse market place this approach inevitably came to be questioned.

The promoters

The principal agents in this process, popularly known as company promoters, were diverse, offering a wide spectrum of services and varying in their attitude to risk. Some promoters concentrated on more substantial businesses, conservatively valued, whilst others, such as Clarence Hatry, specialised in finding creative means by which more optimistic valuations could be achieved for more problematic flotations. Finally, there were other promoters who used abusive selling techniques to sell worthless securities to unsuspecting investors.

Many of those involved in company promotion immediately after November 1918 had been involved before the war. Some, like Frederick Szarvasy and Sperling & Company, had continued their activities during the war whilst others had returned from active service.

Frederick Szarvarsy, the son of Alexander Szarvasy, a Hungarian banker, had come to England in 1901 and worked for the stockbrokers Montagu Oppenheimer (later Montagu Stanley). At some point before 1914, and with the support of Lord Charles Montagu, he acquired Cornhill Contract Corporation,[356] which had some experience of managing new issues.[357] On this base,

[356] This company, which was owned by William Bennett, seems to have been similar to City of London Contract Corporation Limited which was established by H Osborne O'Hagan. He recalled that '. . . the words 'Contract Corporation' were taken as a part of the title of nearly every other company which was formed by company promoters to carry on finance business.' O'Hagan (1929); Volume II; page 454 et seq.

he developed a business as an issuing house under the name British Foreign and Colonial Corporation Limited. During the war, although naturalised, his offer to serve as an interpreter in France was rejected by the War Office; but he was excused from internment and had concentrated on acquiring and managing interests in shipping in Wales.[358] In 1919, his company sponsored eight new issues.[359]

The directors of Sperling & Company had resigned as members of the Exchange at the beginning of the war, presumably having decided that their company promotion business would fall foul of the Exchange's wartime Temporary Regulations. With the assistance of Clarence Hatry,[360] they had marketed new issues outside the Exchange throughout the war and in 1919 sponsored a series of issues that were listed on the Exchange.[361]

On their returning from active service early in 1919, Oliver Clare, and the other principals of Clare & Company,[362] were welcomed back.[363]

Another promoter, James White, had operated in London throughout the war. Just before the onset of war in 1914, he had orchestrated the purchase of the Covent Garden estate from the

---

357 For example, the flotation of Chesterfield Tube Company Limited in 1906.

358 Szarvasy's interest in shipping in Wales was investigated by MI5 after suspicions were aroused by the sinking of six ships through enemy action. The investigation concluded that the allegations had been made by local interests which had been antagonised by the views of Szarvasy's representative on the board of the company, his manager A Emil Davies. Szarvasy withdrew Davies from his position in Wales. National Archives; file HO144/1723/256186. Davies later wrote pamphlets on new issues and prospectuses for the Fabian Society and promoted investment trusts which designed to appeal to small savers and aimed to maximize returns by supporting Clarence Hatry's flotations.

359 S Smith & Sons (Motor Accessories) Limited; *The Times*; 21 March 1919; page 20. Crossley Motors Limited; *The Times*; 5 April 1919; page 20. Manganese Bronze & Brass Limited; *The Times*; 28 April 1919; page 19. Greenwich Inlaid Linoleum Company Limited; *The Times*; 12 May 1919; page 21. Frost Brothers Limited; *The Times*; 12 May 1919; page 21. Johnson & Phillips Limited; *The Times*; 22 May 1919; page 23. Forster's Glass Company Limited; *The Times*; 12 August 1919; page 16. Edison Swan Electric; *The Times*; 6 November 1919; page 19.

360 Hatry is presumed to have been excused from active service on the grounds of his indifferent health. His health broke down in 1910 and 1920, leading to prolonged absences from London, and caused concern during his imprisonment.

361 Hatry sponsored six new issues in 1919 including Amalgamated Industrials Limited; *The Times*; 4 June 1919. British Window Glass Limited; *The Times*; 25 July 1919. CA Vandervell Limited; *The Times*; 29 July 1919. Leyland Motors Limited; *The Times*; 13 October 1919. Agricultural Industries Limited; *The Times*; 3 November 1919.

362 Joseph John Jarvis; advised by Harry Clifford-Turner of Clifford-Turner & Hopton, solicitors. In the 1930s, he was to lead attempts to create employment opportunities in Jarrow, following the closure of Palmers Shipbuilding.

363 Clare & Company sponsored nine new issues in 1919, including Straker-Squire Limited; *The Times*; 3 June 1919. Borax Consolidated Limited; *The Times*; 29 July 1919. Western Counties Shipping Company Limited; *The Times*; 17 December 1919.

Duke of Bedford by a syndicate of investors including Sir Thomas Beecham's father.[364] Flotation of a company to hold the estate was frustrated by the declaration of war and the closure of the Exchange, which left White and the investors seeking ways to extricate themselves. In 1917, he created the Beecham Trust in part as a vehicle for further company promotions and market operations such as an attempt to create a corner in Shell-Mex shares during 1919.[365]

There were many others, including Arthur Wheeler, the Leicester-based broker, who had spent the war marketing War Loan;[366] Ernest Terah Hooley, an undischarged bankrupt who had been involved in some spectacular promotions before the war;[367] and BST Limited, which had been incorporated in 1915 by a group of provincial brokers to secure new issues business in London.[368]

Capital issues after the war

The coming of peace presented promoters with a commercial opportunity for the control of capital issues during the war had created a pent-up demand from businesses which had not been able to raise capital. Planning had started well before the armistice in November 1918.

In August 1918, Leyland Motors (1914) Limited moved its registered office from Leyland to Clarence Hatry's office address in London and, in September 1918, Hatry and his associate,

---

364 Beecham (1944); page 142.

365 *The Times*; 13 October 1927; page 5. Beecham Trust sponsored or financed four new issues in 1919: Austin Motor Company Limited; *The Times*; 29 January 1919; page 16. Dunlop Rubber Company Limited; *The Times*; 26 March 1919; page 20. Tyre Investment Trust Limited; *The Times*; 2 July 1919; page 21. Amalgamated Cotton Mills Trust Limited; *The Times*; 31 May 1920; page 22. This last issue financed the Trust's acquisition of Horrockses Crewdson Limited. White and Beecham Trust were also responsible for the failed promotion of DA Pool Limited, a company which had been intended to finance creation of a USA subsidiary for Dunlop Rubber by introducing a promotion technique commonly used in New York. Application for Listing file. London Stock Exchange Committee minutes; November and December 1919; Stock Exchange Archive; Guildhall Library.

366 Wheeler had commenced in business on his own account in 1899 as a stockbroker and specialised in circularising potential investors with information about forthcoming issues: possible for him because he was not subject to the rules of the London Exchange. Keyworth (1985); page 789 et seq. Kinross (1982); page 36 et seq.

367 Before the war, Hooley had been involved in the flotation of various bicycle manufacturers (including Dunlop, Singer and Swift) and other companies such as Bovril and Schweppes. In 1919, he sponsored an issue of shares by Jubilee Cotton Mills Limited. Richardson et al (1985); page 329 et seq. Harrison (1981). Meredith (1931). O'Hagan (1929).

368 New issues sponsored by BST Limited in 1919 included: Baldwins Limited; *The Times*; 15 October 1919; page 19. National Archives; file CAOG 9/108.

Gerard Lee Bevan, both became directors. In the months that followed, the company's capital was reconstructed and a new company formed.[369]

Largely owned by the Spurrier family, Leyland had been formed in the mid-1890s, and reconstructed as a public company in 1914. It had seen remarkable growth during the war, as a result of being chosen to supply all the heavy vehicles that were required by the Royal Flying Corps in France. Meeting this demand had been very profitable but had required factory extensions which needed to be re-financed at the end of the war. The company also needed to raise capital to finance the further expansion which it expected would be possible after the war. As a result, its gearing was higher than would have been regarded as normal in peacetime:

> *'The typical approach . . . was to issue debentures and/or preference shares up to the balance sheet value excluding goodwill and to issue ordinary shares to the vendors against goodwill. Any surplus money provided a small amount of working capital.'*[370]

The Spurrier family appear to have had another objective. Although small dividends had been paid during the war, they had been very much smaller than the recorded profit. This may have been no more than the result of cautious management to meet excess profit duty liabilities that could not be assessed until the end of the war, but the result was that by the end of the war there was a large balance of accumulated profit theoretically available for distribution by way of dividend.[371] In the hands of shareholders, dividends would have attracted Income Tax and Super Tax liabilities which could be avoided by liquidating the company and distributing the remaining net assets to shareholders. Such payments would have been classed as capital receipts for tax purposes and were not taxable. In the event, this is what Leyland did: the old

---

369 National Archives; file BT 31/22241/135481. Although planning began early, the expected flotation did not occur until late 1919 because time was taken to consider a merger with two other companies, one of them being Daimler. Turner (1971); page 15.

370 Rutterford (2004); page 121.

371 This is an inference based on the published accounts as at 31 December 1915 and the disclosure in the 1919 prospectus of the total amount of profit earned during the war years. The company did not publish accounts for subsequent years. To satisfy the Companies Act requirement that accounts should be filed each year, the company took advantage of a weakness in the Companies Act 1908 which did not specify that the accounts filed should be for the most recently completed accounting period: section 26(3) of the Companies Act 1908. Thus the company re-filed the 1915 accounts. National Archives; file BT 31/22241/135481. Turner suggests that the flotation deprived the company of money. As a business of national importance, it would have been entitled to a refund of wartime taxes that it was denied because a new company, created for the purpose of the flotation had taken over. Turner (1971); page 15.

company was liquidated after transferring its trade to a new company that offered its shares to the public.

Leyland is only one example of a transaction being designed to achieve the particular objectives of the vendors: whether to meet financial expectations, as in the case of Leyland, or to protect the vendors' management control in the case of Agricultural Industries Limited.[372] In another case, Amalgamated Industrials Limited, the transaction appears to have been designed to facilitate a combination of the vendors' interests with those of a potential acquirer.[373]

This held good not just for new issue activity in London but also for activity outside London: perhaps most notably in Lancashire where there was feverish activity surrounding cotton mills. Large profits had been made during the war, and continued during 1919. Owners and promoters took advantage of investors' belief that profits would continue by re-capitalising mill companies and encouraging mergers. Re-capitalisation usually involved substantial increases in issued share capital which were justified by quoting the replacement cost of the mills owned by the companies. As it was expected that business would continue to be profitable, there was no serious questioning of the implicit assumption that all of the mills being valued at replacement cost would indeed be replaced if there were to be a choice.[374]

New issue activity within recognised exchanges quickly led to imitative activity outside the exchanges featuring many insubstantial promotions. The volume of this activity is difficult to gauge, but early in 1919 it was sufficient for periodicals such as *Truth* and *Money Market Review* to begin publishing regular columns warning investors of the latest abusive promotions. By the beginning of July 1919, the Miscellaneous Notes column in *Truth* was appearing each week, featuring on each occasion two or three schemes that readers were

---

372 Floated by Hatry in November 1919 to raise money for the development of the agricultural estates in Lincolnshire of the Dennis family, the new group's corporate structure was designed to enable the Dennis family to retain management control of the estates without interference from the shareholders who bought the shares offered for sale. *The Times*; 3 November 1919.

373 Floated by Clarence Hatry in June 1919, this company consisted of an eccentric group of interests in mining and shipping companies. A controlling interest was quickly bought by John Slater who proceeded to add further shipping, mining and marine insurance interests. *The Times;* 4 June 1919. Within 18 months, the company was being wound up, there having proved to be no logic in the combine that Slater created. Subsequently, a libel action by Hatry elicited apologies from a newspaper that had blamed the failure on his financial mismanagement.

374 Daniels and Jewkes (1928); page 167 et seq. Higgins eand Toms (2003); page 209 et seq. Higgins et al (2015); page 5 et seq.

advised to avoid.[375] Such warnings were not new, but before 1919 had only appeared on an occasional basis in both titles. The schemes varied widely. On 2 July 1919, *Truth* warned readers of the activities of Edward C Lovegrove, an outside broker; Mandevilles Limited whose publication *Financial Mail* was pushing shares in London and County Trust; and Howard Harvey of London & York Trust who was pushing shares in a Manchester to London Air Service, a Manchester printing company and Summit Motor Engineering.[376]

After the end of 1919, the economic environment changed radically with cuts in government spending, a sharp increase in Bank Rate and the effect of declining demand internationally leading to worsening expectations and a rapid fall in share prices. Unsurprisingly, although new issue activity continued unabated for a while, it became more difficult to persuade investors to buy. Whereas Hatry had been able to achieve an over-subscription for Leyland preference shares in October 1919 with a coupon of 6%, in November 1920 he was unable to sell all of the preference shares of Jute Industries Limited offered with a coupon of 9%, the temptation of a full six months' interest payment early in 1920 after only two or three months of trading and a balance sheet showing an exceptionally large asset backing for the shares that were offered.[377]

News of the difficulties faced by many of the promotions of 1919 would also have deterred investors. Even companies thought to have especially promising prospects were caught short by adverse circumstances and commercial misjudgements.

At the end of the war, Leyland Motors had seemed to face a most satisfactory future. By the end of 1919, its future looked far less certain. Throughout 1919, the government had been looking for ways of disposing of its war surplus equipment: not least the fleet of second-hand Leyland lorries that had been used by the Royal Flying Corps. For Leyland, there was a risk that the market for its new vehicles would be undermined by the availability of second-hand lorries. Warned of this threat through Spurrier family connections, Leyland was able to buy all

---

375 A similar column appeared weekly in *Money Market Review* under the title: Cautionary Notes.

376 *Truth*; 2 July 1919. Summit Motor Engineering demonstrates the emptiness of many promoted companies. It was proposed that Summit would sell motor-cars which it would fabricate from components bought from various manufacturers. It was not itself to manufacture. There was no explanation of how the company would design and co-ordinate the manufacture of the components it would need.

377 *The Times*; 11 November 1920. Following the example of the Lancashire cotton mill companies, Jute Industries Limited's balance sheet included all of its jute mills at revaluation cost. The asset backing for the preference shares was almost 200% rather than 100% as was usual. Valuation analysis: Dundee University Archives.

of the second-hand lorries in France, together with a depot to the west of London where they could be refurbished. Whilst this cauterised the immediate threat, it burdened Leyland with an unplanned bank loan which was to take years to pay back as the second-hand lorries were gradually sold.[378] If this were not enough, Leyland's reputation was to be harmed by a commercial misjudgement. One of the objectives for raising capital in 1919 had been to finance the development of a Leyland car to complement the range of lorries and buses. When launched in the autumn of 1920, the first fruit of this new development, the Leyland Straight Eight, was a disaster. More expensive than a Rolls Royce, for a while the car held the speed record at Brooklands; but it did not sell. Within months of the launch, it was decided that no more would be produced unless orders were forthcoming: none were. Only 18 were ever built. Indeed Leyland was to become a music-hall joke: its Trojan vans, while cheap, had precisely the same gauge as the standard tram so music-hall comedians claimed that any that got stuck in the tracks could only escape by following the trams to the garage.[379]

This was a period when asset values appreciated rapidly, encouraged by understandable expectations of peace and of the exploitation of new technologies and industries which had been brought to the fore by the 1914-1918 war. As Leyland Motors showed, even the more promising businesses, such as those involved in vehicle manufacture, were badly affected when the most optimistic expectations were dashed and for many years suffered the consequences of over-optimistic flotation. Using published balance sheets, Lewchuk shows that, as a percentage of net assets, Leyland Motors' net profit fell sharply after the new issue in 1919 before recovering later in the 1920s.

---

378 The purchase of the lorries became a well-publicised political scandal as the official who was responsible for this aspect of the programme to dispose of war surplus equipment was a member of the Spurrier family who had been a director of Leyland Motors before the war. Select Committee on National Expenditure (1920); Third report; page xxiv. The precise circumstances of the involvement of Leyland Motors were described in the evidence of Colonel George Spurrier; Select Committee on National Expenditure; 8 June 1920; page 68.

379 Turner (1971); page 18.

Table 5.1: Leyland Motors Limited: Net Profit over Net Assets

(three year moving average) %[380]

	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930
Leyland Motors	-10.6	-27.4	-44.9	-48.0	-43.8	-36.3	-26.1	-12.0	4.1	14.8	17.3
Industry average	1.4	-3.0	-4.0	-1.2	0.3	2.1	4.2	5.8	7.8	8.3	8.8

In parallel, a collapse in food prices and land values left Agricultural Industries Limited with a falling income from which to service the bank loans raised to pay the dividend that had provided Hatry with his promoter's profit.[381] A collapse in demand for canvas meant that Jute Industries Limited struggled to pay dividends on its preference shares.[382] A similar collapse in demand for cotton led to many Lancashire mills suffering the same problem of over-capitalisation.[383] These problems were to overhang the market for many years.[384]

As had happened on previous occasions, the optimistic appreciation in asset values also provided an opportunity for the unscrupulous to take advantage of the willingness of investors to accept uncritically promoters' ill-founded valuations.[385] These problems were to overhang the market for many years.[386] They were also to lead to fundamental changes among company promoters. This experience was to lead to fundamental changes among company promoters.

The end of the promoters' business model

Although Clarence Hatry's business survived this collapse, his experience demonstrates why 1920 was so catastrophic for promoters. The problem lay in the share trading in which all promoters indulged to support the prices of the shares they sponsored and to provide some

380 Lewchuk (1985); page 17.
381 Board of Trade Inspector's draft report dated 17 January 1950; pages 41–42. National Archives.
382 Dundee University Archives: reference MS 66/X.
383 Higgins et al (2003).
384 In the case of Agricultural Industries the difficulty led to disputes between the shareholders and the Dennis family which eventually led to litigation in the 1950s. In the case of Leyland Motors Limited, the over-capitalisation led to disputes between the directors and holders of the ordinary and preference shares over proposals to reduce the company's capital. In the case of Jute industries Limited, there were disputes between the directors and the London-based preference shareholders who eventually accepted a capital reduction scheme in 1929.
385 Toms (2015); pages 3-5.

assurance to small investors that there would be a market in the stock offered for sale. As Sir Robert Kindersley, a director of Lazards, later told the Macmillan Committee:

> *' . . . the average investor today does not like anything without a market, and you cannot possibly have a market with £50,000 of stock or £100,000 of stock for that matter, there is bound to be no market in stock and it is very difficult of negotiation in consequence.'*[387]

To ensure that there was an active market, promoters were prepared to support applications for shares and to buy shares in a falling market to sustain the price. They would in any event hold parcels of shares themselves so that they could benefit from any increase in the price of a share after issue.

In these endeavours, Hatry had for some years been assisted by Gerard Lee Bevan, the senior partner of Ellis & Company, Hatry's principal stockbroker, and Chairman of City Equitable Fire Insurance Limited (CEFI), which Hatry had sold to him in 1915. Bevan controlled personally the investment decisions of both of these concerns[388] and used his authority to support Hatry's new issues. Thus, when Jute Industries Limited was floated on Armistice Day 1920, Ellis & Company issued a guarantee to certain directors that within a short period after the flotation it would buy any equity shares for which they applied on flotation.[389] The effect of these applications was that the company was able to announce that the issue had been substantially subscribed, although underwriters were left to take up 30% of the shares offered for sale.[390]

The unfortunate consequence was that, as share prices fell in 1920, both Ellis & Company and CEFI were left with substantial holdings of shares that fell substantially in value, exposing the bank loans that had been raised to finance the holdings. As the loss in value threatened the stability of both firms (and thus a complete collapse in the market price of Hatry issues) Hatry involved himself in attempts to save both of them. In 1921, he contributed to a scheme by which CEFI floated a new company, City Equitable Associated Interests Limited, which acquired three smaller insurance companies whose investment funds were immediately amalgamated

---

387 Minutes of Evidence; Macmillan Committee; Question 1526.
388 The circumstances in which Bevan came to exercise this degree of control are set out in the judgment of Romer J in the litigation which followed: In re City Equitable Fire Insurance Corporation; (1925) 1 Ch 407.
389 Dundee University Archives; reference MS 66/II/10/50.
390 *The Times;* 18 November 1920.

with those of CEFI.[391] This somewhat desperate ruse failed because the market continued to fall. As a result, both Ellis & Company and CEFI became insolvent and were liquidated. Hatry then sought to buy holdings from the liquidators to avoid open market disposals that would undermine further the value of holdings in the hands of his own company, Commercial Bank of London Limited (CBL).[392] This approach also failed and led to the liquidation of CBL although, on the basis of assurances given by Hatry about the prices at which shareholdings would be realised, the liquidation took the form of a Members' Voluntary Winding Up which assumed that the company was solvent. These assurances proved difficult to make good when the liquidator came to realise the remaining assets.[393]

Hatry was thus faced with a commercial disaster for he risked having to dishonour a promise to his supporters that they would not suffer a loss through the liquidation of CBL and the possibility that, having dishonoured his promise, he would be obliged to cease his business activities. He was saved from this prospect by good fortune: an introduction to Arthur Collins.[394]

Collins was an exceptional combination of entrepreneur and local government accountant. He had been a prize winner in the first competitive examinations of the Institute of Municipal Treasurers and Accountants (IMTA), a young Treasurer of the City of Birmingham and also a young President of his Institute. Before the war, Collins had travelled widely lecturing on local government financial management and had seen an opportunity to advise local authorities on long-term planning and the raising of loans. During his year as President, he resigned as City

---

391 The circumstances were described in Sir Richard Muir's opening speech for the prosecution at Bevan's trial; and in the statement of G Adair, a director of one of the three companies acquired by CEFI. National Archives; file HO 144/2745.

392 Correspondence in May 1922 between JD Langton & Passmore, solicitors acting for Hatry, and the Legal Department of London Joint City and Midland Bank. HSBC Archive; file UK 0273/0026.

393 For example, the liquidator disposed of CBL's remaining holding of shares in Agricultural Industries Limited by a sale at a nugatory sum to members of the Dennis family from whom Hatry had first acquired the business in 1919. This is one of the means by which the Dennis family retained control of the family farming estates which they had first sold in 1919 and which they still farm in 2015. Board of Trade Inspector's report. National Archives.

394 There is no record of the way in which this introduction was effected. It may have come about through Sir John Crisp, a partner in Ashurst Morris Crisp, who had taken over as Hatry's solicitor on the death of his father, Sir Frank Crisp, and who is recorded to have introduced Hatry to Foster & Braithwaite, the stockbrokers, who became involved in the new business and who proved instrumental in securing its acceptance by Stock Exchange members, notwithstanding fierce opposition by jobbers and the incumbent brokers. It was Foster & Braithwaite who in turn introduced Hatry to the Marquess of Winchester, who chaired Hatry's new company.

Treasurer of Birmingham, and at the end of his year established the Municipal Loans Bureau which developed a business by using the connections he had made through the Institute.[395] By 1925, his attempts to reduce the cost to local authorities of raising new loans through the money market had come to nothing, having been opposed by three firms of brokers[396] which dominated the market and were able to dictate the terms that local authorities were obliged to accept. Frustrated by his failure, Collins was still seeking a way of breaking this impasse.

For Hatry, the introduction to Collins must have seemed like an answer to a prayer. Hatry was able to combine Collins' expertise and connections with his own market skills to break the stranglehold of the three incumbent brokers. This opened the way to a new business that offered the prospect of considerable profits, not least because at this time local authorities were more interested in raising new loans than private businesses were interested in new issues. Hatry incorporated a new company, Corporation & General Securities, to undertake this business and offered shares in the new company to the former shareholders in CBL, discharging his promise to them that they would not lose as a result of the collapse of CBL.

Hatry was able to survive the collapse of 1920, but the effort this required serves to explain why many promoters did not survive. The company promoters' business model had run its course and was not to survive the 1929 crash for its fundamental weakness had been exposed.

Company promoters had long depended upon the willingness of people and institutions to join syndicates to finance their promotions, in effect using short-term money to buy companies that were then immediately to be sold by some form of public offer. It was of the essence that syndicate members should be able to realise their interest in the promotion as quickly as possible, probably at a substantial profit, but at least without too great a risk of loss. For example, the agreement covering the formation of the Preliminary Steel Syndicate in April 1929 specified that the Syndicate should be closed within six months. In practice this meant

395 Biographical note published in the IMTA Journal on Collins becoming President. An advertisement for the new Bureau appeared on page one of the first issue of the journal after Collins left office as President.

396 R Nivison & Company, Mullens Marshall & Company, J&A Scrimgeour & Company. Documents relating to attempts by these brokers to preserve their position are held in a Crown Agents file. National Archives; file CAOG.9/108.

that the Syndicate should be closed within a relatively short time after the projected issue of shares.[397]

In return for acting as ringmasters for syndicates and vendors, the company promoters were able to take substantial profits for themselves. Both syndicate members and vendors must have realised that this was happening and must also have been prepared to tolerate it for so long as their own commercial ambitions were realised. Jute Industries Limited provides a transparent example of this. Having decided to realise their equity, the mill owners approached Hatry with a view to his floating their companies;[398] presumably they expected to realise a price that reflected their view of their entity's value whilst allowing an appropriate fee for Hatry. He realised a substantial profit which was justified by valuing the mills at replacement cost: a value which the mill owners obviously thought could not be justified by their private expectations of future profit.

When market conditions militated against the realisation of a substantial profit by immediate sale, there was risk of substantial loss. Company promoters were certainly aware of that risk and protected themselves by extracting profits as they were made and giving them to their wives, where they could be protected under the Married Women's Property Acts.[399] Hatry's wife, Dolly, was certainly used in this way, as is attested by the memoirs of the family of his former insurance broking partner, Deighton Patmore;[400] her ownership of the Hatry stud at Alfriston;[401] and the fact that she made substantial profits from share trading during Hatry's imprisonment in the 1930s and in part financed his purchase of Hatchards after his release from prison.[402]

---

397 Memorandum on Steel Industries of Great Britain Limited. M Samuel & Company Limited Lloyds Bank Archive; file S/1/1/6/228. In the event matters were delayed, and in June 1929 members of the preliminary syndicate were persuaded to become members of a successor syndicate: 'the A Share Syndicate'. The agreement for that syndicate envisaged that the A shares in question would be sold by 19 December 1929: within six months of the formation of the new Syndicate.

398 Grimond (1979); page 24. Pearson (1961); page 112.

399 Devices of this sort had long been a resort of fraudsters and promoters: Holcombe (1983); page 160.

400 Patmore (1968); page 2.

401 Examination of telephone directories.

402 Other promoters seem to have used a similar approach. For example, after his imprisonment and bankruptcy, Hooley was able to continue living on his estate at Papworth Hall. Similarly, although he was obliged to sell his stud at Alfriston (to Hatry), Bottomley was able to retain his nearby country house.

But however readily promoters could protect their own profits, to continue in business their financial supporters also had to be confident of profits.

This is the significance of Hatry's experience in 1921 and 1922. As the stock market fell in 1920, so it became more difficult to attract investors by public offers. Yet again, the flotation of Jute Industries Limited illustrates this. Hatry's initial supporters would have expected to realise their interest quickly and at a profit, which in Hatry's case was only possible with the support of Gerard Lee Bevan and Ellis & Company's guarantees. For Hatry to remain in business, it was necessary for him to honour promises to his supporters that they would not lose. There is a tendency in some biographical references to Hatry to characterise this honouring of promises as a demonstration of an ethical approach to business.[403] It was a matter of commercial necessity: a matter of life and death. Promoters could not afford to disappoint their supporters too often.

The result was that the old-style promoters gradually disappeared. Clare & Company withdrew from company promotion after the death of Oliver Clare in 1921. Sperling & Company became deeply involved in ultimately unsuccessful attempts to rescue its shipbuilding interests from the effects of the slump in demand for new ships. Hooley was obliged to withdraw from company promotion by prosecution arising from the fraudulent promotion of Jubilee Cotton Mills Limited. Hatry survived, partly because by offering shares in a new venture he could claim that syndicate investors had not lost, and partly because his business took a new direction. On one hand, he managed loan issues for local authorities, and on the other hand he concentrated on the formation of combines rather than the speculative issues that had disfigured the 1919–1920 boom.[404]

Even those such as Frederick Szarvasy, who had been successful and continued as promoters for some time, eventually withdrew to concentrate, in his case, on company rescues.[405]

In spite of the withdrawal of many company promoters, new issues remained in demand which led some existing houses to develop a new issues business[406] and to the creation of new

---

403 Pearson (1961); page 137.

404 The combines with which Hatry became involved included Drapery Trust (provincial department stores), London Public Omnibus Company (London bus operators), Associated Automatic Machine Corporation (coin-operated machines on stations and other public places), Allied Ironfounders (small foundries) and United Steel (steel manufacturers).

405 Such as Dunlop Rubber and, eventually, Royal Mail Steamship.

houses with the financial support to provide assurance of stability and the sustained relationships that both investors and vendors increasingly sought.

In 1921, this led to the formation of Cull & Company by four ex-partners in a jobbing firm specialising in oil shares who had made a fortune shortly before the war when Burmah Oil was introduced to the Stock Exchange.[407] With a background in oil, this new house was quickly involved in sponsoring an issue of preference shares for Mexican Eagle[408] and in facilitating a £5.7 million sale by Royal Dutch of a portion of its holding in Shell Transport & Trading.[409] This was followed in 1922 by the creation of Power Securities Corporation which was formed by the utility engineering company, Balfour Beatty, with the support of British Thomson-Houston, and which, like Cull & Company, became another client of Cazenove.[410] This company was to specialise in new issues for electricity supply undertakings such as Lancashire Electric Light & Power Company Limited.[411]

In succeeding years, a series of new creations followed: Gresham Trust in 1924, Charterhouse Investment Trust in 1925, Quadrant Trust in 1927[412] and Dawnay Day in 1928.[413]

Charterhouse's creation was a project conceived by Sir Arthur Wheeler, Harry Clifford-Turner and Nutcombe Hume who had together been involved in Gresham Trust, an issuing house founded by Wheeler in 1924 to sponsor small issues.[414] Hume had joined Wheeler in 1921 from Clare & Company, having been introduced by Clifford-Turner who acted as legal adviser to both Clare & Company and Wheeler.[415]

The new Trust's prospectus was published on 12 November 1925, and its first new issue was announced on 23 February 1926: a company called International Pulp and Chemical Company

---

406 For example, the business of Samy Japhet: Japhet (1931); page 122.
407 *The Times*; 3 October 1921; page 17.
408 *The Times*; 3 May 1922; page 20.
409 *The Times*; 13 June 1922; page 15.
410 *The Times*; 20 October 1922; page 18. Kynaston (1991); pages 103–104.
411 *The Times*; 2 February 1923; page 16.
412 Formed by Phillip Hill, this was to lead to the formation of Phillip Hill & Partners a few years later. In 1928, the company sponsored issues by Madame Tussaud's, Timothy Whites (chemists) and Taylors (chemists).
413 Formed by Guy Dawnay and Julian Day; in 1928 the company sponsored an issue by Financial Newspapers Proprietors.
414 Kinross (1982); page 37.
415 Dennett (1979); page 15. Kinross recalled that Hume 'was driving a bus when Wheeler originally met him'. Kinross (1982); page 47.

Limited which was formed to acquire the share capital of Koholyt, a company based in Koenigsberg which produced chemical pulp for use in paper manufacture. Charterhouse was to be responsible for four new issues in 1926, five in 1927 and a further five in 1928.[416]

When the first edition of the *Issuing Houses Yearbook* was published in 1929, it listed 94 houses that had been responsible for new issues between 1926 and 1929:[417] a list that was remarkable both for the comparatively small number of issues handled by businesses similar to those of old-style promoters and for the fact that it was headed by Charterhouse Investment Trust, a house that had been formed as recently as 1925.

Table 5.2: Top ten issuing houses ranked by total amount subscribed for issues in 1928[418]

	Year of formation (per yearbook)	*Number of issues*	*Total amount subscribed £*	*%age of total of all issues*	*Average amount subscribed £*
Charterhouse Investment Trust	1925	6	7,867,500	*6.7*	*1,311,250*
British Foreign & Continental	1910	3	7,567,000	*6.4*	*2,522,333*
Barings Brothers	-	1	3,840,000	*3.3*	*3,840,000*
Scottish Finance	1926	13	2,912,775	*2.5*	*224,060*
Standard Industrial Trust	1920	6	2,755,000	*2.4*	*459,167*
Lothbury Investment Trust	1919	3	2,300,000	*2.0*	*766,667*
London & Yorkshire Trust	1919	5	2,233,500	*1.9*	*446,700*
French British & Foreign Trust	1924	13	2,232,500	*1.9*	*173,269*
Helbert Wagg	1919[419]	3	2,165,000	*1.8*	*721,667*
Eastern Rubber Growers	1926	1	2,080,000	*1.7*	*2,080,000*
		54	35,973,275	*30.6*	*666,172*
Other issues		234	80,830,432	*69.4*	*345,429*
TOTALS		288	116,803,707	*100.0*	*405,568*

416 *Issuing Houses Yearbook* (1929).
417 Individual issuing houses listed in the yearbook were not necessarily independent of each other. In a number of cases, houses were related to each other, dividing business between them on, for example, grounds of size. Thus, Sir Arthur Wheeler was associated with three houses: Moorgate Issues Limited which dealt with small issues and was a subsidiary of Gresham Trust which dealt with larger issues and Charterhouse Investment Trust which dealt with even larger issues.
418 The table is based on the list of issues included in Anon (1931). The list included only corporate issues and thus excludes bond issues for home and overseas governments and public sector bond issues. In respect of each issue, the list takes account of the first-named issuing house recorded in the *Issuing Houses Yearbook* (1929).
419 Formed to acquire the predecessor business which had been formed in about 1800.

As the underlying source for the table excludes bond issues by home and overseas governments and public sector bodies, it understates the role of issuing houses such as Barings Brothers, NM Rothschild and Schroders which specialised in such issues.

For the new businesses, the quality of the issues sponsored was critical. Shareholders would not have welcomed losses any more than a promoter's supporters but were more likely to be long-term rather than short-term holders. They were also likely to be more risk averse, having decided that investment through an intermediary was more attractive than investing directly through the Exchange. Moreover, it was more difficult to withdraw all profits instantly, protecting them by transfer to a wife. In short, investment trusts tended to be conservative in their choice of investments. In describing Charterhouse's early years, Dennett comments:

> *'Hume's early training in the City . . . invariably led them to turn down any proposal that was not totally sound. The background of a company for which Charterhouse made an issue or in which it intended to invest had always been explored in detail by Hume . . . The numbers of propositions which, after investigation, he discarded before presenting to the board, indicated the exactitude of his standards. When the downward slide began, Charterhouse did not find itself committed to businesses that were likely to fail.'*[420]

This approach was attractive both to vendors discouraged by the disastrous experience of company promoters during the 1920–1921 stock market collapse, but also to prospective investors for in time it would lead to a reputation for prudent decision-making.

New issues in the late 1920s

This was not the only change from the boom of 1919–1920, however, for there was also a change in the character of the securities being listed. The former boom featured a large number of substantial businesses that were raising capital to take advantage of what they believed to be attractive prospects. In the later boom, such businesses were less in evidence. There were, however, many issues floated to take advantage of opportunities to increase profits through rationalisation. It was at this time that the national chains of department stores were being created through the acquisition of formerly independent regional department stores by Drapery Trust (a Hatry promotion),[421] United Drapery Stores and Gordon

420 Dennett (1979); page 36.
421 The first acquisition by Drapery Trust was Marshalls Limited, for which Hatry had organised share issues in 1917 and 1919/1920. The idea came from RP Gaze, who was a director of Marshalls

Selfridge. Each of these three groups was created to increase profitability by joint purchasing and joint marketing and was to prove successful and long-lived.[422] The boom witnessed a number of other issues of this kind including the following from Hatry's portfolio: London Public Omnibus Company,[423] Associated Automatic Machine Corporation,[424] Allied Ironfounders[425] and, fatefully, Steel Industries of Great Britain, which was to be the cause of Hatry's downfall. In addition, a large number of investment trusts were launched: in 1928, no fewer than 28 trusts were raising about £16.5 million (more than 10% of all money raised in 1928).

However, issues such as these did not satisfy the demand for shares with the result that the 1928 boom also saw the issue of a large number of small and highly speculative issues, many of which were imitating successful businesses:

Table 5.3: Categories of speculative stocks issued in 1928[426]

	Number of issues	*Amount subscribed £*	*Average amount subscribed £*
Gramophone and radio companies	29	3,989,500	137,569
'Parent' finance	16	3,284,000	205,250
Safety glass patent companies	5	711,750	142,350
Other patent companies	4	737,500	184,375

The 'parent' finance issues were so named by *The Economist* in January 1929 in describing:

> *' . . . the practice . . . of floating speculative concerns, formed in many cases to exploit entirely novel and untried mechanical devices, and almost immediately disposing of*

Limited and became Managing Director of Drapery Trust and subsequently a director of Debenhams Securities Limited after its acquisition of Drapery Trust.

422 Corina (1978); pages 100–101. Drapery Trust was acquired by Debenhams in 1927–1928 and its chain of department stores still exists. United Drapery Stores eventually specialised in clothing and was acquired by the Hanson group in the 1980s. A number of smaller regional Selfridge's stores were sold to the John Lewis Partnership in the 1940s and the remaining stores were eventually acquired by Charles Clore in 1965.

423 Formed by Hatry in 1926 to acquire the remaining independent bus operators in London, the company was sold in 1928 to London General Omnibus Company, which thus regained its de facto monopoly of bus operation in London. The short-lived group was built around the Admiral Line, and was the first London bus company to operate Leyland six-wheel buses. *Omnibus Magazine*; January 1930.

424 Formed by Hatry to acquire independent coin machine operators: mainly on railway stations.

425 Formed to acquire independent light foundries. It manufactured Aga and Raeburn cookers among many other products. Tripp (1951).

426 Analysis of the issues listed in Anon (1931).

their 'rights' in this, that, or the other territory, to a swarm of new companies, which in turn appeal to the investor's largesse.'[427]

One of Hatry's issues, Photomaton, a company formed to exploit a patent for photographic booths which were erected in railway stations, spawned two such companies: Photomaton (Eastern & Central) Limited and Photomaton (Lancashire & Midlands) Limited. This was not a new device as Hatry had first used it in 1913.[428]

In parallel to the renewal within the Exchange of interest in new issues, there had been an increase in off-exchange activity. This had come about in 1924–1926, mainly as a result of the arrival of share traders from New York who had been driven away by a campaign undertaken by Albert Ottinger, a newly appointed New York Attorney General, who intended, with support from the NYSE, to drive out abusive off-exchange share selling.[429]

'The Better Business Bureau in New York, has sent me its annual report, which contains a long list of cases in which, largely through its efforts, proceedings have been taken under the famous Martin Act for the suppression of fraudulent bucket-shop and stock-selling businesses. I have previously mentioned that on the application of the Attorney General the Supreme Court granted temporary injunctions restraining several firms from selling so-called bankers' shares or "units" based on stock of Ford Motor Co. of Canada. It now appears that the injunctions were confirmed by final judgments, and that among the defendants against whom Supreme Court Justice May granted a permanent injunction on April 13 were "Hoshor, Montanye and Co., Jefferson K Hoshor, John C Hoshor, and Edwin L Presby."

These are some of the individuals who, operating in London first as WC Montanye and Co and subsequently Hoshor, Montanye and Co. Limited, have hoodwinked so many unwary British investors into buying unmarketable "units" at prices enormously in excess of the market value of the real shares of the Ford Co. actions against Hoshor and Co (and also against the two rival rampers, British American Securities Limited, and Co-operative Securities Limited) are now pending in the courts here, and I am still willing to put victims or their solicitors in communication with the solicitors who are acting for the plaintiffs.'[430]

---

427 *The Economist*; 19 January 1929; page 111.

428 In 1913, Hatry formed and then sold shares in Union Emigrants Association Limited and then Union Emigrants Association (Italy) Limited. The two companies were the first known examples of Hatry offering shares for sale. Their business consisted of selling to intending migrants from Eastern Europe insurance cover against the contingency that, on arrival at Ellis Island, the migrants might be denied admission to the USA.

429 Ott (2009); pages 58 and 59. The legislation empowering the Attorney General, the action which was taken and its effect were described by the Assistant Attorney General in two papers: Winter (1927a) and (1927b).

430 *Truth*; 10 June 1925; page 1087.

The units in question appear to have amounted to an entitlement to a share of a trust's holding of shares in Ford Motor Company of Canada, a structure redolent of a scheme put forward in 1919 by James White: DA Trust Pool, for whose units an application for listing was made to the London Stock Exchange but rejected on the grounds that the resulting security was not suitable for trading on the Exchange.[431]

Quite apart from the dubious nature of the securities being offered to investors, complaints were raised over the selling techniques they adopted:

> *'Investors should be on their guard not only against the posted "literature" but also against the plausible-tongued touts who may call upon them. Quite recently two unsophisticated ladies in the country were visited and were hoodwinked into parting with no less than £700.'*[432]

At some point some of the share-pushers who had come from New York must have formed liaisons with members of the Stock Exchange, for members of the Exchange were later shown to have been connected with share-pushers of American origin. In particular, an investigation of the accounting records of Mr Cyril James, who sponsored Australian Commonwealth Carbide, Sunbeam Gramophone and others, showed that he had been pushing shares for which the notorious American promoter, Jacob Factor, was responsible.[433] Mr James was not alone as was shown by an investigation of Charles Stanley & Sons which had sponsored a large number of suspicious issues including Belgian Finance Company Limited:

> *'Working in cooperation with Scottish Finance (a promoting concern with a sinister record).'*[434]

Some members of the Exchange had not been able to resist the temptation of the business generated by promoters who had been driven to London by the threat of prosecution in New York. Jacob Factor should have been well known to members, however, as a result of articles alleging that he was a 'notorious share pusher' which had appeared in the *Daily Mail* on

---

431 Application for Listing file. Stock Exchange Archive; Guildhall Library. An appeal against the Quotations Committee's original decision was also rejected. The scheme was intended to finance the creation of a new manufacturing subsidiary in North America for Dunlop Rubber, the original USA subsidiary having been sold during the war.

432 *Truth*; 18 February 1925; page 256.

433 Report of the Sub-Committee appointed to investigate the report of 14th March 1930 relating to Mr C de B James; 10 April 1930; London Stock Exchange minutes; 14 April 1930; Stock Exchange Archive; Guildhall Library.

434 Special Report (No 2) of the Sub-Committee on New Issues and Official Quotations; 4 April 1930; London Stock Exchange minutes; 7 April 1930; Stock Exchange Archive; Guildhall Library.

numerous occasions from March 1926. On several occasions, Factor had initiated libel proceedings with a view to stopping the publication of further articles, but on each occasion had failed, as had been well reported in the press. In short, members had been willing to facilitate the share promotions of an alleged fraudster.[435]

Their susceptibility to such temptations suggests that members' and promoters' financial problems had not all been solved by the income that the 1928 boom had generated. Hatry's own circumstances demonstrated this. Superficially he had enjoyed great success since the launch of his local authority loan business in 1925, to the extent that, on his fortieth birthday in December 1928, he was able to celebrate with a spectacular party in his newly refurbished home in Stanhope Gate, just off Park Lane. Apart from the acknowledged success of the formation of Drapery Trust and its sale to Debenhams, he had been instrumental in a series of new issues and was involved in re-financing a number of companies such as Alvis Cars & Engineering. But in January 1929, his companies were short of cash to the extent that, when Associated Automatic Machine Corporation acquired British Automatic Machines in January 1929, the investments of its pension schemes were immediately taken over and realised for cash, for which shares in Hatry promotions were substituted.[436] It subsequently became apparent that the appearance of success had to some extent been an illusion, for the dominant position in the local authority loan market had been achieved by aggressive price-cutting which left little room for profit.[437]

Conclusions

Just as the membership of the Stock Exchange was becoming polarised, so were the businesses involved in sponsoring new issues. Although some of the company promoters survived for a while, the weakness of their business model had been exposed and their approach to business did not survive. They were to be replaced by two groups. One group, consisting of brokers and new issuing houses in the form of or backed by investment trusts was joined by a number of the large houses that had previously concentrated on international stocks who were meeting

---

435 *Daily Mail*; 30 March 1926; 21 May 1926; 24 July 1926; 23 December 1927. *Evening News*; 31 March 1926. *Continental Daily Mail*; 24 July 1926. *The Times*; 12 January 1928; 31 January 1928; 6 February 1928; 11 February 1928.

436 A manoeuvre reminiscent of the scheme to support City Equitable Fire Insurance in 1921. National Archives; file DPP 1/91. This was one of a number of allegations reported to the Director for Public Prosecutions that did not lead to charges at Hatry's trial.

437 Envelope 'Papers re Corporation Loans, Corporation & General Securities &c' in Foster & Braithwaite's private papers; Foster & Braithwaite Archive; Guildhall Library. Reader (1979); page 150.

with greater competition for that business. The essence of these companies was to build sustainable businesses through careful choice of the companies whose securities they would float. [438]

This process was encouraged by the growing interest in industrial reorganisation and rationalisation with an accompanying increase in the capital required and the size of issues. Such developments encouraged the growth of larger institutions that could provide access to funds on the scale required and manage larger-scale issues.

As the risk appetite of the market changed, so did the market's view of the company promoters' business model. As the syndicate agreement for the 1929 steel scheme demonstrates, promoters designed their schemes to realise profits quickly, both for themselves and their supporters. A number of the companies they floated proved to be long-lived, such as Jute Industries and Leyland Motors. Most, like Jute Industries, would find themselves burdened by financing arrangements that proved embarrassing. That vendors and investors found other, more stable, models more attractive is evident from the rapid growth of new houses such as Charterhouse Investment Trust. Some of the people involved in the new businesses had worked for old-style promoters. Sir Arthur Wheeler established and for some years led Gresham Trust and Charterhouse, and Nutcombe Hume had worked for Clare & Company before joining Charterhouse. The key change was not the people involved but the financial structure within which they worked.

Although the change served the interests of investors and vendors, there was one respect in which it was a loss to the Exchange: some promoters had been agents for innovation either by probing the possibility of achieving vendors' objectives whilst complying with the rules or by challenging market orthodoxy. The activities of C&GS provide an example of this process. By combining with Arthur Collins' expertise and network of contacts, Hatry was able to challenge the brokers who had formerly controlled local authority loan issues, with the result that the costs of loan issues were reduced.

It is striking that these developments occurred as the result of market changes and not in response to regulatory interventions on the part either of the Stock Exchange or the

---

[438] Thomas (1978); pages 49-50.

government. Investors and vendors decided that the old-style company promotion process did not match their risk appetite and acted accordingly.

In parallel, there was a growth in abusive off-market activity. Investors with limited holdings of shares did not represent a remunerative prospect and were shunned by most stockbrokers. Moreover, by comparison with the NYSE, the London Stock Exchange did not encourage members to support new investors. Unsuspecting investors became the prey of ruthless off-market operators, some of whom were able to secure permission to deal on the floor of the Exchange for weak securities through the assistance of members. It is unclear to what extent the members concerned were aware of the abuses for which these off-market operators were responsible, although several had been the subject of 'exposés' in the national press and such specialist titles as *Truth* and *Money Market Review* so that members should at least have been suspicious. They were inviting criticism for being complicit with these operators and endangering the reputation of the Exchange; their activities focused attention on the arrangements to control trading practices.

CHAPTER SIX: 1919–1929 – REGULATING SHARE TRADING - PART I

Introduction

In retrospect, the enthusiasm with which in the 1920s off-market operators took advantage of the opportunities for abuse of investors and with which members were prepared to collude with the unscrupulous are unsurprising. Members saw opportunities to restore their incomes; off-market operators saw opportunities to take advantage of unsuspecting investors. The climate of uncertainty surrounding business and asset values provided an environment in which those who wished to take advantage of such opportunities could persuade themselves, if they wished, that there might be some justification, however tenuous, for outrageously optimistic valuations. For those responsible for regulating share trading and deterring abuse, these were bound to be difficult times.

Speaking of regulation of share trading in the 1920s without qualifying the term is misleading. None of the organisations involved, the London Stock Exchange, the Board of Trade and the Director of Public Prosecutions (DPP), either accepted responsibility for regulating share trading in the sense of managing the risks that all parties took in becoming involved in trading or would have thought it necessary that all such risks should be managed for all parties. The Exchange believed itself to be running a members' organisation with the narrow objective of limiting members' counterparty risk, and accepted no responsibility towards outsiders whose transactions took place through the market. They were expected to manage their own risks. If they were unable to do this, then they should not be dealing. As for the Board of Trade, it saw itself as responsible for ensuring that proper arrangements existed for members of the public to seek redress if deals misfired and for egregiously abusive practices to be punished in the hope that others might be deterred from such practices. The DPP's responsibility extended to ensuring that egregious cases were prosecuted, but no further.

The events of the 1920s challenged the limited view of their roles held by each of these three organisations.

London Stock Exchange

From the beginning of the return to peacetime trading in 1919, the Exchange's committee was diligent in policing compliance with the Exchange's rules and in amending them not only to reflect the need for new peacetime arrangements but also to respond to evidence of traders taking advantage of weaknesses in the rules.

For many years, company law had required that prospectuses covering new issues of shares should include various disclosures including, for example, information about goodwill, the company's contracts and promoters' profits. Those requirements did not apply to offers for sale, in which another company owning shares in the company being floated offered those shares for sale. By structuring a new issue as an offer for sale, a promoter was thus given the opportunity to avoid inconvenient disclosure. A document would be published, which looked like a prospectus and gave a great deal of the information that would be expected in a prospectus, but left out key details.

One such offer came to the committee's attention in November 1919. An application was made for permission to deal in the shares of Agricultural Industries Limited (AIL): one of Hatry's promotions. The documents were in strict compliance with the law and the rules. However, the committee's papers suggest that the committee was sceptical about the completeness of the information disclosed because the application file contains manuscript annotations suggesting that someone attempted to calculate the profit that Hatry as promoter was making from the promotion. These annotations indicate that there was no profit for the promoter: an answer that must have seemed incredible to whoever made the annotations. It was indeed incorrect. A misleading impression had been created by the non-disclosure of agreements between AIL, Hatry's company Commercial Bank of London Limited (CBL) and the farming companies being acquired by AIL from the Dennis family: disclosure that would have been required in a prospectus but was not required in an offer for sale. Under these agreements, CBL was enabled to extract cash from the farming companies by way of dividend as ownership of their shares was passed from the Dennis family to AIL by way of CBL. Payment of that dividend was obscured in the published information and was the source of the promoter's profit.[439] Because the profit was obscured, it was not reflected in the annotations in the application file.

Realising that this inconsistency between the law and the rules was an open door for manipulation, the sub-committee that reviewed AIL's application recommended that the Exchange should reconsider its disclosure requirements in respect of offers for sale. At a subsequent meeting a week or two later, the committee approved a proposal that permission to deal in shares would only be granted in respect of shares offered for sale once all the information that would have been required in a prospectus had been published and advertised in two national newspapers.[440]

This was not quite the end of the matter. Almost a year later, the committee rejected an application for permission to deal in the shares of another Hatry promotion: Jute Industries Limited (JIL), which was also structured as an offer for sale. JIL had been formed to float six jute mills which it had acquired from the families who formerly owned them. Towards the end of October 1920, the formal offer documents were approved by the board of JIL: a week or two before the offer for sale was announced and, crucially, a day or two before signature of the final mill acquisition agreement with Cox Brothers, the largest of the family companies. The formal offer for sale disclosed all of the acquisition agreements save one: that with Cox Brothers Limited. None of the disclosed agreements showed a profit for the promoter as the whole of the promoter's profit was to be taken in the course of transferring Cox Brothers Limited to JIL. When the formal documents were submitted to the Exchange, the agreement with Cox Brothers was omitted as it had not been signed before the formal application to the Exchange was drawn up. This failure to disclose an agreement was spotted by the Exchange's secretariat and led to the committee's rejection of the application: a rejection which the committee was later to reverse, but only on condition that the omitted agreement and the information in it should be published and advertised in every newspaper in which the original offer for sale had been advertised. Remarkably, this elicited the admission that the original

439 Confirmed by comparison of the Board of Trade Inspector's report which was not published, and the Exchange's application file. National Archives; file COS 2424/45. Application for Listing file; Stock Exchange Archive; Guildhall Library. The Board of Trade Inspector's report appears to have been the first issued under the revised provisions under the Companies Act 1948. The Board of Trade's policy with regard to publication of such reports changed subsequently.

440 Stock Exchange minutes; Stock Exchange Archive; Guildhall Library.

offer for sale had been advertised in 93 newspapers, and an assurance that amending advertisements had been placed in all of them.[441]

Changing the rules without enforcing them would have been pointless, and the JIL episode demonstrates that the Exchange was, to some extent, an active enforcer: at least as far as Hatry's transactions were concerned. But there were limits to the Exchange's activism.

Arguably, the Exchange had been in a position to spot the dangers of a decline in the quality of underwriting. The problems which were to be experienced in 1929, the year of the crash, were the result of two factors combining: a series of changes in the drafting of underwriting contracts, which had reduced the liabilities of lead underwriters, and the acceptance as sub-underwriters of insubstantial companies that proved unable to meet their commitments. Throughout the 1920s, when applying for permission to deal in shares, companies were required to submit copies of contracts, the existence of which had to be disclosed in a prospectus. Thus copies of underwriting contracts were made available to the Exchange and, indeed, can still be found in the applications files. As a result, even if the relevant committee's members were not personally aware of changes in underwriting practice, access to the contracts themselves should have put them on notice of the changes in the liability of lead underwriters. There is no evidence in the committee minutes of any appreciation of the exposure to poor underwriting that this was to create.

It would be unreasonable to suggest that the committee should have spotted sub-underwriters who were potentially incapable of meeting their underwriting commitments. Often they were numerous and their financial circumstances were not known to the committee. Yet the contractual arrangements were known and the possibility that they would lead to a heightened counterparty risk could perhaps have been seen.

Of course, the implications of such a gradual weakening of contractual terms are much easier to see in retrospect; but the implication is that, for whatever reason, the Exchange was in reactive mode, acting when problems confronted a committee, as in the case of JIL, but not seeking to deal with incipient risks before they became problems. Implicitly, the Exchange left its members to decide which risks should be run.

---

[441] Application for Listing file. Stock Exchange Archive; Guildhall Library.

Throughout the 1920s the Exchange made no further changes to the rules concerning new issues, which presumably was welcome to financially stressed members keen to develop business. Newly floated companies had understandably experienced difficulty in the circumstances of 1920. Many had suffered trading losses which created the impression that they had been over-capitalised on flotation. Some indeed had failed. But the gravity of the economic circumstances of 1920 had not been foreseen, so these companies' difficulties were not automatically regarded as a demonstration of a systemic failure. Leyland's case is an example of a business with good prospects whose management, in company with many others, had made judgements that in retrospect seemed unwise. Amalgamated Industrials Limited fell into insolvency in 1921, little more than a year after its flotation, because of the collapse in demand for new ships. Joseph Nathan (the manufacturers of Glaxo),[442] Handley Page (aircraft manufacturers), Austin Motors and Kommer Vehicles, all of which issued new capital in the aftermath of the war, were all later obliged to seek reductions in their capital.

A study published by the Balfour Committee observed:

> *' . . . over-capitalisation is not something quite definite, recognisable at any time, to which it is possible to attach a label and in respect of which a culprit is necessarily in the background, though there can be no doubt as to the existence of culprits in some cases or as to the evil and the losses which have resulted. In so far as over-capitalisation results from normal changes in value or in profits it is inherent in business and cannot be avoided. In so far as it results from the skill of men in exploiting the cupidity and ignorance of the public it merits opprobrium.'*[443]

This memorandum, prepared for the committee by DH Allan, an accountant, concentrated upon the effect of over-capitalisation on the costs and competitiveness of industry because that had been the focus of campaigns in Bradford and elsewhere. It did not consider the effect on investors, especially unsophisticated investors.

Nonetheless, towards the end of 1928, it was recognised in the press that the quality of new issues may have declined and this must also have been understood by the Exchange:

> *'The flood-tide of the new issue season is again at its height . . . To the impartial observer . . . this autumnal rush has seemed to include a more than usually large number of highly speculative enterprises born of the popularity of shilling shares, and*

---

442 Glaxo was a dried milk baby food marketed under the slogan: 'Glaxo builds bonny babies'.

443 Balfour Committee (1928); page 174. The examples of capital reductions are taken from a list of capital reductions that was presented to the committee with the draft report but was not published. National Archives; file COS 5288.

> *nurtured by the boom in safety glass, gramophones, and photographic processes . . . A feature of the year has been the repeated over-subscription of speculative issues, the attraction of whose deferred shares as gambling counters were more regarded by the public than their merits as an investment.'*[444]

The Economist returned to this theme in January 1929, when it described a practice by which, once floated, a company sold some element of its business to another company whose shares were then offered for sale to the public. Blue Bird was one such company:

> *'Five generations of the "Blue Bird" family have come into being during the last four and a half years. The earliest company had a motor garage business, and sold its wholesale petrol trade to a second concern, which sold its retail business to a third. The last-named disposed of its "foreign" rights to a fourth, and a fifth was organised last December to acquire holdings in the other four.'*[445]

Reflecting concern about the decline in quality, the committee belatedly made small changes to the rules to require more prominent disclosure of details of the capital of a company applying for permission for dealing in its shares.[446] By this stage, the damage had been done. The combination of members seeking to escape from financial pressure and the unwillingness or inability of the Exchange to curb their excesses had the result that in 1928:

> *' . . . practically any rubbish could be sold and the brokerages paid out on these issues were substantial.'*[447]

Prosecution

Quite apart from the failure of the Stock Exchange rules to prevent the decline in the quality of new issues that occurred during the later 1920s, there were signs that public law generally was failing to deter abusive share promotion and selling activity.

In the 1920s, the occurrence of two booms and the increase in abusive activity, which had been foreseen before the end of the war and which evidently gathered speed as the decade wore on, might have been expected to lead to an increase in prosecutions especially of fraudulent promoters and abusive share-pushers. After all, in other jurisdictions, this is precisely what happened. After a press campaign for the protection of bondholders from

---

444 *The Economist;* 10 November 1929; page 830.
445 *The Economist*; 19 January 1929; page 112. The Blue Bird Garage in King's Road Chelsea was created by Sir Malcolm Campbell, who named all his land speed record-holding cars Blue Bird.
446 *The Economist*; 5 January 1929; page 5.
447 Kinross (1982); page 71.

pushers trying to persuade them to exchange sound investments for shares in all manner of speculative ventures, the Attorney General of Ontario:

> *' . . . decided to crack down on those who failed to comply with Ontario's Companies Act by not filing prospectuses before advertising shares for sale.'*[448]

The outcome was a series of prosecutions.

In England, the level of prosecutorial activity against share pushers can be assessed from evidence provided to the Bodkin Committee in 1937. In response to a request from the committee, the Board of Trade prepared a report of action taken in respect of suspected share pushing activities. This showed that between 1910 and 1929 no more than 34 cases had led to some form of action, including prosecution in some cases: fewer than two in each year.[449] A list of the cases is set out in Appendix One to this Chapter. It also showed that an interesting range of charges was used, which may suggest that there was some difficulty in finding charges that matched precisely the activities of pushers, although the DPP appears to have believed that for most purposes the available charges were adequate.[450] A list of the charges used is set out in Appendix Two to this Chapter.

In addition, between 1919 and 1929, a small number of prosecutions arose from charges relating to allegedly fraudulent prospectuses. In 1920, Ernest Terah Hooley and others were prosecuted on charges relating to a fraudulent prospectus in respect of Jubilee Cotton Mills Limited. This was to be the last of Hooley's long list of company promotions. Known as the Napoleon of Finance, he had a reputation as an irrepressible salesman:

> *'As a traveller in stocks and shares the Risley Squire was a super-barterer without contemporary compare. He could sell anything, and knew the ball game to a tick – how and when to place his Sam Slick commodities.*
>
> *It was no use telling him you didn't fancy such-and-such a "line". "All right," he would say, "I must see if I can't find something you do fancy. I'll call again."'*[451]

---

448 Armstrong (1997); page 98.
449 National Archives; file BT 298/69.
450 The Director gave evidence on this point to the Greene Committee. He suggested that the provisions of the Larceny Acts generally sufficed: adducing necessary evidence was a greater problem. Answer to Question 1741; 13 May 1925; Minutes of Evidence of the Greene Committee (1925).
451 Bell (1939); page 165.

A year later, Isaac Hickson was prosecuted on charges arising out of the operations of the National Alliance House Purchase and Investment Company Limited.[452] In 1922, Gerard Lee Bevan was prosecuted on a number of charges including one relating to the prospectus issued by City Equitable Associated Interests Limited in 1921.[453] Albert Augustus Scanlan was prosecuted in 1924 on charges relating to a company called Marchants Limited.[454] Finally, in 1927, Colonel Edmund Eaton and others were prosecuted on charges that related to Chalk Fuel Power Gas and By-Products Corporation Limited.[455]

How effective all of this was as a deterrent is not clear: there is no way of measuring how much abusive activity there might have been had no prosecutions taken place. The evidence suggests, however, that there was an increase in abusive share-pushing after the end of the war and particularly after 1925. It also suggests that, driven out of New York by the campaign of Albert Ottinger, American share-pushers found that England offered a relatively benign environment in which to ply their trade.[456] This at least suggests that in England prosecutions were not proving an effective deterrent; the record of prosecutions may offer some explanations.

There is a parallel between the English experience in the 1890s and the New York experience in the 1920s: in both cases, the pursuit of company promoters and share-pushers through the courts sprang from a person's mission, albeit springing from different motives.

In the 1890s in England, this role had been taken by John Smith, the Inspector General of Companies Liquidation, who used his power to undertake public examinations of companies in liquidation to investigate company failures and reveal potential cases for prosecution. When he left his position in 1903, his department was restructured and the series of revelations came to an end.[457]

---

452 *The Times*; 28 October 1921; page 4.

453 *The Times*; 21 November 1922; page 6; and subsequently. Vander Weyer (2011); page 216 et seq.

454 *The Times*; 15 April 1924; page 5.

455 *The Times*; 22 June 1927; page 28; and subsequently.

456 Interestingly, although there was a history of American share-pushers extending their activities to Canada, Armstrong (1997) does not suggest that the exodus of share-pushers from New York in the mid-1920s led to an increase in their activity in Canada, which may suggest that the prosecution activity in England was also viewed by share-pushers to be more benign than in Canada.

457 Batzel (1987); page 364.

Smith viewed companies as a device that the unscrupulous used to avoid the public exposure that would be given to business malpractice under the Bankruptcy Acts: a process with which he was familiar as he had for some years been Inspector General of Bankruptcy. He viewed his appointment as Inspector General in Companies Liquidation as an opportunity to close this loophole.[458]

In New York, in the mid-1920s, Albert Ottinger was to use action against share-pushers and promoters as the foundation for his campaign to secure election as Governor of New York.[459] In this he was assisted by the NYSE, which regularly reported to him instances of traders and conduct that might warrant investigation. There is no evidence (either in the Stock Exchange Archive or the records of the DPP) that the London Stock Exchange ever considered making such reports. As far as is known, the Exchange only once brought the matter to public attention when it submitted evidence to the Greene Committee on the Amendment of Company Law.[460]

In England in the 1920s, there was no one with the missionary zeal in an official position with the necessary powers to act against company promoters and share-pushing fraud.

Throughout the decade, every prosecution arising from an allegedly fraudulent prospectus followed an earlier process which had attracted public attention. On 14 March 1921, Barry Police Court saw the beginning of criminal proceedings against the Chairman, Managing Director and six other officials of the National Alliance House Purchase and Investment Company which had attracted attention six months earlier. In September 1920, Laura Frish had sought the Court's permission to issue a writ against the company on the grounds that she had been induced to purchase certificates from the company by misrepresentations in a prospectus. Permission of the English Court was required because the writ would be served out of jurisdiction as the company had been registered in Scotland, although the victims of the alleged misrepresentations lived in Wales. The company argued that the application was an abuse of process: calculated to gain public attention for a violent and unjustified attack on the integrity of the company and its directors. In fearing public attention the company was proved right, for the effect of the application was to draw public attention to an allegedly fraudulent

---

458 Batzel (1987); page 355.

459 He was to fail in this. He marginally lost the election to FD Roosevelt by 25,000 votes in 1928. Ott (2009).

460 Greene Committee Minutes of Evidence (1925); 29 April 1925.

promotion which led hundreds of people to lose money.[461] In 1921, it was this reaction that led to a prosecution instigated by the DPP at which 200 witnesses provided evidence for the prosecution.

Six years later, in 1927, the Registrar of Friendly Societies appointed John Fox as an inspector to investigate the affairs of the House Coal Association Limited. Mr Fox's report found that:

> *'There is abundant evidence that the scheme was promoted and carried out . . . with the sole object of putting money into their own pockets and with no regard whatever for the interests of the subscribers, which it was their duty to safeguard. The capital was subscribed upon the faith of statements contained in the prospectuses . . . which were false and which they knew to be false.'*[462]

228 people had been inveigled into subscribing, 80 of whom were never to see any coal at all for their money. In the midst of the attention attracted to this report, a prosecution was launched by the DPP.[463]

In part, this apparent reluctance to prosecute was due to the limited powers and resources of the DPP. It was also due to the marked reluctance of the Board of Trade to order inspections using powers under section 109 of the Companies (Consolidation) Act 1908 that were the equivalent for companies of the investigative powers of the Registrar of Friendly Societies. As the DPP observed in giving evidence to the Greene Committee:

> *'I have cases from time to time in which I have a grave suspicion that a company is not being honestly conducted. Shareholders communicate with me – I ought to say very occasionally – and I am entirely without any powers of investigation. It is useless, as I have pointed out in this memorandum, to send anyone down to the office of the company. Why, you would be a trespasser; you would be turned out: you have no right of any sort or kind. What is the good of writing to the directors or the Secretary? That brings you no further, and the only section, apart from an investigation when criminal proceedings are intended or are instituted, is section 109, and it has been rather a matter of comment in my department that the Board of Trade are very difficult to move under section 109. It is also very hard on the shareholders to put up*

---

461 Frish v National Alliance House Purchase and Investment Company. *The Times*; 9 September 1920; page 4. 16 September 1920; page 4.

462 *The Times*; 12 November 1927; page 4.

463 *The Times*; 30 January 1928; page 9. Throughout the 1920s, there is not a single example of a prosecution following the appointment of an Inspector by the Board of Trade under the equivalent powers within the Companies Acts.

> *the money to meet the expenses of the investigation. If that could be a little more frequently put in force, I think the public would be advantaged.'*[464]

As a result, each instance of a public prosecution relating to an allegedly fraudulent prospectus followed public attention attracted either by a private proceeding or another investigative process. This suggests that unless there was public pressure, the DPP was reluctant to prosecute in such cases. Taylor himself suggests that the DPP may have been unenthusiastic about such prosecutions:

> *'Understaffed, overworked, and under constant pressure to provide value for money, the DPP learned to steer clear of the bigger financial cases.'*[465]

The Director's caution was well justified for fraudulent promotions were expensive to investigate and then to prosecute. In the Jubilee Cotton Mills trial, there were six defendants, each legally represented. 50 witnesses were called by the prosecution and were each subjected to cross-examination by each of the six defence teams. All of this took time, a lot of time, and required skills beyond the normal resources of the police. The trial lasted from Thursday 9 March 1922 to Saturday 8 April 1922. Before that, two police officers had worked on the investigation full time from September 1921, assisted by other officers within the Metropolitan Police, officers from the provincial police forces in Nottinghamshire, Derbyshire and Lancashire, and external teams of company lawyers and accountants. During the trial, the team was augmented by three more officers who were assigned to observe the jury and associates of the defendants as the Director had been warned that attempts might be made to tamper with the jury.[466]

Moreover, in each of the cases prosecuted in the 1920s, the charge that a prospectus was fraudulent was accompanied by charges alleging that the defendants had personally extracted money from the transaction, so that it would not have been necessary to argue the merits of a prospectus in the absence of an allegation that a person had gained a demonstrably illegitimate personal benefit. For the unscrupulous, the implication would have been that, provided a way could be found of extracting profit from a flotation by a legitimate means, prosecution for uttering a fraudulent prospectus would be unlikely.

---

464 Answer to Question 1812; Evidence of Sir Archibald Bodkin, Director of Public Prosecutions; 13 May 1925; Minutes of Evidence of the Greene Committee.

465 Taylor (2013b); page 248.

466 DI Collins' report dated 16 April 1922; National Archives; file MEPO 3/518.

Prosecution would have been even more contentious in respect of scrupulous vendors shown to have authorised a prospectus shown subsequently to have been in breach of the law. Doubtless it would have been the vendors' intention to get the best price for their shares however difficult the commercial proposition may have been, but for upright respectable vendors, breach of the law would not have been acceptable. It was one of the functions of a company promoter to ensure this was achieved. If the promoter went too far and failed to comply with the law, from the vendors' point of view this would have been unintentional.[467]

When six of the jute barons of Dundee chose Clarence Hatry to mastermind the flotation of JIL, they knew of his reputation.[468] They must also have known that the future of their mills was challenged by the growth of competition from mills in Bengal,[469] the termination of wartime controls, which exposed the Dundee mils again to the volatility of raw jute prices, and the growth of unrest among workers in Dundee.[470] By the time that the JIL prospectus was published, the largest mills had reduced their working hours and their labour force to reduce production as sales were falling and losses were in prospect.[471] It is difficult to avoid the conclusion that Hatry was chosen to manage the flotation to devise a means of obtaining a satisfactory (for the vendors) price for the mills against a background of worsening prospects.

The prospectus published by JIL demonstrates why it would have been difficult to base a prosecution on the merits (or demerits) of a prospectus in the absence of evidence that cash had been extracted illegitimately.[472] In that instance, the reader was invited to concentrate on

---

467 The difficulty of proving intent is the source of the development in the sphere of factory law of strict liability for charges which were regarded not so much as 'crimes' but as 'regulatory offences': a distinction not reflected in company law in the 1920s. Croall (2003); page 45.

468 Correspondence between Robert Fleming and John Cox. Dundee University Archives: reference MS 66/I1/10/50.

469 Shares in three prominent Bengal mills were quoted on the Dundee Stock Exchange. Dundee Stock Exchange Archive. Dundee University Archives: reference MS 69.

470 The Bengal mills had been developed using money from the Dundee jute barons themselves. Three Bengal mill companies were quoted on the Dundee Stock Exchange. The Government's wartime jute purchasing scheme was ended early in 1920. Dundee University Archives. For the growth of worker activism in Dundee see Walker (1979).

471 The accounting records of the largest of the six mill companies, Cox Brothers Limited, suggest that the company began to record gross losses in mid-October 1920, a month before the offer for sale was published. At that point, Cox Brothers Limited began to reduce its workforce to stabilise the average cost of production. Dundee University Archives: reference MS 66/II/4.

472 There is no suggestion that cash was extracted illegitimately in the case of JIL. Hatry took his profit as a promoter by way of a dividend paid legitimately by Cox Brothers Limited as it passed through the hands of CBL, his company. The vendors all received their consideration in the form of cash paid to

the high profits earned during the war and immediately thereafter. There was no mention in the prospectus of recent events such as the growth of international competition, the termination of wartime central purchasing, the development of labour unrest or the decline into loss-making. Nor was there any mention of the collapse in the international price of raw jute which had occurred in the summer of 1920 and threatened the balance sheet valuation of the mills' stocks of raw jute which in October 1920 were still carried at original purchase price.[473] However, the prospectus warned that the wartime profits would not necessarily be repeated. Moreover, the most explicit reference to the wartime profits appeared in advertisements placed by one of Hatry's companies: not in the prospectus itself, for which alone the directors were responsible. Whilst in retrospect it is evident that the families were selling their equity in the face of worsening trading conditions which they did not expect to improve in the short term, it was the company promoter's function to achieve the vendors' objectives without exposing them to a risk of legal action.[474]

Irrespective of whether the JIL prospectus was itself fraudulent, the circumstances of the flotation demonstrate why prosecution would have been fraught with difficulty and also the limitations of the suggestion that disclosure of information in a prospectus afforded protection to a potential investor. The weakness of JIL's future prospects could have been spotted by an investor who was knowledgeable about the state of the jute industry, but the investor in London may not easily have had access to such knowledge. A potential investor might also have paused to wonder why the conservative jute barons of Dundee had chosen the end of the

---

them by CBL as purchaser of their shares. Analysis of payments due to former shareholders; Cox Brothers Limited Archive; Dundee University Archives: reference MS 66/II/10.

473 The accounting practice followed, for example, by Cox Brothers, was that during an accounting period raw jute would be valued at purchase price: an adjustment to current market price being made at the end of the period when a balance sheet was drawn up. Thus, once a substantial fall in the market price had occurred, the directors would have expected a material loss to be recognised at the end of the accounting period: as indeed happened in the spring of 1921. This prospect would therefore have been known to the directors of Cox Brothers Limited in November 1920 when the JIL prospectus was published. Dundee University Archives: reference MS 66/II/11/20.

474 The analysis of the company's trading position is based on the accounting records of Cox Brothers Limited, the largest of JIL's predecessor companies, a large collection of which is held by Dundee University Archives: reference MS 66/II/3-8. A book containing various memorandum accounts includes a weekly analysis of production costs and average cost per unit of production. The account shows that total labour costs were falling, as the company reduced its workforce, yet average costs were static. The implication is that costs were being managed in the face of falling sales so that average costs per unit did not rise and that for such action to be taken the company's management must have been aware of the true trading position.

1919–1920 boom in share prices as the moment to sell their equity. In essence, these were matters of judgement which would have been problematic in criminal court proceedings.

These factors serve to explain why prosecutors were unenthusiastic about flotation-related prosecutions, undermining any deterrent effect that prosecutions might have had. In practice, prosecution tended to result from an accident of public attention rather than being a foreseeable consequence of criminal behaviour. Of course there remained the possibility of a private prosecution, but only if the aggrieved parties were able and willing to finance it.

Greene Committee

Although the JIL case demonstrates the weakness of mandatory disclosure as a basis for investor assessment of the riskiness of an offer, the Greene Committee was to add three new requirements for mandatory disclosure: a statement of the rights to dividend and capital of each class of a company's shares, a statement of any dividends declared during the three years before the prospectus and a statement certified by the auditors of the net profits for the three years before the prospectus.[475]

Unsurprisingly in the light of the evidence presented, concern about the effectiveness of prosecutions lay behind two other groups of recommendations made by the Greene Committee.

Having been appointed following the Court's decision in the City Equitable case, reaction to the committee's report concentrated on the position and liabilities of directors and auditors. City Equitable's Articles of Association had exempted its directors and auditors from liability for loss, except when it was due to 'wilful neglect of default'.[476] The Committee recommended that such an exemption should no longer be permitted.[477] As far as the issue of shares was concerned, the committee adopted a stance similar to that of the Stock Exchange, limiting itself to recommending changes to the law reflecting the Exchange's rule change in December 1919.[478]

475 Greene Committee report (1926); pages 16–17.
476 Re City Equitable Fire Insurance (1925) ChD 407.
477 Greene Committee report (1926); pages 19-21 and 37–38.
478 Greene Committee (1926); pages 17–18.

However, in taking evidence, the committee was made aware of American share-pushers who were attempting to sell 'units' in England and the response of authorities in New York when similar attempts had been made there:

> *' . . . it is within our knowledge that the New York Stock Exchange are taking very vigorous measures about what they call the foisting on the public of fraudulent shares and things of that kind.'*[479]

The committee must have been persuaded that existing practice was incapable of dealing with this abuse, for it recommended strengthening the law so that:

> *' . . . the offering from house to house of shares, stocks, bonds, debentures . . . should be made an offence . . . '*[480]

This recommendation was taken up in the Companies Act 1928, although not unquestioningly, for the Board of Trade at one stage decided that the new offence should:

> *' . . . not be confined to hawking "from house to house" but cover all personal canvassing.'*[481]

This may suggest that the Board of Trade harboured some misgivings about prohibiting 'house to house' selling in view of the risk that defining the offence might prove problematic in practice: as indeed proved to be the case.

The new offence was regarded as being of such importance that it was the only measure to come into force immediately on the King's Assent being granted: implementation of all other sections of the Act being deferred until a consolidating measure could be introduced. The new provisions were not universally welcomed, however:

> *'The Board of Trade appears confident that these share pushing provisions will eventually end the activities of the vendors of rubbishy shares. We are sorry that we cannot share this confidence.*
>
> *'You can never save people from their own foolishness by Act of Parliament.'*[482]

Although the new legislation had been expedited, it was more than a year before the first prosecution took place: the new offences were to prove absurdly easy to circumvent.

479 Answer to Question 1073. Minutes of Evidence of the Greene Committee; 29 April 1925; page 55.
480 Greene Committee report (1926); paragraph 93.
481 Draft minutes of Board of Trade Council; 10 June 1926; National Archives; file COS 2964.
482 *Money Market Review*; 11 August 1926; page 299.

In support of the Director's efforts, the committee made a second group of recommendations that were intended to deal with the difficulty of investigating cases. It was proposed that section 109 (which dealt with Board of Trade inspections) should be amended to remove the practical difficulties of which the Director had complained and it was urged that the Director should be given new duties to prosecute. Some of these changes were made in the new Companies Act, although the Board of Trade was nervous of the cost:

> *'It was thought that the result of amending Section 109 of the Companies Act so as to fix the security at a nominal sum and provide that costs, when the investigation is followed by a prosecution, shall be defrayed out of public funds, would be to increase the number of applications, the expenditure of money and the work of the Department.*
>
> *'After consideration, however, it appeared to the Council to be desirable on the whole to put the recommendation in the Bill.'*[483]

Nonetheless there remained a marked difference between the amended powers of the Director and the powers that had been used in New York. To American share-pushers, the new Companies Act 1928 offences must have seemed tame by comparison:

> *'To enable the Attorney General to expose fraud, he is given broad and drastic powers of investigation, of subpoenaing witnesses, examining them and compelling the production of books and papers. Charges are not required, but mere suspicion or the public interest is sufficient to warrant the investigation. Severe penalties are provided for refractory or contumacious witnesses, who may be arrested and sentenced to a fine of $5,000 or two years' imprisonment for refusing to attend, answer questions or produce necessary documents. Receivers of fraudulently acquired property are provided for, as also are injunctions against fraudulent practices.'*[484]

This is a description by the Assistant Attorney General of New York of the powers created by the Martin Act in 1921;[485] it is these powers that were used by Albert Ottinger.[486] The key to the effectiveness of these powers of investigation is that they could be employed on the basis simply of suspicion that a fraud may have been committed or may be about to be committed,

[483] Draft minutes of Board of Trade Council; 10 June 1926; National Archives; file COS 2964.

[484] Winter (1927b); page 520.

[485] New York was the 41st State to introduce legislation on this subject, referred to as 'Blue-Sky Laws'. Mahoney identifies three general approaches adopted in these laws. He identifies 12 States that required a public official to review the merits of a proposed issue ('merit review'). In 29 States, a public official was empowered to veto issues that appeared fraudulent ('ex ante fraud'). In seven States, including New York, issues were not required to be approved in advance but securities fraud was prohibited and a public official was empowered to investigate. Mahoney (2003); page 232.

[486] Indeed, they remain in force. 'New York Supreme Court denies Barclays' motion to dismiss NYAG's Martin Act claim'. Headline dated 24 February 2015. Downloaded from www.lexology.com.

thus avoiding the need for cause to be shown before intrusive investigations of a company's records can begin. [487]

Although the vigorous action taken in New York was mentioned to the Greene Committee, there is no evidence that they inquired what that action was or under what powers it was being taken, or that there was any inquiry into developments in other jurisdictions such as Canada where, in 1926, licensing share salesmen was being actively considered.[488] By comparison, the creation of a new, flawed offence of door-to-door selling of shares was an inadequate response which manifestly failed to deal with the difficulties of exposing potential cases.

Even jurisdictions that were believed to have used the Greene Committee's recommendation as a basis for new legislation went further. In 1929, France adopted similar legislation prohibiting the practice of '*démarchage financier'*. The measure required that sales, purchases and every other operation in connection with shares or bonds should take place on premises used for banking purposes to the exclusion of all other commercial premises.[489]

An alternative approach, involving registration of share traders, was considered but rejected by the Greene Committee partly because it was not considered appropriate for introduction by way of amendment of company law.

How anticlimactic this outcome must have been. The committee had accepted that in some forms share promotion represented an abuse that required a response. It had also accepted that the existing response was inadequate. Implicitly it had accepted that current prosecutorial practice was not a satisfactory deterrent. In effect, it had seen that the dangers of which AS Comyns Carr had warned in his reservation to the Wrenbury Report had come to pass. Moreover, the government had accepted that the problem was of sufficient importance to require urgent action in the form of expedited legislation.

Yet the result was a disappointing change to the law which many believed was itself inadequate.

---

487 Loss et al (1958); page 22. 'The section has a majestic one-sentence sweep.'

488 Armstrong (1997); page 130. The papers of the Greene Committee held by the National Archives do not include the briefing and research papers that would have been made available to the committee.

489 *The Economist*; 5 January 1929; page 30.

Conclusions

What is remarkable about the 1920s is that so little was done to guard against the dangers of abuse.

The London Stock Exchange took some pains to monitor and insist upon compliance with the rules, but was slow or reluctant to improve them to deal with emerging problems. Thus nothing was done to prevent the slide in the quality of underwriting. Furthermore, although the Exchange's committee had brought the problem of share pushers to the attention of the Greene Committee in 1926, and must at least have had suspicions of the respectability of the operators for whose issues certain brokers sought permission to deal, there appears to have been no action to prevent the issues going forward.

In this, the Exchange adopted a different stance from the NYSE which reported cases of abusive off-market activity to the local authorities, supporting Albert Ottinger's campaign to counter abusive share traders. There is no evidence of such reports being made in London. The NYSE's support for the Attorney General's campaign reflects an interest in ensuring that he was successful. New York was one of the last States to introduce a Blue-Sky law in 1921, and had not followed the example of some other states in introducing regulatory oversight either of share traders or new issues. Failure on the part of the Attorney General would have encouraged supporters for prior regulatory approval of new issues which would not have been welcome to the NYSE. Presumably the London Stock Exchange did not see similar advantage in supporting prosecutions in London. Whatever criticism was levelled at individual members for colluding with off-market operators, the Exchange itself stood to be criticised for being slow to discourage abuse.

This was not the only failure, however, for the criminal justice system failed to deter abuse. A number of systemic weaknesses contributed to this failure: the inadequate powers assigned to the authorities, the inappropriate charges available to them, inefficiencies in the police service and the limited resources available to mount prosecutions. Overriding all these factors, fraud prosecutions appear only to have had a deterrent effect when driven by a person with a missionary zeal. In England in the 1920s, there was no such person, and there must be a suspicion that the authorities were not determined to pursue cases with the necessary vigour.

That the system was failing was to some extent recognised at the time.

The Greene Committee was admittedly guarded in its recommendations, but its proposals for new charges demonstrate that it believed that existing law did not deal adequately with off-market operators' abusive selling. Moreover, in recommending the creation of a new offence of door-to-door selling, the Greene Committee implicitly accepted that it was no longer acceptable to rely on prosecuting *after* a fraud had been committed.

It is however puzzling that, having been told that the authorities in New York had been so effective in dealing with such operators that they had left New York and come to England, there is no evidence that the Greene Committee inquired into the laws that had proved successful in Ottinger's hands. It is perhaps especially puzzling as the Greene Committee did consider the possibility that registration of migrant traders might afford an effective means of control, although it decided that this possibility lay outside its terms of reference.

To some extent, the government's sensitivity must be seen against the background of widespread political acceptance that financial institutions were failing.

Initially, at the end of the war, complaints about capitalism had limited appeal. The Labour Party's political programme, outlined in 1918, built on the experience of government intervention during the 1914–1918 war and spoke of democratic control of finance and the nationalisation of financial institutions.[490] It did not command broad political support, however, for the Labour Party won only 22.2% of the votes cast in the December 1918 General Election. But gradually, as people realised that their post-war expectations would remain unrealised[491] as a result of disappointing economic performance, support grew for critiques of capitalism. From the notion that capitalist civilisation was decaying, developed by the Webbs in 1923,[492] by way of Keynes in 1924,[493] support grew for modifying capitalist markets by the creation or reform of central institutions, until by 1928 it had become supported in some form by all political parties:

> *'In large companies of diffuse ownership, where the shares are mainly held by the general public and not by interests represented by the directors, abuses are increasingly frequent, for which the secrecy of accounts is at least partly responsible. The common practice of publishing balance sheets which convey entirely inadequate*

490 Labour Party (1918).
491 As articulated in Eliot (1922). Bowra (1949); pages 160–161.
492 Webb and Webb (1923); page 86.
493 Keynes (1924).

> *information to the shareholders themselves or can only mislead them, facilitates the continuance of mismanagement, and is the cause of loss and deception for the investing public for the investing public by placing a premium on "inside information, gossip, and breach of confidence".'*[494]

These sentences are quoted from the chapter of the Liberal Industrial Inquiry of 1928 which described the problem the country faced and went on to suggest that dealing with the problem would require the rationalisation of industry. To achieve that, the inquiry suggested, would involve the national direction of financial resources through a Board of National Investment which would direct public sector investment and raise money by loans as needed.[495] Although the inquiry's proposed board would not have powers to direct private investment, it was expected to become influential in the direction of savings.

Even if they would not have supported the proposals of the Liberal Industrial inquiry, there were Conservative Members of Parliament who recognised that radical change should be considered:

> *'The war period shattered preconceived economic notions, proved possible theoretic impossibilities, removed irremoveable barriers, created new and undreamt-of situations. Yet by far the greater part of the legislation which today governs trade and industry dates from before that period. We are surely entitled to ask whether it is now adequate to meet the vastly changed conditions of the modern economic era.'*[496]

They proposed that obstacles to rationalisation should be removed and that compulsory powers should be given to those promoting rationalisation. Co-partnership schemes would be introduced in the larger industrial units thus created, and in banks.[497]

In 1926, the Independent Labour Party had published a report entitled *Socialism in Our Time*[498] which proposed not only the nationalisation of certain major industries but also the nationalisation of the banking industry. In 1928, the Labour Party published a pamphlet written by RH Tawney at the invitation of the Party Conference to encapsulate the Party's programme which observed:

> *'. . . with grave concern the present diversion of a considerable proportion of the national credit and national savings into enterprises which, from a public point of*

494 Liberal Party (1928); page 85.
495 Liberal Party (1928); page 111 et seq.
496 Boothby et al (1927); page 35.
497 Boothby et al (1927).
498 Written by JA Hobson, HN Brailsford, EF Wise and A Creech Jones.

> *view, are at best useless, and at worst, mischievous. It holds that any sane method of allocating them among different undertakings should be based on qualitative, as well as quantitative, considerations and that services of national importance must be adequately financed before resources are placed at the disposal of enterprises concerned with luxuries or amusements.'*[499]

Eventually, in 1929, the Balfour Committee of Industry and Trade reported, and concluded, that the machinery for supplying British industry with financial facilities was:

> *' . . . adequate and suitable . . .'*[500]

But this conclusion was modified by the observation that:

> *' . . . we desire to make it perfectly clear that the statement . . . that the machinery . . . is on the whole adequate and suitable must not be understood to imply that an adequate supply of new capital is actually being absorbed by British industry for essential purposes such as the re-conditioning and modernisation of industrial plant, buildings and equipment.'*[501]

In retrospect, these conclusions seem complacent. They were published early in 1929, as the 1928 boom was collapsing amidst a series of corporate collapses that caused grievous losses for many investors, implied that the financial system was flawed and thus supported the contention that reform of the system was necessary. That it was possible for the Balfour Committee to reach its conclusions and for them to be supported by the Stock Exchange and others in part resulted from the market not realising that corporate failures were imminent until the last minute. For example, concerns about corporate failures were not reported in newspapers until the end of 1928.

In such views, the Balfour Committee would have taken comfort from the Greene Committee's review of company law which had broadly concluded that there was little need for change to the law on prospectuses.

Finally, the main criticisms of the process of raising capital by public offers of shares focussed on the problems of over-capitalisation rather than abuse of investors. This question was examined by the Balfour Committee on the basis of professional advice that suggested in any flotation there is always a risk of over-capitalisation as the value of a business is a matter of judgement and that it can occur through trading at a loss as easily as on flotation. Although

499 Labour Party (1928); page 26.
500 Balfour Committee (1929); page 48.
501 Balfour Committee (1929); page 50.

abusive over-capitalisation on flotation was a problem, it was difficult to suggest how it might be identified in advance so that it could be eliminated without creating undue restrictions.

On this basis, the arguments in political circles concerning the alleged failures of the capitalist financial system were dismissed: only to be revisited in the light of the twin crashes of 1929.

APPENDIX ONE TO CHAPTER SIX – CASES OF SUSPECTED SHARE-PUSHING

1910–1929

Number	*Name of concern and individuals*	*Date of complaint*	*Principal shares involved*	*Action taken*	*Modus operandi*
106/10	Lennox & Co Charles Stirling	July 1910	Not known	Bankruptcy proceedings by investors.	Advertised for investors – money used for share transactions.
183/11	A1 Investment Securities Kent Outcrop Coal Syndicate A Jackson	October 1911	Electricity syndicate	Enquiries made at instigation of DPP. No prosecution.	Issued circulars.
169/11	Kaslo Slooan Mining Corporation J Linares	October 1911	Kaslo Slooan Mining Corporation	No prosecution. Company liquidated.	Not known.
96/12	Ceylon Travancore Rubber & Tea Estates J Chansay, JM Craig, JA Vincent	March 1912	Ceylon Travancore	Warrants issued against Chansay and Vincent for fraudulent conversion. Vincent discharged at Guildhall. Chansay escaped to Italy. Extradition proceedings not taken in Italy – arrested but then released.	Issued circulars.
123/12	IH Bos & Co D Dronkers, I Bos	January 1913	Various cotton shares – margin deals	Warrant issued for conspiracy and false pretences. Not executed. Dronkers and Bos left country.	Issued circulars.
35/13	Hunter Stevenson S Wickens	March 1913	Oak Deposits	Wickens charged by Metropolitan Police with conspiracy to defraud in 1921. Result not known.	Issued circulars.
74/13	John McGowan J McGowan	April 1913	J Lyons & Co Ltd	Sentenced to 18 months' hard labour at Old Bailey in March 1914 for fraudulent conversion.	Issued circulars – failed to deliver shares.
129/13	Barclay Fox & Co WB Dumont	July 1913	Dealings in options	Enquiries at instigation of DPP. No prosecution.	Issued circulars.
1/13	Brixton Skating Rink P Morgan	October 1912	Brixton Skating Rink	Morgan sentenced to six months (2nd division) at Old Bailey for obtaining money by false pretences and publishing false prospectus – April 1913.	Published false prospectus.
173/13	Henry James H James, JA Pollock	October 1913	Brooke Bond Ltd	Pollock sentenced to nine months' hard labour at Old Bailey – December 1913.	Issued circulars.
183/13	GE Martin GE Martin	October 1913	Junior Army & Navy Stores	No prosecution owing to death of Martin.	Issued circulars.
186/13	Empire Share Exchange J Partington	October 1913	Not known	Partington sentenced to 15 months' hard labour at Old Bailey – March 1914.	Issued circulars – failed to deliver shares.

Number	*Name of concern and individuals*	*Date of complaint*	*Principal shares involved*	*Action taken*	*Modus operandi*
56/14	Percy Tarbutt & Co PC Tarbutt, E Janson	June 1914	Sopa Diamond Mine Ltd	No prosecution.	Floated company. Shares realised high prices but were subsequently worthless.
42a/15	Algiers Oil Trust JAC Johnson	April 1915	Various	Johnson acquitted at Old Bailey in June 1916 on charge of false pretences.	Advertised shares for sale in daily newspaper – failed to deliver shares.
39/16	Eastern Palms Estate and Trading Syndicate P Morgan, E Gammage, Mrs IM Gammage, J Morgan	June 1916	Straits Coconut & Copra Co (bogus company)	No prosecution against directors – had left the country. Bancroft Small fined at Old Street Police Court for offence against Newspaper Printers and Reading Room Repeal Act 1869 in connection with the *'Financial Critic'* which boosted the shares of these countries.	Induced public to invest by making false statements as to prospects and assets of bogus companies.
39/17	Pacific Coconut Oil Co Ltd W Speller, R Morgan	August 1917	Pacific Coconut Oil	Enquiries at instigation of DPP. No prosecution.	Induced complainant to purchase shares in doubtful company.
66/18	Inclusive Finance and Produce Co Ltd W Russell, A Culliford, P Calls	August 1918	Inclusive Finance and Produce Co Ltd	Culliford and Calls fined at Mansion House – October 1918. Contravention of Paper Restriction Orders (wartime measure).	Issued circular.
102/20	Chalk Fuel Power Gas and By-products Corpn Ltd EC Eaton, Sir Charles Soames, RG Harley	October 1920	Chalk Fuel et al	Eaton sentenced to four years' penal servitude. Soames and Harley sentenced to six months at the Old Bailey in January 1928 for conspiracy, false pretences etc.	Issued circulars.
61/22	Small Investors Share Exchange WW Carver	August 1922	Pool operations and option dealings	Carver bound over in sum of £50 – false pretences.	Issued circulars.
75/22	Oil and Mineral Land Syndicate J Johnson, Lt Col F Peter, Lord Haldon and J Kirby	September 1922	Offered for sale land reputed to be oil bearing.	No police prosecution. Board of Trade took action against Lord Haldon – fined at Mansion House for offences against registration of Business Names Act 1916.	Issued circulars.
10/24	Lamport Graham and Payne G Graham	July 1924	Various	Graham sentenced to four-and-a-half years penal servitude at Old Bailey for false pretences.	Obtained money for shares – failed to deliver – absconded.
73/24	Mortimer Gibbs & Co T Tracy	August 1924	Mexican Eagle	Tracy sentenced to six months with four months' hard labour (consecutive) for false pretences at Westminster Police	Obtained money for shares – failed to deliver – absconded.

Number	*Name of concern and individuals*	*Date of complaint*	*Principal shares involved*	*Action taken*	*Modus operandi*
				Court in July 1925.	
25/24	K MacIntyre & Co	October 1924	Ford Motors Units	Enquiries undertaken at instigation of DPP. No prosecution. Company wound up. Directors returned to USA.	Issued circulars.
121/24	Murgatroyd Nickolls & Co W Hall	December 1924	Various	Warrant issued at Mansion House in January 1925 for Nickolls for false pretences. Not executed.	Obtained money for shares – failed to deliver – absconded.
11/25	British American Securities	February 1926	Ford Motors Units	Enquiries at instigation of DPP. No prosecution.	Issued circulars.
9/25	John D Gray FS Sewell, T Edwards	February 1925	Marginal deals	Enquiries proceeding.	Issued circulars.
34/25	Norman Williams & Co J Williams	May 1926	Option dealings	Report to DPP. No prosecution.	Issued circulars.
8/27	Frederick C Owen FC Owen, CW Dickinson	February 1927	Margin deals	Dickinson sentenced to three years' penal servitude in June 1936 for false pretences.	Issued circulars. Obtained money by falsely representing that he had purchased shares for clients.
70/27	Media Shares and Exchange Company James Bond	October 1927	Radio Corporation of America	No prosecution. Bond warned on instruction of the Assistant Commissioner regarding his business behaviour.	Issued circulars – inviting shareholders to submit their certificates for examination.
77/27	Tyler Wilton & Co Ltd W Williams, T Charlton, AC Bowles, R Chickell, Jacob Factor	November 1927	Allied Mines Limited, Hecla Consolidated Mines Ltd	No prosecution. Company compulsorily wound up.	Issued circular letter. Bowles issued financial journal – *Financial Recorder* – recommending Tyler Wilton & Co Ltd as reliable brokers.
2/28	R Ewing & Co. Corporation of British Investors and the Financial Star Daily Financial Star Ltd S Godfrey MS Godfrey, TIS Appleton	December 1927	Anneville Gold Mines Ltd – Geraldine Copper and Lead Mines	No prosecution.	Issued circulars and financial journal – employed share touts to call on clients – persuaded them to sell good shares and buy worthless shares. Concerns appear to have succeeded each other and were interlinked.
9/28	Financial Recorder Ltd AC Bowles	February 1928	Hecla Consolidated Mines Ltd	Williams Lea & Co fined £30 and five guineas costs. Bowles fined £100 and five guineas costs at Guildhall in July 1928 for offences against Newspapers, Printers and Reading Rooms Repeal Act 1869 (DPP case).	Issued journal – *Financial Recorder*.
14/28	R L Warner AE Chapereau, N Schapiro (American)	January 1928	Ashanti-Obuasi Reefs Ltd	Warrant issued April 1928 at Guildhall for arrest of Warner for	Called on complainant – persuaded him to part with money for

Number	*Name of concern and individuals*	*Date of complaint*	*Principal shares involved*	*Action taken*	*Modus operandi*
				fraudulent conversion. Arrested March 1936 by Metropolitan Police. No evidence offered owing to death of complainant. Further charged under Aliens Order 1920 – being found in UK without leave of an immigration officer. Adjourned to allow him to leave UK – left via Croydon airport in July 1936.	purchase of shares – converted money to his own use.
2/29	City News And Stock Exchange Observer A Osborn and A Paris	January 1929	Various	Williams Lea & Co Ltd fined £30 and five guineas costs at Guildhall in July 1929 for offences against NP&RRA 1869. Three further summonses under same Act dismissed in May 1929 (DPP case).	Issued financial journal.
75/29	Waite, McGregor & Co GF Steward, H Walters	December 1929	Various	Enquiries at instigation of DPP. No prosecution. Principals left country.	Issued financial journal – Stock Market Indicator – boosting shares and employed share touts.

APPENDIX TWO TO CHAPTER SIX – OFFENCES QUOTED IN APPENDIX ONE

Short title used in Appendix One	*Relevant legislation*	*Description*	*Maximum penalty*
False pretences	Larceny Act 1861 as amended by the Larceny Act 1916.	Obtaining property by intentionally misrepresenting a past or existing fact	Penal servitude for any term not exceeding five years – section 32 of the 1916 Act.
Fraud		Not strictly an offence – the offences which are commonly called fraud being otherwise described technically – in general parlance, it is the intentional deception made for personal gain or to damage another individual	
Fraudulent conversion	Larceny Act 1916 (which in this respect repealed and replaced the Larceny Act 1901).	Converting property entrusted to a person for a particular purpose to his own use or benefit or any other purpose than that originally intended	Penal servitude for any term not exceeding seven years – section 20(1) of the 1916 Act.
Newspapers, Printers	Newspapers, Printers and Reading Room Repeal Act 1869.	Various provisions relating to the inclusion in printed works of the names and addresses of printers and publishers	Fine of £20 for each omission, neglect etc.
Offences against Companies Act	Companies Act 1929 – sections 34 and 35.	Sections relate to the issue of prospectuses – as to their required content – and as to forms of application for shares not being issued without an accompanying prospectus	Fine of £500: section 35(3).
Offences against Paper Restriction Orders		Wartime orders issued to limit the use of paper	
Offences against Registration of Business Names Act	Registration of Business Names Act 1916.	Provides for the registration of business names It is unclear whether the charges related to a failure to register or a failure to register appropriate details	For a default in registration: fine up to £5 for every day for which the default continues – section 7 of the 1916 Act. For false statements in a registration – imprisonment with or without hard labour up to three months or a fine up to £20 or both – section 9 of the 1916 Act.

CHAPTER SEVEN: 1929 – THE YEAR OF TWO CRASHES

Introduction

Matters were brought to a head by the two crashes of 1929: the first in the spring, which saw the failure of many companies floated in 1928, and the second in September, precipitated by the collapse of Clarence Hatry's companies. The crashes became an existential threat to the Exchange as they coincided with the election of a minority Labour government on a manifesto envisaging nationalisation of the Bank of England and the creation of a National Investment Bank to direct investment. These events galvanised members to support reforms of the new issue rules although as the crisis gradually subsided, so their support also subsided and certain proposals were not implemented.

The first crash of 1929

By the end of January, there was bad news of two speculative promotions. At the annual meeting of Ner Sag Limited, one of the more notorious promotions which owned rights to a bed design which it was claimed would never sag, shareholders had rejected the accounts after being told by the directors that the company's financial position could not be determined readily from the accounting records. The directors had presented a bankruptcy petition against the promoter, Mr Brandreth, whose whereabouts were unknown.[502]

On the same day, it was reported that Blue Bird Holdings, a newly floated company, had failed to make cash payments for shares of other Blue Bird companies that had been promoted in the previous two years and which it had promised to acquire. At a meeting at the end of January, the promoter, Mr Lorang, attempted to explain why the cash raised by the flotation of Blue Bird Holdings had not been available. As *The Economist* reported:

> *'These explanations do not altogether lighten the shareholders' darkness.'*[503]

Blue Bird was an example of what *The Economist* called 'parent finance': a technique for milking the maximum cash from highly speculative promotions. Companies would be formed,

---

[502] *The Economist*; 26 January 1929; page 172. He was subsequently apprehended and prosecuted. *The Times*; 18 February 1929; page 7.

[503] *The Economist*; 26 January 1929; page 169.

allegedly to exploit a new invention or process, and then floated. After flotation, the company would sell some of its entitlement to exploit rights within a particular territory to another company whose shares would in turn be offered to the public. Apart from Blue Bird, there were many examples of this practice, including some floated by Clarence Hatry.[504]

Nervousness about speculative promotions was heightened in February[505] by an increase in Bank Rate from 4½ to 5½%. In addition, there was a growing realisation that no party might be able to win an overall majority in the General Election, which in turn contributed to speculation about the process by which a government might be formed after an inconclusive election and what its programme might be.[506] Inevitably, the uncertainty led to a fall in share prices, which disproportionately affected shares floated in 1927 and 1928. It also led to new issues in February and March proving unsuccessful: especially the more speculative promotions. A number failed lamentably to attract subscriptions so that large numbers of shares were left with underwriters.

Table 7.1: Shares issued in February–March 1929.

Proportion of issue left with underwriters – five largest[507]

Company	*Nature of offer*	*Proportion left with underwriters %*
Roadway Time Tables	320,000 5 shilling shares	92%
Trowbridge Tyre & Rubber	550,000 5 shilling ordinary	90%
Curzon Bros & Maxims	594,000 5 shilling ordinary	90%
Walls & Highley Theatres	95,000 8% £1 cumulative participating preference 400,000 1 shilling ordinary	82%
Multidoor	580,000 5 shilling ordinary	80%

After Easter, the prices of shares floated in the 1928 boom continued to fall.

---

504 *The Economist*; 19 January 1929; page 111. Hatry had floated Photomaton Parent Corporation Limited, Far Eastern Photomaton Limited, and Photomaton (Lancashire and Midlands) Limited.

505 7 February 1929.

506 'The Minority Dilemma'. *The Economist*; 16 February 1929; page 327.

507 *The Economist*; 6 April 1929; page 756.

Table 7.2: Low denomination shares issued in 1927 and 1928: market price changes January–June 1929[508]

	1929		*14 Jan 1929*	*27 June 1929*	*Jan–June 1929*
	Highest price	*Lowest price*	*Price*	*Price*	*Rise or fall %*
Duophone	12/=	1/6	6/3	1/7½	*-74.5*
Electramonic	3/8	1/=	2/=	1/=	*-50.0*
Dominion Records	2/1¾	6¾	2/1½	10½d	*-58.8*
Photomaton Parent	15/7½	12/3	15/=	13/9	*-8.3*
Far Eastern Photomaton	3/9¼	4½ d	3/6	1/=	*-71.4*
Ner Sag	£4/0/0	4/1½	50/=	12/6	*-75.0*
Ner Sag (Overseas)	9/6	5d	7/6	9d	*-90.0*
Photomatik Portraits	1/2½	1½d	10½d	2½d	*-76.2*
British Filmcraft	2/9	6 d	2/4 ½	10 ½ d	*-63.2*
British Lion Film Corp.	41/6	4 ½ d	1/4 ½	6 ¾ d	*-59.1*
Whitehall Films	7 ½ d	1 d	-	-	-
Waste Food Products	18/9	2/-	15/-	3/11 ½	*-75.3*

None of this can have been helped by the fact that some of the weakest companies floated in 1928 and early 1929 were already being wound up.[509] Nor was the position improved by court hearings in which companies tried, often vainly, to insist on underwriters taking up their shares.[510] The North British Artificial Silks case attracted particular attention as it was found that the issuing house, Tokenhouse Securities, had agreed with the company that it should not be liable for non-performance by sub-underwriters. Within the Exchange, the committee was receiving a series of requests for it to adjudicate on disputes between members arising from underwriters and others seeking to avoid liabilities.[511]

[508] Table reproduced from *The Economist;* 29 June 1929; page 1461.

[509] For example: Poso-graph Great Britain Distributing which had been floated on 25 October 1928.

[510] FA Hales Limited v Cross Keys Trust Limited; *Financial Times*; 2 July 1929; page 11. North British Artificial Silk v Tokenhouse Securities; *Financial Times*; 26 July 1929; page 10.

[511] Hoblyn & King v Pike & Bryant: re Poso-Graph Parent Corporation; 9 May 1929. CH Eden v J Joseph & Company: re American and Dominions Unbreakable Records (ADUR); 17 May 1929. J Joseph & Company v Higginson Wallis & Company: re ADUR; 4 June 1929.

These public and private disputes led in July 1929 to a campaign in the *Financial Times* about the consequences for investors of poor underwriting, canvassing ways in which the position could be improved and calling for the Exchange to take action to bring an end to the abuse:

> *'If a finance house has not sufficient standing to procure genuine and honest sub-underwriters then it should never float companies. Anyone can obtain a promise of money from a man who never intends to fulfil his promise. This is definitely a matter upon which the Stock Exchange Committee should take action.'*[512]

Unbeknown to the press, action had already been taken as the Sub-Committee on New Issues and Official Quotations had been asked to investigate instances in which sub-underwriters had defaulted and issues which had shown other unsatisfactory features. The committee's report dated 9 August 1929, which was limited to an examination of public documents, listed 29 cases that warranted further investigation and suggested that there were probably other cases that the committee had not identified because the appropriate reports had not been published. In each of these cases, subscription of a material amount of the company's capital was in arrears: the highest being Transmutograph Limited with subscribed capital of £83,000 of which 78.36% was in arrears.[513] The report noted that the paid up capital of the syndicate that had underwritten the shares was merely £9. In some of the cases, preliminary expenses represented a substantial proportion of the subscribed capital: the highest being Universal Refrigerators Limited whose preliminary expenses represented 43.9% of subscribed capital.[514] Ten firms of brokers were involved in the cases named by the committee: including the two firms that had been most active during the boom: T Gordon Hensler & Company (18 flotations in 1928) and Charles Stanley & Company (16 flotations in 1928).[515] The number of cases and firms identified suggested that there was a significant problem.

The report recommended that, in view of the number of cases, the brokers in question should be 'seen' or in other words interviewed and asked for an explanation. It also recommended that the rules should require that brokers sponsoring an issue should confirm that they had

---

512 *Financial Times*; 25 July 1929; page 7.

513 The company had been floated in March 1929. The brokers responsible were Simpson Miller & Springer.

514 The company had been floated in December 1928. The brokers responsible were T Gordon Hensler & Company.

515 The ten brokers named in the report had been responsible for 67 out of the 288 new issues in 1928.

satisfied themselves that underwriters and sub-underwriters were good for their commitments.[516]

The Horne Group

Before action could be taken on this report, the market's attention had passed to a different issue. Up to this point, attention had been taken by companies that had issued shares: not by the people or businesses promoting them. At the beginning of August, *The Economist* drew attention to a company whose business was reorganising companies and floating issues: British Cement Products and Finance Company Limited. The company had been formed in 1926 by HS Horne, a former stockbroker, to take interests in independent cement manufacturers which he formed into a group trading under the brand 'Red Triangle' cement in competition with O'Hagan's 'Blue Circle' group. He had gone on to form Associated Anglo-American Corporation, Carmelite Trust and Anglo-Foreign Newspapers, all of which took interests in newspaper companies.

All of these companies were intended to exploit Mr Horne's theory that by acquiring substantial share interests, financial trusts staffed by progressive thinkers and advised by technical experts could use their voting power to maximise industrial efficiency. Each of the companies was financed by loans secured on the share interests being acquired. As market share prices fell, so concern about the finances of his companies grew and their own share prices also fell, partly encouraged by the fact that accounts were published late. Unease was encouraged by fresh approaches to existing shareholders to raise additional capital: approaches that were accompanied by requests that the prospectus circulated to shareholders should be returned to the company.[517] By mid-September 1929, the Horne companies' share prices had fallen by more than 75% from the highest prices they had reached during 1929.[518]

516 Stock Exchange minutes; 12 August 1929; Stock Exchange Archive; Guildhall Library.

517 Circular letter. Fremantle papers; Buckinghamshire County Records Centre, Aylesbury. The prospectus in question is not with the Fremantle papers so was, presumably, returned as requested. The Stock Exchange Archive does not hold a copy of this prospectus which suggests that there was no application to deal in the shares concerned.

518 *The Economist*; 20 July 1929; page 126–7. 3 August 1929; page 230–1. 14 September 1929; page 485.

The Hatry Group and the United Steel scheme

At this point, attention turned to the Hatry group, for his companies were also known to borrow money to finance share interests, and had been slow in publishing accounts.

From the beginning of 1929, Hatry's companies had been short of cash. This may have been caused by the fall in share prices, as in 1921; but as his companies' accounting records have not survived, the precise cause cannot be known. In the following months, Hatry was to resort to a number of desperate measures to raise money. In January and February 1929, on the acquisition of British Automatic Company (BAC) by Associated Automatic Machine Corporation, the BAC pension scheme's investments were replaced by Hatry group securities and realised for cash.[519] In January 1929, Hatry formed Iron Industries Limited with a nominal capital of £650,000. On 4 February 1929, Austin Friars Trust (AFT) applied for 500,000 of the 650,000 £1 shares paid for by a cheque drawn by Austin Friars Trust which was immediately loaned back by Iron Industries. The capital was later increased to £700,000. AFT's shares in this newly created shell company were then used as security for bank loans amounting to £600,000.[520] In May 1929, Hatry sought the agreement of the directors of CGS to make a public offer of £400,000 of its shares but was opposed by Frederick Braithwaite of Foster & Braithwaite. Although no offer was ever made, contracts for underwriting the issue were placed and used as security for a loan of £400,000 from Westminster Bank.[521] In August 1929, British Photomaton Trading Company Limited was formed to develop the Photomaton business in the United Kingdom and whose shares were distributed to shareholders in existing Photomaton companies.[522]

Meanwhile, having organised the flotation of Allied Ironfounders Limited, which brought together 15 English and Scottish foundries engaged in making light castings,[523] Hatry conceived the idea of a similar amalgamation of heavy iron and steel companies and, in the process, writing off their accumulated losses. In February 1929, he began soliciting support for his

519 National Archives; file DPP 1/91.
520 Manley (1976); pages 54–55.
521 Note dated 28 May 1929 of a meeting on 17 May 1929. Foster & Braithwaite Archive; Guildhall Library. CGS Companies' House file. National Archives; file BT31/218878/203047.
522 *The Times,* 8 August 1929; page 16.
523 The issued share capital of Allied Ironfounders Limited was £1.6 million. In addition, the flotation was to raise £748,800 through an offer of £780,000 6% Convertible Debenture Stock at 96%. *The Times;* 13 May 1929; page 24.

scheme[524] which envisaged that a new company would acquire the share capital of the companies being amalgamated, and that subsequently the new holding company would issue its own shares to meet the cost of acquisition. It was planned that the nominal value of the new company's share capital would be considerably smaller than that of the predecessor companies so that the underlying businesses would be relieved of the servicing cost. Between the original acquisition and the share issue, the scheme would be financed partly by bank borrowing and partly by cash deposited by members of a syndicate created for the purpose.[525] Hatry envisaged that once the initial transaction had been completed, the new company would acquire controlling interests in other steel companies thus leading in time to the amalgamation of the whole industry.

The scheme went through a number of iterations, but was eventually announced on 16 April 1929 when the directors of United Steel Companies circulated a letter to shareholders setting out the terms of the offer which was conditional upon acceptance by 90% of each class of shares. Although the required acceptances had not been received by the deadline, the acceptance period was extended and the condition was satisfied by the new deadline: 19 May 1929. As a result, the transaction went ahead; the due date for payments to be made to shareholders was set as 19 June 1929.

Hatry had not been able to settle the financing arrangements for the transaction before 19 May 1929. Indeed, it was not until 24 June 1929 that he reported to M Samuel & Company that he had placed the preference shares to be issued by the new holding company:[526] Steel Industries of Great Britain Limited. He explained that:

---

524 M Samuel Private Office memorandum; 18 February 1929; Lloyds Bank Archive.

525 M Samuel Private Office memoranda; 8 April 1929 and October 1929. Lloyds Bank Archive. File S/1/1/6/228. The total amount required for the purchase of the debentures and shares of United Steel and United Strip & Bar was £4.2 million. In addition, Hatry undertook to repay the bank overdrafts of these companies which amounted to approximately £2.9 million. Memorandum of Sir Gilbert Garnsey to form the basis of a Proof of Evidence. National Archives; file DPP1/91.

526 This completed the financing of the strеel scheme. It was once thought that Hatry was not able to complete the financing; but that misunderstanding was dispelled when Sir Gilbert Garnsey's report became available on the opening by the National Archives of the files of the Director of Public Prosecutions. Sir Gilbert's memorandum makes clear that the steel scheme financing was completed, and that Hatry's companies must therefore have been short of cash before the steel scheme was conceived. Manley (1976); page 81. Walker (1977); page 81. Jones (1981); page 150. Jones (1995); page 143 et seq

> *' . . . he had faced considerable personal opposition from several quarters, chiefly Vickers and Nivisons and the Governor of the Bank of England.'*[527]

Nivisons had suffered from Hatry's competition as they had been one of the three firms of brokers who had monopolised local authority loan issues before Hatry had turned his attention to that market. Moreover, at the beginning of 1929 he had been responsible for floating a loan for the City of Melbourne. This was Hatry's first Empire issue[528] and thus was a new threat to Nivisons' business. For his part, the Governor had his own interest in industrial reorganisation, and may have believed that Hatry's intervention was inconvenient. He was also close to Nivisons and the other firms that handled Empire issues, for they managed a queuing system that controlled the flow of Empire issues and was approved by the Bank of England.

To stem this opposition, on 29 May 1929 Hatry had visited the Governor who told him:

> *' . . . so far as it was possible for him to comment on Mr Hatry's proposals, he was not satisfied that:*
>
> *(1) a project on this scale (i.e. to embrace 60% of the whole Steel Industry of the country) was feasible or immediately desirable:*
>
> *(2) a sound valuation and examination of the conditions of the Companies and of the Plant &c both from a financial and industrial point of view, had been made:*
>
> *(3) the people were ready at hand to run the nationalized industry.'*[529]

The Governor went on to say that he had been responding to questions from bankers by telling them that he opposed the scheme.[530] Three days later, the Governor described his impression of this meeting in a letter to Frank Tiarks, a director of Schroders:

> *'The impression left on my mind is something like this: he has already bitten off a scheme as large as (or larger than) he can chew: if he could further actualise a dream and join the two together on your and my backs, he would be relieved – and also successful. For the moment he is absorbed by the prospect of this relief and success –*

---

527 M Samuel Private Office memorandum; 24 June 1929; Lloyds Bank Archive.

528 Connolly papers; National Library of Australia.

529 Bank of England Archive; file ADM 1 /2. The difficulty is unlikely to have been caused wholly by the Governor as the failure of the Conservative Party to win a majority in the General Election on 30 May 1929 will have contributed. Frederick Szarvasy's opinion had been that '. . . if the Conservative Government got back with a majority of 40 he was certain there would be a considerable boom in such shares as these.' M Samuel & Company Private Office memorandum; 22 May 1929; Lloyds Bank Archive.

530 Wood and Wood (1954); page 152.

> *to it he would give up profit and leadership, just as he has already given up other good things. A dangerous and perhaps an ailing Mr Hatry.'*[531]

In the face of the Governor's opposition, Hatry might have considered aborting his scheme, for completing the financing proved difficult. Any technical difficulty relating to the proposed steel combination was magnified by the result of the General Election at which a minority Labour government was elected on a manifesto envisaging reforms of City institutions and government direction of investment. It was expected that share prices would fall in reaction to the outcome of the election and this would make it more difficult for Hatry to raise further bank loans using share holdings as security. Perhaps Hatry had lost the ability to be objective about the scheme, an opinion formed by Hubert Meredith when he discussed the steel scheme with Hatry:

> *'As he sat opposite to me, smoking away at his pipe, the financier disappeared and in his place there seemed to me to be a very vain man undertaking a colossal task, not with the idea of making money out of it, but with the object of showing the world what a great man Clarence Hatry really was.'*[532]

For whatever reason Hatry continued, but although by 24 June 1929 he was able to place the new preference shares he had not been able to arrange the loans that the new holding company would require in the interim. Hatry's later recollection, which was to be hotly disputed, was that at a meeting of the four key directors on Sunday 23 June 1929, one of them, John Gialdini, had suggested that they could create documents that would serve as collateral for bank loans by duplicating receipts for subscriptions to local authority loan issues and certified share transfers. The Hatry companies would then be able to raise the necessary money.[533] Recognising that the steel scheme would fail unless the necessary cash was found, the four directors agreed to take this course, and proceeded to duplicate documents and use

---

531 Letter dated 1 June 1929. Bank of England Archive; file SMT 118/7. Similar letters were sent to Edward Peacock, a partner in Barings, and Sir Guy Granet of Higginsons. These letters are part of a continuing correspondence between the Governor and others concerning Hatry's steel scheme.

532 Meredith (1931); page 309.

533 Some have suggested that this was not the first occasion on which Hatry and his associates had done this: Michie (1999); page 262. This study has only found evidence of one previous anomaly that may have been the result of irregular use of loan certificates. That occasion appears also to have been Gialdini's responsibility. Sir Gilbert Garnsey's memorandum; pages 15–16; National Archives; file DPP 1/91. If the issue of supernumerary receipts had been a regular feature of Hatry's operation, it might have been normal practice to print sufficient blank receipts in advance for this to happen. At Hatry's trial, evidence was adduced that it was necessary for additional blank receipts to be printed for Gialdini's scheme to be implemented. This also suggests that the issue of additional receipts in 1929 was exceptional.

them as collateral for new short-term loans.[534] Hatry later suggested that the directors were partly moved to adopt this course of actions by a somewhat emotional outburst by Gialdini:

> *'Gialdini, however, persisted and said that we were within an ace of success after colossal efforts . . . and that the alternative meant failure and with it a big crash in which enormous sums would be lost by the public. He had thought seriously about the whole position and rather than face such a crash he had made up his mind that he would blow out his brains.'*[535]

This stratagem did not satisfy the banks that Hatry had not been able to repay on time. M Samuel & Company for one refused to advance new money until the repayment terms of an old loan had been honoured, which he proved unable to do.[536]

The September 1929 crash

By September, Hatry's cash shortage was becoming critical. Whilst he was expecting that the steel scheme would lead to his realising a substantial profit, that was not expected to materialise until October[537] and thus would not be available to meet either loan repayments due in September or to replace the duplicate receipts that had been created in June and would also expire in September.[538] In the end, Hatry's banks lost patience and on Monday 16 September 1929 Lloyds Bank and Westminster Bank decided to commission an investigation into the financial condition of Hatry's companies. Sir Gilbert Garnsey of Price, Waterhouse & Company was appointed on Wednesday 18 September.[539]

On the market, prices of Hatry-related shares began to fall, suggesting that news of Sir Gilbert's appointment had leaked. For Hatry, a fall in the prices of his companies' shares threatened a repeat of 1921: when price falls had reduced the value of investments deposited as security for bank loans. By mid-September 1929, he had already taken steps to support the

---

534 Hatry Trial Transcript; Norman Birkett's speech; 24 January 1930; page 33 et seq. National Archives; file DPP 1/91.

535 Statement prepared by Hatry for use in litigation concerning irregular Drapery Trust share certificates. National Archives; file HO 144/17846; page 20. As for the contentious nature of these assertions, see letter dated 29 January 1931 from Hatry to his solicitor, Atherton Powys. National Archives; file HO 144/17846.

536 £500,000 loan to Austin Friars Trust due August 9th. M Samuel & Company Private Office memorandum; 8 August 1929; Lloyds Bank Archive.

537 The expected net profit was £1,400,000 which it was hoped would be realized in the first half of October. M Samuel & Company; Private Office memorandum; 12 September 1929. Lloyds Bank Archive.

538 The receipts in question related to a City of Wakefield loan for which the period for conversion of subscription receipts into formal certificates was to expire at the end of September.

539 Lloyds Bank Archive. Sir Gilbert Garnsey's memorandum; National Archives; file DPP 1/91.

price of his companies' shares and he now redoubled these efforts. A number of trust companies placed purchase orders with country brokers for shares in Hatry-related companies. Simultaneously, sale instructions were given to London brokers. The overall effect was intended to be a demonstration of purchasing pressure that would support the shares' prices. In this it failed, for the price of Hatry-related shares continued to fall.

If the banks had thought they were dealing with a localised liquidity issue they were about to be disabused, for on being told of Sir Gilbert's appointment Hatry went to see him and gave him two pieces of information: that his group's deficiency was of the order of £20 million and that local authority loan receipts and certified share transfers had been duplicated irregularly. A deficiency of £20 million would have been shocking as it was larger than Lloyds Bank's issued share capital and this implied a potentially disabling loss for the bank.[540] But the duplication of loan and share certificates also was equally troubling for it suggested that banks and others might mistakenly have accepted false documents as collateral for loans.

On being persuaded by Hatry that his assertions were serious, Garnsey reported to his two instructing banks who then reported to the Governor of the Bank of England, who in turn convened a small group which met on Thursday 19 September to consider the problem. In the meantime, share prices continued to fall.[541]

At this stage, the Governor's group knew little. They knew that a decision to investigate the Hatry group had led to an immediate justification for concern over the Hatry's group's stability, and the revelation that there had been improper handling of scrip. However, whilst the scale of both was uncertain it was believed to be serious. They would have feared that when news of these two problems leaked, the uncertainty would cause the market to react badly. Not least because there would be doubt over the reliability of scrip, the title documents in which the Exchange traded. The Governor's group may also have been conscious of the political risk that news of Hatry's attempt to avoid failure by creating false documents would confirm suspicions of the standards of behaviour in the City.

---

[540] As at 31 December 1928, the total of the bank's issued share capital was £15,810,282. Shareholders' equity (i.e. issued share capital and reserves) amounted to £27,287,231.

[541] Jones (1995); page 144. Jones cites an unpublished memoir by (later Sir) Thomas Robson, who undertook the detailed investigation for Garnsey. Bank of England Archive; file ADM 33/10.

In the face of these threats, at the Governor's suggestion the group adopted a two-fold strategy: to limit market disruption and to localise responsibility for the crisis.

To limit disruption, it was agreed that trading in the stocks and securities mentioned by Hatry would be suspended as soon as practicable;[542] that banks would be encouraged not to do anything that would precipitate further disruption in the market, by, for example, foreclosing on brokers who were financially embarrassed;[543] and that Sir Gilbert should be appointed liquidator of Hatry's principal companies to give him the authority necessary to investigate without delay.[544] It was initially hoped that the extent of any difficulty would become clear in time for settlement to proceed on Thursday 26 September, the normal account day.[545] However, once the extent of Hatry's price support scheme became clear, it was realised that settlement would be problematic not least for the country brokers who had implemented purchase orders for Hatry-related shares. If settlement had gone ahead as normal, these brokers would have been obliged to make payment for the shares they had bought: even though many of the companies on whose instructions the purchases had been placed were by this time in liquidation and would be unable to repay the brokers. Since the cash would then be paid to the companies on whose behalf the shares had been sold, in effect the country brokers' cash would have increased the Hatry group's cash. Settlement did not proceed.[546]

These first actions were paralleled by a master-stroke: it was agreed that Sir Gilbert should persuade Hatry and his associates to confess to the Director of Public Prosecutions. This they did, somewhat to the Director's embarrassment, on Friday 20 September 1929.[547]

It is not obvious why Hatry and his associates should have agreed to confess. Hatry must have known that if he did not confess the authorities would not have been able to prosecute

---

[542] On Friday 20 September 1920, the Exchange suspended trading in Associated Automatic Machine Corporation ordinary shares, Corporation & General Securities ordinary shares, Drapery Trust preference shares, Far Eastern Photomaton shares and debentures, Oak Investment Corporation shares, Retail Trade Securities shares and Wakefield Corporation 4½% Redeemable Stock 1949/1959.

[543] Eventually agreed at a meeting of clearing banks on Tuesday 24 September 1929.

[544] To this point, Sir Gilbert had been operating on behalf of the banks that had instructed him and required the acquiescence of the companies he was investigating to gain access to records.

[545] Bank of England Archive; file ADM 33/10.

[546] Settlement postponed on 25 September 1929. Settlement postponed indefinitely on 5 October 1929. Bank of England Archive; file ADM 33/10.

[547] In the brief to counsel to appear at the magistrate's hearing, the Director stressed that to ensure that proper formalities were observed, he had arranged for a police presence at the interview. National Archives; file DPP 1/91. Subsequent letters from the Director confirm that he was aware of the Governor's interest.

immediately, if at all. They had no information on which to base charges other than his admissions made to Sir Gilbert, who himself said that it would take many months to investigate the Hatry group. As the Jubilee Cotton Mills case demonstrated, substantial amounts of police work would be necessary to supplement an accountant's investigation. Even if Hatry did not appreciate the difficulty that stood in the way of prosecution without a confession, it seems probable that his solicitors, Messrs Wontners, would have advised him.[548] It is possible that Hatry was given to believe that in confession lay the only way by which he might one day return to his business; but if so there is no record of this having been the case.[549]

The manner of the confession was also exceptional. For most malefactors, the first encounter with a law enforcement agency would not be an interview with the Director of Public Prosecutions. Quite apart from any other consideration, a Director would be careful to avoid an early involvement that might undermine the objectivity of a decision whether a prosecution should proceed. Perhaps even more remarkably, having obtained Hatry's signature to a statement confirming his confession,[550] the Director and the police arranged for Hatry and his associates to appear before the City magistrates on the next day, a Saturday. That day's newspapers bore the news of Hatry's arrest. On Sunday and Monday the newspapers bore the news of the first hearing and the bare facts of the charges brought against the directors. News of the crash was dominated by reports of the prosecution. The impression created was that although the crisis might be serious, it had resulted from the criminal activity of one man and his associates and thus was limited in its extent and significance.

---

548 The Director's brief to counsel records that Hatry and his associates had been advised by Wontners. National Archives; file DPP 1/91.

549 Notably, other commentators have failed to offer convincing explanations for the confessions. Kynaston refers to Hatry's confession as either 'vainglorious' or 'selfless' according to taste. Kynaston (2000); page 179. However, Kynaston's account of these events does not refer to the meeting on Thursday 19 September at which the Governor urged Garnsey to persuade Hatry to confess to the DPP and thus does not take this pressure into account. Manley does not offer an explanation. Manley (1976); page 57. Pearson suggests that Hatry 'no longer cared'. Pearson (1991); page 125. There is some suggestion that Hatry and his colleagues had decided to confess at least one week before the events of Thursday 19 September; but apart from a single reference in a document prepared by the DPP, this suggestion is not corroborated. Statement of Case prepared by the DPP against John Gialdini for use in extradition proceedings. National Archives; file HO144/17846; page 51.

550 Copy statement. National Archives; file DPP 1/91.

Hatry's trial

By acting with such speed and such flexibility, the Director achieved what the Governor and his group must have hoped. The speed was to be maintained. Hatry and his associates stood trial at the Old Bailey in January: only three-and-a-half months later.[551] On the fifth day of the trial they changed their pleas to guilty and were sentenced. In sentencing Hatry, the judge told him:

> *'You stand convicted of the most appalling frauds that have ever disfigured the commercial reputation of this country; frauds more serious than any of the great frauds upon the public which have been committed over the past 50 years, according to my personal experience, for they have been carried out by means of wholesale forgeries of Bearer Securities in Trustee Stocks which neither banker nor broker or any member of the public would ever dream of suspecting to be otherwise than genuine . . . I am unable to imagine any worse case than yours . . .'*[552]

Coming from Mr Justice Avory, these words were telling. At the time, he was the senior King's Bench judge and in one capacity or another had been involved in almost all major fraud trials since 1900. He was later to admit that he enjoyed fraud trials above others.[553] He was well connected in the City, frequently presiding at the swearing in of the Lord Mayor. His words, conveyed in what one witness recalls was a 'cruel and ice-cold' voice,[554] articulated precisely the message that the City and the Governor would have wished to convey; and the sentence was condign. At 14 years with hard labour, this was not only the maximum sentence for forgery,[555] it was also the longest sentence handed down for a non-capital crime in 1930.[556] This seems to have been more than Hatry had been led to expect, for one of the spectators in Court later recalled that he reeled when it was handed down.[557]

---

551 In fraud trials during the 1930s, the typical delay between the events leading to charges and a trial was two years.

552 Trial Transcript, Day Five; National Archives; file DPP 1/91.

553 Sir Home Gordon recalled: 'he twice told me that of all the cases he tried, the one that interested him most was Hatry's. He really preferred the intricacies of a financial case to the human tragedy connected with murder trials.' *The Times*; 17 June 1935; page 21.

554 Hutchinson (2015); page 362.

555 It is possible that Hatry expected a sentence of no more than seven years, which was the maximum sentence for fraud. However, in addition to fraud he was charged with forgery for which the maximum sentence was 14 years. Moreover, there was a precedent for a promoter/fraudster being sentenced to imprisonment for more than seven years. In 1895, Jabez Balfour, when convicted on several counts of fraud, was handed down two maximum terms of seven years to be served consecutively: McKie (2004); page 220. As a junior barrister, Sir Horace Avory had been a member of the prosecution team at Balfour's trial.

556 Criminal Statistics for 1930 (1931).

557 Kinross (1982); page 57.

Hatry was later to maintain that, although he had pleaded guilty, he was in fact not guilty of forgery. In a letter dated 30 March 1930, to the Marquess of Winchester who had served as Chairman of Austin Friars Trust, Hatry wrote:

> *' . . . the Corporation Stocks (the subject of the prosecution) had become irregular and were never forged . . .'*[558]

This perhaps surprising contention appears to depend on the fact that corporation loan certificates were indeed not issued by Hatry's company: the local authorities themselves did that. Hatry's company was issuing receipts on its own authority allegedly for cash subscribed which it was legally entitled to do. In other words, the receipts may have been fraudulent but were not forgeries. As Hatry and his associates pleaded guilty before their defence could be presented at the trial, this argument was not deployed. The Marquess of Winchester for one was not convinced by Hatry's claim to be innocent of forgery, although, in company with many others, he believed that the sentence handed down was excessive.[559]

Immediate prosecution of Hatry and most of his associates[560] served as a dramatic and unmissable sign that the authorities had established who was to blame for the problem that had occurred and that any market difficulty was limited to securities that had been within Hatry's reach. This diverted the thrust of what otherwise would have been a campaign for further investigation and, subsequently, wider reform:

---

558 Underlining in original. Fascimile letter reproduced in Winchester (1934); insert after page 272. This suggestion is consistent with an assertion made by Hatry in a statement prepared for use in litigation concerning irregular Drapery Trust transfers: 'It is important to note that all scrip certificates issued in respect of stock issues sponsored by C&GS were their own documents of title issued by them at Pinners Hall and not be the Corporation.' (underlining in original). National Archives; file HO 144/17846. Pearson maintains that the charge of forgery against Hatry was based on assertions in his original confession statement dated 20 September 1929 which was signed without the benefit of legal advice on the precise wording of the statement which, as a result, included misrepresentations of the true position. Pearson (1991); page 125.Consistently with Pearson's suggestion, Hatry's first statement suggests that it was loan stock certificates which had been forged which was incorrect. National Archives; file DPP 1/91.

559 Winchester (1934); page 275.

560 John Gialdini escaped to Italy where he was able to stay as the existing extradition arrangements did not extend to the offences with which he was charged. Following diplomatic pressure, and the personal intervention of Mussolini, he was prosecuted in Italy and convicted: only to be released in a general amnesty a year later. National Archives; file HO 144/17846. The file also contains a letter dated 29 January 1931 from Hatry to his solicitor, Atherton Powys, suggesting ways in which the case against Gialdini could be strengthened and dealing in particular with the circumstances of the meeting on 23 June 1929.

> *'Like nothing of the kind for a generation or more the crisis in the City – though already under control – is the talk of high and low. Questions connected with it are certain to be raised in the present House of Commons. It will be found as impossible as unwise to resist the demand for special public inquiry supplementary to the usual processes of financial and legal investigation.'*
>
> *'Reasons are evident. In the post-war situation of trade and employment any unnecessary check to confidence is a peculiar injury to the State and to every class of people. Political reactions are still more mischievous than financial – worst when suspicion is not dispelled by disclosure. There has been an object-lesson on a larger scale. The meddling of garish speculation with the Lancashire cotton-trade has proved a commercial and social calamity. The ramifications of the present affair penetrate absurdly into municipal finances as well as industrial. These aspects concern more or less every investor and voter and family in the land.*
>
> *'. . . The British public in its post-war mood is sitting up and taking notice. It is very slow, but when it finally awakes it never is put off.'*[561]

Hatry's conviction implied that the market's problems could not have been systemic because they resulted from the criminal activity of a single promoter against which no system could be entirely proof.[562] What is more, it implied that the market's systems had worked well for they had led to the swiftest action against the person who was to blame. Indeed, the newspapers commented favourably on how well London compared with New York.[563]

A similar strategy was later to be adopted in New York with rather less success. On 24 March 1933, Charles Mitchell, the Chairman of National City Bank, was indicted for tax evasion: offences that had come to public attention in the course of hearings of the senate committee that inquired into the causes of the 1929 Wall Street crash. The *New York Times* reported:

> *'. . . the prosecution of an outstanding violator of the banking laws would be the most salutary action that could be taken at this time. The feeling is that if the people become convinced that the big violators are to be punished it will be helpful in restoring confidence shaken by the Senate committee revelations.'*

---

561 'Other People's Money'. Article by JL Garvin; *The Observer*; 29 September 1929; page 16.

562 There are other examples of prosecution being used in this way. Tickell (1996).

563 *The Observer*; 26 January 1930; page 15: reporting *The Evening World* in New York. The use of prosecutions to demonstrate the effectiveness of action against fraudsters remains an aspect of regulatory policy: Fair and Effective Markets Review (2015); pages 88–89: 'However, it is possible that in future there will be convictions in a case where there are a larger number of aggravating factors and either a very significant breach of trust by senior individuals . . . At present there would only be a limited amount of headroom under the maximum sentence for judges to impose an increased custodial sentence in order to mark the seriousness of the offence and send an appropriate general deterrent message.'

Dealing with the aftermath

In the meantime, the Stock Exchange, the Bank, the Board of Trade and the Ministry of Health were left to deal with the problems created by the crash free from public attention: final resolution of the deferred settlement, reform of systems to avoid a recurrence and consideration of members associated with weak underwriting.

Settlement of Hatry-related deals

The Exchange began by attending to the deferred settlement. At first the Exchange expected that when any uncertainty about allegedly false certificates had been resolved, settlement could be achieved by normal processes: any disputes being finally determined by the courts. This option soon proved unattractive for it was quickly realised that it would be expensive and take a long time to deal with every case. During that time, the uncertainty would overhang the market.[564] But there was another disadvantage, for the outcome of this process was likely to be that all of the losses caused by the Hatry frauds would be borne by parties outside the Exchange as members resorted to law to oblige their clients to pay for transactions undertaken on their instructions. The committee quickly concluded that the Exchange's reputation would be harmed if small investors were to be penalised for these frauds: they would be seen as bearing the brunt of the excesses of City traders. But the alternative of indemnifying investors[565] was not straightforward for it would require members to meet losses for which they were not personally responsible.[566] Gradually the committee came to the view that:

---

564 For example, the investigations into registration of share transfers undertaken by Sir Basil Mayhew for Associated Automatic Machine Corporation continued into 1930 with the result that the company was not able to recommence share registration until January 1930. Only at this point could disputes be defined and dispute resolution begin. This led to an action by Kleinwort & Sons against Associated Automatic Machine Corporation on the grounds that the bank had advanced money against transfers of the company's shares that had been falsely certified by the company's secretary (one of Hatry's companies). At first instance, the judge (in fact Mr Justice Avory) found in favour of Kleinwort, but this judgment was overturned on appeal over an interpretation of the law of agency. The case was concluded in February 1934 (i.e. after more than three years) by a judgment of the House of Lords; thus vindicating the Stock Exchange's assessment in October 1930 that waiting for legal determination of all outstanding disputes would be time-consuming. Kleinwort Archive; London Metropolitan Archives; file 02-08-01-002-0012.

565 Another alternative was canvassed: the annulment of outstanding transactions under the provisions of Rule 74. This rule provided that a transaction could be annulled by the committee where it could be shown that it resulted from fraud or willful misrepresentation. Transactions undertaken for the purpose of 'rigging' a market by creating a false price were regarded as fraudulent. Schwabe (1905); page 238, citing the Court of Appeal judgment in Scott v Brown (1892): 'the sole object of the purchase was to cheat and mislead the public.' Thus superficially, Rule 74 appeared to give the committee power to annul Hatry's share support deals. This option was, however, rejected because it would have required

> *'. . . the Stock Exchange had been the victim of conspiracy and fraud and that in equity the loss should be shared among the parties.'*[567]

The difficulty lay in persuading members to share that view.

On 25 November 1929, an unofficial meeting was convened with a number of members by the Chairman and Deputy Chairman at which it was suggested that a fund should be established to take responsibility for settling the disputed trades:

> *'The Chairman said that it was most desirable for the credit of the City of London and the good name of the Stock Exchange that the Settlement should be carried through without disasters and appealed to the parties to try and find some solution of the problem and to include provincial Brokers in any arrangement effected.'*[568]

The implication is that although the Chairman and Deputy Chairman had formed a shrewd view of the steps that were necessary, they believed it would not be wise for the committee to act without prior confirmation of members' support.

From this initiative sprang agreement to create by subscription a fund that would settle bargains deferred from 26 September in respect of five Hatry-related companies.[569] The purpose was to ensure that all liabilities to the public would be met in full and to this end the fund would take delivery of all the shares that would have to be delivered on settlement day. Of the total amount estimated to be required by the fund (£1 million), £200,000 was contributed by members and others (including banks) who had no commitments under outstanding bargains involved in the settlement. The balance was to be met by brokers (both members of the Exchange and country brokers) and dealers in agreed proportions.[570] By the middle of January 1920 the fund had been established,[571] so that on 22 January 1930, as

---

a separate demonstration of fraud in respect of each transaction. As the share price support scheme implemented by Hatry had involved a large number of trust companies and others, this process also threatened to be lengthy and expensive. It would also have thrown all of the losses on people outside the Exchange.

566 In other words, most of the Members who had been principally involved in Hatry's share price support schemes had gone out of business after the crash so it was other, surviving, members of the Exchange who would bear the cost of an indemnity for investors.

567 Stock Exchange (1930a); page 6.

568 Stock Exchange (1930a); page 7.

569 Associated Automatic Machine Corporation, Photomaton (Parent) Corporation, Corporation & General Securities, Retail Trade Securities and Oak Investment Trust.

570 Stock Exchange (1930a); pages 10–15.

571 Members' subscriptions fell short of the total required. The total was achieved by a final contribution by the Bank of England (£25,000) on condition that it should not be mentioned in public. Bank of England Archive; file ADM 33/10.

Hatry's trial was under way, the committee was able to agree that settlement would take place on 13 February 1930. It went through 'without a hitch'.[572]

This agreement was innovative. It acknowledged that it was not desirable to allow liability to fall upon outside interests, thus abrogating the principle of caveat emptor; it involved members who had no personal exposure to the outstanding Hatry settlement; and it involved country brokers from whom the London Exchange would customarily have stood aloof. It could hardly do otherwise as Hatry's price support scheme had involved provincial brokers. Thus there was a recognition that the London and the provincial exchanges shared a joint interest in avoiding further disruption and ensuring that the losses that would be crystallised on settlement should not fall upon the public. Acceptance of this joint interest was not uncontentious, and resulted from a series of short-term motives. London members wished to ensure that members of the public did not suffer losses and were doubtless grateful for the provincial brokers' contributions to the fund which otherwise would have been a charge to London members. For their part, country brokers wished to avoid insolvency.

Nonetheless, the agreement involved, however momentarily, an acceptance that for some purposes the market had to be viewed as a whole. Traditionally, the Exchange had sought to control a segment of the national share trading market in the interests of its members: emphasising the distinctiveness of its membership and their trading standards especially by comparison with other traders and exchanges. Hatry's share price support scheme had exploited these distinctions; and, to manage its consequences, the Exchange had been obliged to compromise.

Neither the fund nor the acceptance of provincial exchanges were to last.

Systems and processes

The Exchange next turned to the implications of the crash for the integrity of its systems and processes by setting up a working party. It discovered that Gialdini's scheme of creating duplicate loan and share documents exploited weaknesses in the Stock Exchange's processes, firstly in respect of quoted companies and secondly in respect of local authority loans.

572 Stock Exchange (1930a); page 9

It was Hatry's normal practice to persuade companies that he floated to appoint one of his companies, Secretarial Services Limited (SSL), as company secretary and registrar. Quite apart from making the management of the flotation easier, it ensured that after flotation there was a continuing relationship between Hatry's group and the companies that were floated. As registrar, SSL was responsible for recording share transfers and issuing replacement share certificates to the new shareholders. In days of paper-bound processes, this was laborious and transferees could wait for a long time before their new certificates were issued. This was especially difficult for anyone who was an active trader, and at times of heightened activity. The scale of the difficulty can be judged from the guidance given to bank securities clerks in the many textbooks on the subject.[573]

Thus a practice had developed by which company registrars would certify share transfers to show that they had been received together with valid share certificates for cancellation and replacement. The certified share transfer would be regarded as tantamount to a bearer security and would be accepted by banks and others as proof of ownership. In practice, the issue of certified share transfers had become somewhat abused in practice, as bank securities departments had found that it was easier to transfer certified transfers rather than attempting to register each transfer which was time-consuming and wearisome.[574]

Gialdini's scheme involved duplicating share transfers and falsely certifying them, which was not a difficult matter as certification only involved a rubber stamp and a signature.[575] The falsely certified share transfers were then submitted to banks as collateral for loans.

To deal with these problems, the working party proposed that there should be some degree of Exchange oversight of the process of certification, and a tightening up of processes within banks' and others' securities departments. All of the working party's final proposals in this respect were implemented.[576]

---

573 Lewcock (1931); pages 44–90. Kiddy (n.d.). Head (1912).

574 Share certificates were problematic because the process of registration was time-consuming and laborious. On occasion it might also have been necessary to notify a company's registrar of the bank's security interest in a holding represented by a particular certificate. These administrative chores were avoided if the security was held in bearer form. Internal reports on secretarial practice in the light of the Hatry collapse. Lloyds Bank Archive. Lewcock (1931); pages 59–60.

575 Examples of these documents exist in the Hatry Trial Exhibits; National Archives; file DPP 1/91.

576 Stock Exchange minutes; Stock Exchange Archive; Guildhall Library.

As for local authority loans, Gialdini's scheme took advantage of a change in the process of issuing local authority loans which Hatry had engineered by insisting that when a new local authority loan was offered publicly, applicants should send their application forms and any accompanying cash payment to one of his companies. That company would then issue a receipt that would certify both that the money had been received and that the holder of the receipt would receive a loan certificate from the authority concerned on presentation of the receipt (generally within six months). These receipts were generally accepted by banks as tantamount to bearer securities. Normally it was a bank that acted in the capacity of receiving agent, in return for a commission. By substituting one of his own companies for a bank, Hatry had been able to cut the cost of issuing loans and to undercut the orthodox brokers who had previously enjoyed a monopoly of this activity.

On receiving applications, Hatry's company would then hold the cash received until it was required by the local authority. Many wanted the money immediately after issue, but others did not want all of the money immediately and were happy to leave it on deposit with Hatry's company, C&GS, even though it did not profess to be a bank. The benefit to the authority was that Hatry offered a slightly higher rate than the clearing banks. The benefit to Hatry was that he was in effect borrowing money but at a lower rate than he would have had to pay a bank.

All local authority loans were required to comply with the 'Stock Regulations' issued by the Ministry of Health which approved each issue and the draft notices inviting applications. All of the loans issued through C&GS were approved in this way. Although the Ministry of Health appear to have regarded this approval process as largely an administrative matter, from the perspective of the local authorities concerned it will have seemed that the receiving procedure proposed by Hatry was both known to and approved by the Ministry. There is no evidence that the Ministry ever inquired into these arrangements when considering requests for approval.

Gialdini's scheme involved using the company that received loan applications to issue duplicate receipts: i.e. receipts for more than the total nominal sum of a local authority's loan stock. The receipts were treated by bank security departments as bearer securities and thus would be accepted as proof of ownership for the purposes of lodging security for new bank loans. This was another instance of bank security departments having become careless as they found temporary cash receipts less troublesome to manage than formal loan certificates.[577] Gialdini argued that use of the receipts in this way was relatively risk-free provided that the receipts were recycled before the deadline by which receipts had to be submitted to the local authority for issue of loan certificates in their place.

Eliminating these weaknesses required action by the Ministry of Health as well as the Exchange. In principle, the Exchange wanted to ensure that its rules for certification applied equally to local authority issues as well as to corporate securities; but the local authority loans were subject to the Stock Regulations which first required amendment.

On investigation, it was found that the regulations existed in two forms (having initially been issued under two separate Acts of Parliament applying to different groups of authorities) and had not been reviewed for many years. When the Exchange working party had finished its work, the Ministry of Health revisited the Stock Regulations, amending them to reflect the latest Exchange practice and replacing them with new, consolidated regulations. In addition, the regulations imposed requirements concerning the appointment of receiving agents and the deposit of funds received from applicants.[578]

Weak underwriting

Having dealt with weaknesses in the procedures for dealing with share and loan transfers, the working party dealt with the implications of the August 1929 report on weak underwriting which arose from the first crash of 1929 and was not related to the Hatry crash in September 1929. Consideration was given to ways in which insubstantial issues could be avoided and ways in which underwriting arrangements could be strengthened. In both respects, the working party chose an approach that placed responsibility upon directors, advisers and brokers to ensure that arrangements for a proposed issue were appropriately strong, coupled with disclosure of the judgements they had made.

---

577 For reasons similar to those for share certificates.

578 Original regulations: 3 August 1897, S&RO 1897 Number 614 applying to County Councils and S&RO 1897 Number 615 applying to District Councils. subsequently amended. New Regulations: SR&O 1932 Number 438, subsequently consolidated in S&RO 1934 Number 619. The need for regulation of the appointment of receiving agents and the deposit of funds received was reviewed by the House of Lords Committee considering the Wakefield Corporation Bill on 15 March 1930. Wakefield had left substantial funds on deposit with Corporation & General Securities Limited following a loan issue early in 1929. Throughout September 1929 it had been attempting to obtain a promised payment from CGS but failed and incurred a substantial loss which it met in part by levying a special rate. Bank of England Archive; file C40/634.

It was first proposed that permission to deal would generally not be granted in a series of circumstances that had caused particular difficulty. For example, where preliminary expenses formed an undue percentage of the proposed capital, applications for permission to deal would not be considered until after publication of the first annual report and accounts. Similarly, applications from subsidiary companies would probably not be considered until after publication of the holding company's first annual report, especially where the company's principal asset is a patent, new process or invention or an undeveloped commercial enterprise. It was also suggested that the committee responsible would look more cautiously at applications to record bargains in the Supplementary List from companies that had not published a prospectus.[579]

The committee proposed that whenever an unquoted company applied for permission to deal for its shares but had not published a prospectus and, furthermore, accounts for at least two years had not been made up and audited, an advertisement should be published containing specified details about the company for which the directors were to be collectively and individually responsible. Among other details, the advertisement was to include:

> *'A statement setting out clearly the working capital with which the Company started or is to start business, additions (if any) since made and whence derived, and the amount available at the date of the statement of working capital, after providing for all purchase considerations, promotion profits, preliminary expenses, losses, and interest or dividend payments to date, with a statement by the Directors that in their opinion the working capital available is sufficient, or, if not, how it is proposed to provide the additional working capital thought by the Directors to be necessary.'*[580]

As far as underwriting arrangements were concerned, the working party explicitly rejected suggestions that new rules could bar undesirable underwriting:

> *'. . . the Committee has come to the conclusion that it is practically impossible to frame effective and at the same time workable regulations which would act as an efficient bar to undesirable underwriting and at the same time leave unfettered that which is beyond reproach.'*
>
> *'The Committee can only impress upon Members, especially those who sponsor an issue, that it is their obvious duty to examine carefully the quality of the underwriting and sub-underwriting.'*[581]

[579] Stock Exchange (1930b); page 11.
[580] Stock Exchange (1930b); page 16.
[581] Stock Exchange (1930b); page 5.

The committee also proposed that the required advertisements should be expected to include information concerning 'small or unknown underwriting companies': an expectation to be given force by empowering the committee to require disclosure of other particulars which it thought necessary.[582] It also observed that:

> *'It would be desirable if such particulars were also given in a Prospectus and the attention of Issuing Houses, Banks, Auditors and others who allow their names to be given in a Prospectus is directed to this point.'*[583]

To support the committee's assessment of these matters when considering applications, it was given power to commission an independent accountant to verify a company's statements and to defer decisions on whether to grant permission to deal until after receiving the accountant's report.[584]

These recommendations represented significant departures from existing practice. The new rules empowered the Exchange to use discretion in considering whether disclosure was appropriate: emphasis was placed on the adequacy of disclosure rather than on formal compliance. This approach can be contrasted with the prevailing approach in 1919, when the application by Agricultural Industries Limited was accepted by the committee, even though there was reason to believe that the Offer for Sale created a mistaken impression through careful use of the rules to obscure information.

Moreover, straightforward disclosure was no longer to be regarded as sufficient protection for investors: directors were to be expected to take responsibility publicly for ensuring that arrangements were sound. Coupled with this was a larger role for professional advisers: partly in taking responsibility for advising on the adequacy of disclosure in prospectuses and related documents but also in providing assurance for directors on the adequacy of the judgements that directors and others were being called upon to make. For example, it became good practice for directors making a statement on the adequacy of the company's working capital to commission auditors to investigate the working capital and to report to them on its adequacy. This enabled the directors and other advisers to demonstrate both to the Exchange and, if challenged, to others that due care and attention had been applied in making their

---

[582] Stock Exchange (1930b); pages 5 and 16.

[583] Stock Exchange (1930b); page 5.

[584] This recommendation appeared in the private version of the committee's report considered by the Committee for General Purposes, but not in the published version of the report. Stock Exchange (1930b); page 11. Stock Exchange minutes; 21 July 1930; Stock Exchange Archive; Guildhall Library.

judgements. This development in practice was encouraged by the empowerment of the committee to commission a report from an independent accountant.

In short, these changes represented a turning from an approach based on formal compliance. In its place, there was a marked encouragement for the role and responsibility of professional advisers, but also of sponsoring brokers, as gatekeepers acting increasingly to protect members of the public rather than the narrower interests of members.[585]

It remained for the Exchange to deal with members who had been associated with weak underwriting.

In August 1929, before the crash, the Exchange's sub-committee had recommended that the members concerned should 'be seen' and asked for an explanation. This had not happened before the crash, but the meetings duly took place after March 1930: i.e. involving the new committee that had been elected in March 1930. When these meetings took place, further reports were submitted giving details of the outcome of issues with which the members concerned had been associated. In the case of Charles Stanley & Sons, the report considered on 7 April 1930 listed 32 issues with which the firm had been associated since 1926. In most cases, subscription of the capital due had been in arrears: the highest reported case had been 45% in arrears. The implication was that some capital had been subscribed by the public and accepted, but that underwriters had not contributed the amounts due from them. Thus the company had not received all the capital that it would have said in its prospectus was necessary but the public subscribers had nonetheless been deprived of the money they had contributed. In many of the cases reported, preliminary expenses represented a high proportion of the company's capital; and reports, when submitted, were late.

The committee's minutes do not record in full what was said to each member save that whilst the member's membership would be renewed for the current year, renewal in 1931 would receive special attention from the committee. In the event, memberships were renewed. The implication, however, was that the quality of the business that the member had introduced to the House had not been satisfactory. As the minutes record, one member was told:

> *'Mr James was admitted & told that the Committee had received a very serious report of companies which he had been the means of introducing to the Stock Exchange. The*

[585] The role is described and analysed in Coffee (2006); page 3 et seq.

> *Report would be considered by the new Committee: in the meantime he was warned to be very careful as to the class of business he transacted.'*[586]

Whatever was said, none of the members identified in the August 1929 report on weak underwriting sponsored any new issues between 1930 and 1939. Thus, whether by reason of changes in trading or of action by the committee, this business was stopped.

Conclusions

The Balfour Committee's report discredited

Rarely can any element of a public report have been discredited so quickly as the Balfour Committee's conclusion that the financial system was working adequately. By an accident of timing, the report was published soon after the collapse in prices of the 1928 shilling share flotations and the beginning of disputes about underwriting. How could a system that had led in 1928 to IPOs for worthless companies backed by underwriting that disappeared like the morning mist be said to have been working adequately?

The Balfour Committee had concentrated on the suggestion that action should be taken to outlaw company promoters and over-capitalisation because they had led to heightened industrial costs that had undermined the competitiveness of industries such as the Lancashire cotton industry. The committee had rejected this contention on the basis that the over-capitalisation caused by promoters was undistinguishable in principle from over-capitalisation caused by over-optimistic and unwise management decisions from which companies had been known to survive. The committee was thus distracted from the effect of predatory promoters and share-pushers in abusing investors and misallocating resources – which had become sadly obvious as a result of the 1928 boom.

Crash of the 1928 shilling shares

By this stage, the London Stock Exchange at least suspected that many of the 1928 shilling share flotations had been assisted by the willingness of members to collude with all manner of off-market operators by seeking permission to deal in their worthless promotions. Their collusion had involved facilitating weak underwriting and supporting applications to deal in the shares by giving undertakings that were either incorrect or at best disingenuous. The Exchange's suspicions had led in the late spring to appointment of a committee to investigate

[586] Stock Exchange minutes; March 1930; Stock Exchange Archive; Guildhall Library.

weak underwriting, which in August confirmed the suspicions and named the members involved. In short, by August 1929 the committee knew that the Exchange's members were in part responsible for what had happened.

The Hatry crash

The position was made much worse by the Hatry crash in September 1929, for Hatry had exploited weaknesses in the Exchange's rules.

Towards the end of September, it was realised that the share price support operation mounted by Hatry followed by the collapse of his companies threatened the solvency of many country brokers who had, on the instructions of companies under Hatry's influence, placed buy orders for his companies' shares. It appeared therefore that the London Exchange's rules had been inadequate to prevent the abuse of country brokers. In addition, it seemed that the market had been trading in suspect scrip that was indistinguishable from legitimate scrip. This threatened all parties involved in the London market (and probably others): personal and corporate investors alike. It threatened any organisation that had lent money against the collateral including traded securities, for if the suspect scrip was indistinguishable from legitimate scrip how could a lender tell the difference? It also threatened companies and authorities on whose behalf the suspect scrip appeared to have been issued. Were they liable in respect of losses caused by the suspect scrip issued in their name?[587] Because some of the stocks used by Hatry were trustee stocks,[588] it threatened trustees who otherwise would have believed they had complied with their duties as trustees. As the Exchange knew, these problems would not have arisen unless Hatry had been unable to exploit weaknesses in its own rules and procedures.

---

[587] That this was a real concern was demonstrated by the legal action initiated by Kleinwort & Sons against Association Automatic Machine Corporation (AAM). Kleinwort sought relief for the losses caused by the issue of suspect transfer certificates by the company secretary of AAM (a Hatry company). At first instance, Kleinworts' claim was upheld (by Mr Justice Avory as it happened). Later, when the case reached the House of Lords, the claim was dismissed on the Lords finding that a principal (AAM) should not be held liable for the criminal act of an agent (i.e. Hatry's company Secretarial Services Limited). Thus, in the early stages of the crisis, companies would have been afraid that they would be held liable for actions taken by company secretaries issuing suspect documents on their behalf.

[588] Defined by the Trustee Investments Act 1925 for the purpose of identifying securities that were sufficiently risk-free to be held by trustees.

Hatry had not just caused the collapse of his own group, in a fashion similar to the collapse of the Horne Group a month earlier, but had caused a crash that was so large that it threatened to undermine the whole market and confidence in the Exchange as a place to do business.

An existential threat?

How could this be a system working adequately, as the Balfour Committee had suggested? Rather the crisis was another triumph for company promoters and share-pushers who had for many years flourished by exploiting weaknesses in the Exchange's rules with the help of willing members.

Unsurprisingly, this was believed to be an existential threat to the Exchange and the City. It validated the criticisms of the financial system in academic and political circles: even the more extreme criticisms as the crisis combined a demonstration of weak organisation with confirmation of the unscrupulous greed of members. It did this as a minority Labour government was elected on a manifesto that promised nationalisation of the Bank of England and threatened the creation of a National Investment Bank. In retrospect, it is tempting to decry the chances of the Labour government implementing all of its manifesto promises, especially in the light of Tawney's contemporary criticism of the Labour Party's election campaign:

> *'. . . why are Labour programmes less programmes than miscellanies – a glittering forest of Christmas trees, with presents for everyone, instead of a plan of campaign for what must be, on any showing, a pretty desperate business? Because the party is at present without any ordered conception of its task.'*[589]

Whatever Tawney may have thought, in the City the threat was treated as serious:

> *'We dined with Sir Basil and Lady Blackett [on 28 September 1929]. The Bank of England of which Sir Basil is a director, would have nothing to do with Hatry . . . but some of the Big Five were caught . . . "we are afraid a Labour Government would take over the whole business".'*[590]

The critical question was: could the City deal with this threat?

Any remaining doubt about the scale of the threat that was faced is dispelled by the scale of the action that was taken.

589 Tawney (1932); page 329.
590 Inge (1949).

Caveat emptor?

The first of the major actions represented a departure from a founding principle of the Exchange: caveat emptor. It was no longer possible to believe that parties dealing through the Exchange could manage their own risks when the scrip in which they were dealing was proved to be suspect and indistinguishable from legitimate scrip. If a bank's trained securities clerk could not tell the difference, how could an investor? That losses had been caused by the Exchange's weak systems and the collusion of members merely added to this misery. Caveat emptor seemed to be not a respectable organising principle for an exchange but a cynical device by which an investor could be duped out of his money by a predatory and exploitative system. The creation of a fund to cover settlement of the deferred Hatry-related deals involved acceptance for the first time that members would meet the cost of deals for which individually they had no responsibility and that the investors involved in those deals would not have to meet the liabilities for which, in law, they could be held responsible. Members tried to limit the significance of this move by not supporting a proposal that there should be a permanent fund, but the most realistic members must have known that the Exchange would not be able to resist calls for compensation if similar circumstances arose again.

This was a recognition that the Exchange's members corporately had financial responsibility to outsiders.

The Exchange's attitude towards members

The second major departure from the Exchange's traditional approach concerned its attitude towards members. Until 1929, the Exchange's regulatory activities had been concerned with relationships between members and the mitigation of counterparty risk. Members were regarded as men of honour. Until they were held to have been disgraced, their undertakings were accepted by the committee almost without question. After the crashes of 1929, this approach was no longer prudent. The Exchange's reputation had been damaged, and in meeting the cost of the Hatry settlement, uninvolved members had been obliged to bear material costs as a result of other members' actions. What was more, there was a possibility that if similar circumstances were to recur, members might again be asked to bear the costs of settlement without the cushion of a permanent fund to assist in meeting the liability. Understandably, members wanted to exclude this possibility and to this end supported the committee in pressuring a small number for firms to stop sponsoring new issues, changing the rules to exclude insubstantial issues and taking power to investigate companies whose share issues members were sponsoring. In effect, the committee was to be more sceptical of members' undertakings and the relationship between the committee and members was to become more distant.

In effect, the abrogation of caveat emptor changed the balance of the members' interests, and their expectations of the committee. To protect themselves from further such liabilities, they now looked to the committee to prevent a recurrence of the circumstances that led to the crashes of 1929.

The Exchange's attitude towards provincial brokers

The third departure concerned the Exchange's attitude towards the provincial exchanges and brokers. Traditionally, the London Exchange had held itself aloof from the provincial exchanges, not permitting direct access and refusing to make common cause. This approach was not tenable in dealing with the Hatry settlement. Co-operation was not long-lived, however, for the Exchange reverted to its traditional stance soon after the agreed settlement was implemented.

A success for self-regulation?

In some ways, the action taken in 1930 should be seen as a success for self-regulation by the Exchange, for it had taken radical action that before the events of 1929 many members would have viewed as contrary to their interests. The extent of the Exchange's willingness to change was not immediately understood: introduction of the Committee's reforms was noted briefly in the financial press but no more.[591] Yet the changes were significant as can be judged by comparing them with the proposals for which Horace Samuel, one of the foremost technical critics, campaigned in his book entitled *Shareholders' Money.*

The book, which was published in 1933, consisted of a review of what Samuel regarded as the inadequacies of British company law in the light of the provisions of Blue Sky laws in the United States and included a draft bill to amend the Companies Act 1929. As Samuel was campaigning for new legislation, he included many proposals that went beyond the competence of the Stock Exchange. For example, the draft bill envisaged that anyone who

---

591 *Manchester Guardian*; 13 August 1930; page 11.

authorised publication of a prospectus would be liable to pay compensation to anyone who had subscribed for shares as a result (direct or indirect) of the prospectus. It also proposed that bankers, brokers and others who allowed the names to be mentioned in a prospectus should be regarded for this purpose as having approved its publication.[592] A related proposal would have imposed on experts whose reports appeared in a prospectus liability for any incorrect statement or omission to subscribers who as a result suffered damage.[593] Both of these proposals reflected but did not go as far as provisions in Blue-Sky laws and the federal Securities Act 1933 in the United States. The Act provided that subscribers could sue for rescission and recovery of their subscriptions without the need to establish that they suffered damage as a result of an incorrect statement or omission. Such measures required primary legislation and were thus not possible for the Exchange; action in these respects was delayed until the Companies Act 1947.[594]

Other proposals covered by Samuel's draft bill might have been considered within the Exchange's competence but would have faced considerable professional opposition. For example, Samuel's draft bill included extensive provisions concerning the contents of accounts submitted to shareholders, specifying, for example, the headings to appear in profit and loss accounts and balance sheets.[595] That specification of the contents of accounts was technically possible for the Exchange is demonstrated by the Exchange beginning to do this at the end of the 1930s by requiring the publication of consolidated accounts. At the beginning of the 1930s, there would have been considerable opposition from the accounting profession. Whilst there were some who pointed to the consequences of allowing companies to decide how to present their accounts, there were others who strongly objected.[596] Samuel observed:

> *'. . . the official policy of the Institute of Chartered Accountants to refrain from laying down specific rules of conduct, but instead to endeavour to lead Directors gently by the hand into the higher ethical planes, contrasts somewhat oddly with the authoritative exposition of the defects of the law by the recognised heads of the profession . . .'*[597]

---

[592] Sections 14 and 15 of the draft bill. Samuel (1933); pages 338 and 339.
[593] Section 17 of the draft bill. Samuel (1933); page 340
[594] For example, Samuel's proposal in respect of the liability of experts foreshadowed section 65 of the 1947 Act. Magnus and Estrin (1947); pages 253 et seq.
[595] Sections 43 and 44 of the draft bill. Samuel (1933); pages 356 et seq.
[596] Sir Mark Webster Jenkinson, Sir Gilbert Garnsey, Sir Josiah Stamp and HA Hill pointed to a need for reform; Lord Plender opposed.
[597] Samuel (1933); page 327.

Inaction in this respect on the part of the Exchange was perhaps understandable.

In other respects, however, the Exchange's reforms met Samuel's requirements. Section 9 of the draft bill required the Registrar of Companies to approve a prospectus, section 10 empowered the Registrar to reject a prospectus and section 11 empowered the Registrar to make appropriate investigations. For its part, the Exchange extended its monitoring activity to include the commercial substance of an issue, taking the power to appoint investigating accountants and requiring members sponsoring an issue to confirm that they were themselves satisfied with that substance.

Similarly, the Exchange matched Samuel's proposals with regard to underwriting arrangements. The draft bill required publication of the details of the arrangements together with statutory declarations made by underwriters of their capacity to comply with the financial terms of the underwriting.[598] The Exchange required that an application for listing or permission to deal should include full disclosure of underwriting arrangements and be accompanied by a confirmation by the members sponsoring the issue that they had satisfied themselves as to the arrangements' adequacy.

Finally, in another proposal inspired by Blue Sky legislation in the United States, Samuel envisaged that all share dealers should be registered annually by the Board of Trade.[599] Whilst the Exchange had no power to regulate dealers outside the Exchange, it already restricted membership to those it chose to admit, and from 1930 proposed to use its requirement for annual renewal of membership to insist on compliance by members with rules intended to exclude abusive issues. By August 1930, the effectiveness of this action was already evident.

Weaknesses of self-regulation

However successful the Exchange's actions in 1930 may have been, they also served to demonstrate the weaknesses of the Exchange's previous performance as a self-regulatory organisation. The crashes of 1929 resulted in part from failures by the Exchange during the 1920s to draw inferences about the overall direction of the market from the evidence available from Members' individual decisions.

---

598 Draft bill; sections 4(d) and 9(d). Samuel (1933); Appendix 1.
599 Samuel (1933); page 94 et seq.

The two key predisposing factors were the gradual hollowing out of underwriting arrangements and the willingness of members to collaborate with disreputable off-market operators in arranging for the shares they were promoting to be dealt through the Exchange. Both of these should have been known to the committee before 1929. Samples of underwriting contracts were made available to the committee with all applications to deal during the 1920s so that changes in the liability of lead underwriters could have been observed by anyone scrutinising the applications. The identity of the off-market operators with whom members were collaborating would have been more difficult to identify as they would have hidden behind nominees of various descriptions. However, scrutiny of the applications demonstrates, as might have been expected, that advisers and supporters tended to act in groups which would have been easier to identify. For example, for many of his issues, Hatry used one firm of solicitors consistently (SJ Langton & Passmore), one firm of brokers (originally Ellis & Company) and one bank (Lloyds Bank, Threadneedle Street branch).[600] There is no evidence that matters of this sort were raised by the sub-committee that considered applications to deal and that seems to have been concerned principally to make sure that disclosure requirements had been satisfied.

At times, the committee also failed to see the implications of technical weaknesses in a rule. Possibly the most dramatic example of such failures was the committee's failure to see that the retrospective effect of Regulation 30F would have been especially damaging for banks that had lent money against collateral including securities that the regulation would have been rendered untradeable.

There were possibly other more strategic failures of foresight. In evidence submitted to the Greene Committee in 1925, the Exchange pointed to the operations of share-pushers who had come to England from New York. As was to become clearer in 1936, the prosecuting authorities failed to deal adequately with the crimes committed by these gangs of pushers and this became a factor in the search for other means, involving public law, of regulating share trading. In other words, the failure of the prosecuting authorities in this respect was to become another threat to the Exchange's independence. There is no evidence that the

[600] For many issues, other solicitors and brokers would also be named. For issues that Hatry initiated, auditors would also be named from a small group. For existing companies, the existing auditors would be named, in some cases jointly with a firm introduced for the purpose of the prospectus, presumably to add credibility within the City.

Exchange saw the potential threat or took any action to counter it, for example by referring potential cases to prosecutors, as happened in New York.[601]

Such failures of foresight contributed to the effectiveness of self-regulation in the 1920s, to the damage suffered in 1929 by the Exchange's reputation and to the costs that were borne ultimately by members.

Of course, it is possible that even if the growing risks had been appreciated by the committee, members would not have supported any action that the committee might have proposed: a second weakness. During the 1920s, the membership was becoming more polarised and members in a small, more traditional way of business commanded a majority. This was used to block attempts to change the rules to accommodate the more corporate business on which some firms such as Cazenove concentrated, and might well have been used to block other attempts to fit the Exchange to changing market circumstances. Thus, although some members were taking advantage of the changing character of the market, this appreciation remained disaggregated. There is no evidence that the committee or the members generally appreciated the implications of these developments for the market overall or the threat to the Exchange that they would create.

So why did the Exchange's actions succeed in 1929?

By October 1929, the threat had become blindingly obvious. It was plain that the Exchange's continued independence could be called in question and that action was needed. This was plain not only to the committee, but also to members whose incomes depended upon preservation of the Exchange. The full extent of what had to be done was not immediately evident, but in the mind of the majority of members there can have been no doubting the need.

In proceeding to deal with the crisis, the Exchange had the benefit of some good fortune: Hatry's folly in sanctioning the duplication of loan receipts and the false certification of share transfers. Hatry not only precipitated the crisis, but he provided a screen for the Exchange. His criminality enabled the Exchange and others to present the crisis as solely due to him, whilst

[601] In New York, the Martin Act under which many prosecutions of share-pushers took place had become law in the 1920s and, as a result of heavy lobbying, had not adopted the approach of other States that imposed government regulation on exchanges or on new issues. The NYSE thus had a clear interest in ensuring the Martin Act was successful to discourage more intrusive regulation.

his prosecution distracted attention away from the Exchange itself. Behind this screen the Exchange was able to deal with matters in its own way and in its own time, where necessary choosing the punishments that it thought most appropriate without being troubled by a public clamour for retribution. Thus the Exchange was able to deal with the brokers who had colluded with off-market share pushers without damaging their public reputations. They were given time to mend their ways: and they did. This sensitivity was doubtless appreciated by other members and was certainly effective, but might well have seemed unacceptable if public attention had been drawn to it. In this sense, a public interest in retribution would arguably have been inimical to market management. The Exchange was thus fortunate in Clarence Hatry's co-operation in his own prosecution.

The Exchange was fortunate in another way. Any possible leadership failure was avoided by the stage management of Montagu Norman, the Governor of the Bank of England. He contributed the bifurcated strategy of managing the crisis while prosecuting Hatry and then ensured that each of the parties involved played out the various roles. The Chairman of the Exchange's committee maintained his regular contact with the Governor and when he needed introductions to senior civil servants, the Governor obliged. As matters progressed, the Governor arranged that the Bank's staff should review the Exchange's proposals for reform. When the Hatry settlement fund fell short of the required amount, it was the Governor who arranged that the Bank would subscribe £25,000 and leant on the clearing banks to make up the difference. The Governor maintained his contacts with the DPP who made sure the prosecution went forward with the desired speed. When questions arose over reforming the rules for local authority loans it was the Governor who was contacted by the Permanent Secretary of the Ministry of Health. In short, the Exchange was fortunate that the process was stage-managed by a long-established, well-networked Governor who must in part have been interested in securing the Bank's position, not just the Exchange's.

Thus the Exchange was fortunate: but it survived.

CHAPTER EIGHT – 1930–1939 – THE MARKET'S RECOVERY

Introduction

The events of 1929 encouraged the market's growing tendency towards risk aversion.

The thrust of the Exchange's reforms following the end of the 1928 boom in shilling shares and the Hatry crash was to deny access to the market to the most speculative issues. In this sense, the reforms were to be welcomed.

There were, however, a number of negative consequences for members. Denial of access to the most speculative issues involved a denial of the business that those issues would have created: either for brokers who would have acted as sponsors or those who would have received commissions from clients wishing to deal in those issues. That income could only be replaced by an increase in the general level of activity. To the extent that it was not replaced, members' incomes would suffer and, as smaller firms were likely to suffer disproportionately, the membership would tend to become even more polarised. In turn, if the experience of the 1920s were to be repeated, this would lead to members demanding that the rules should be strictly enforced, denying access to non-members and insisting on minimum commissions.

Whilst members may have preferred to act as if the affairs of the Exchange could be managed in isolation from competition from outside markets and traders, in practice this was unrealistic.Increasing the costs of passing business to the London Exchange may have seemed a defence of members' interests but provided a motive for others to find ways of bypassing the Exchange. Denial of access to traders or issues was not an end of the business: it served as an encouragement to find alternatives.

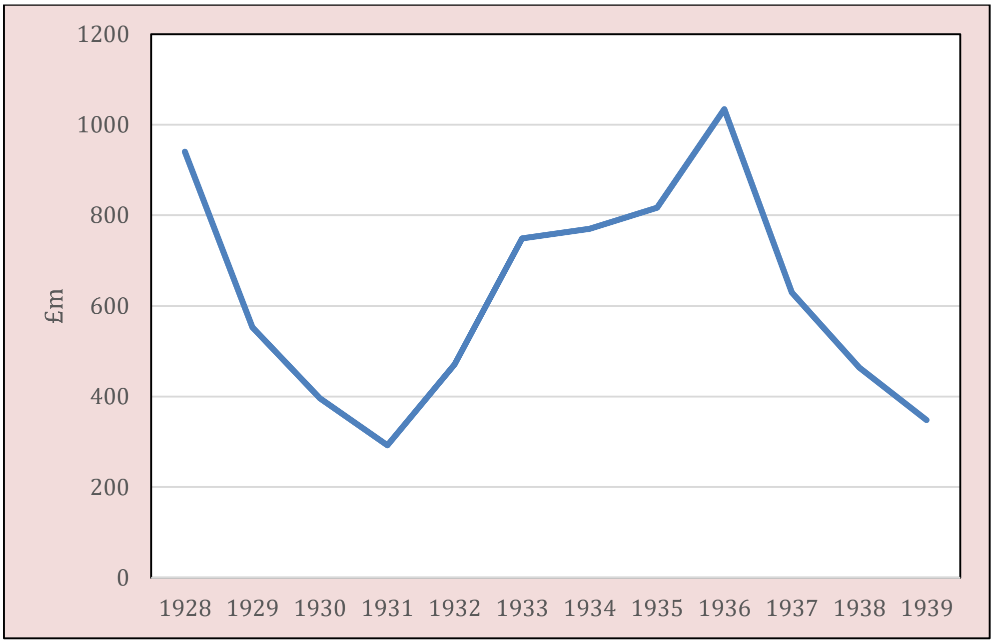
Activity and incomes

Stock Exchange activity did not return to the levels enjoyed during 1927 and 1928. Indeed, a number of developments ensured that overall activity was depressed for a number of years. The economic malaise that had contributed to the decline of the market during 1929 was to continue, and was reinforced by similar experience overseas. The Wall Street crash in October 1929 served to reduce United States interest in the London market, and the international financial crisis of 1931, which led to a political crisis in London and a change of government, delayed the possibility of recovery.

Moreover, as the decline in overseas economic activity continued, so the number of international fixed interest loans being launched also declined and the competition among merchant and investment banks to launch such loans increased. One consequence was that merchant banks in London became more interested in public offerings of industrial and commercial shares and challenged stockbrokers who had been establishing themselves in this business.

As in earlier years, reliable data about levels of activity are not available.

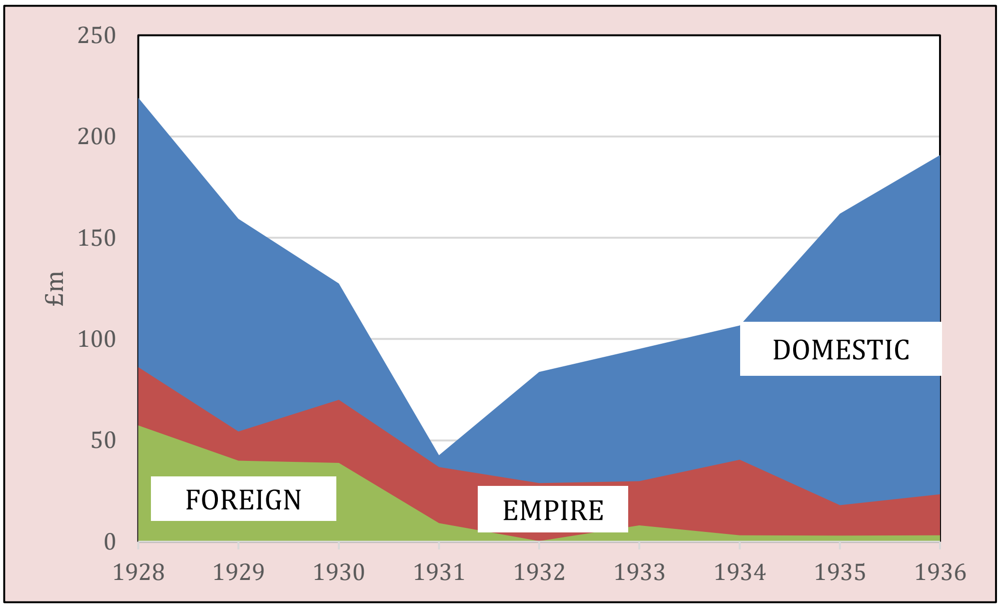
Chart 8.1: Estimated value of dutiable Stock Exchange transactions 1928–1939[602]



A similar pattern is shown by data for new issues:

[602] Paukert (1961); page 304. The limitations to which these data are subject are explained in Chapter 4.

Chart 8.2: New capital issues of the United Kingdom 1928–1936[603]



In short, the increase in Empire and overseas stocks, which in the early 1920s had served to counter the disappointing trend in domestic activity, was not a sufficient counter weight in the 1930s.

The effect on members' incomes, which were largely based on commissions, was inevitable, especially when the level of Exchange activity declined markedly after the boom year of 1936:

603 Grant (1937); page 134.

Table 8.1: Data from tax assessments for brokers and jobbers 1909–1938[604]

	1909	*1927*	*1932*	*1936*	*1937*	*1938*
Net true income for all stockbrokers and jobbers (£)(current prices)	9,450,000	15,540,000	12,370,000	15,720,000	3,520,000	170,000
Average gross income per assessment (£)(current prices)	2,750	5,500	4,800	6.200	1,850	100
Net true income for all stockbrokers and jobbers (£)(deflated prices)(1909=100)	9,450,000	8,202,000	7,254,000	9,334,000	2,014,000	96.000
Average gross income per assessment (£)(deflated prices)(1909=100)	2,750	8,202	2,815	3,981	1,059	57

For the Exchange's relationship with members, the consequence was that there was sustained pressure from smaller members to limit their costs and to resist all competitive pressures that appeared to them to challenge their business. Some issues that had previously been contentious, such as the size of the membership, proved untroublesome. This was hardly surprising in view of the disappointing level of members' income which tended to reduce the attractiveness of membership and the pressure to admit new members.

Other matters remained contentious. Although members agreed to support the compensation scheme that settled outstanding Hatry-related bargains after the crash in September 1929, when a permanent scheme was proposed in the first draft report of the subsequent Stock Exchange inquiry, it did not proceed. Such ideas were opposed by jobbers who did not of course deal directly with members of the public and by those brokers who were cautious in their dealings with the public and resented any suggestion that they should compensate the clients of fellow members who were not so conservative. Proposals for creation of a compensation scheme were to be brought back on several occasions; but the additional costs involved (estimated to be of the order of £20,000 per annum) were not welcomed. Eventually, in the face of public reaction, creation of a compensation fund was accepted in 1938, partly as a way of distinguishing between brokers who were members of the London Stock Exchange

604 Worswick and Tipping (1967); pages 99 et seq.

and those who were not. Participation in the scheme was to be voluntary for existing members but compulsory for new members. Although accepted in principle, the scheme had not been implemented by the onset of war in 1939.[605]

Just as the creation of a permanent compensation scheme remained contentious, so did the question of relationships with provincial exchanges. In the immediate aftermath of the crash of September 1929, members had accepted the participation of provincial brokers in the compensation scheme; they were not prepared, however, to go further in the spring of 1930 when the provincial exchanges sought assistance with the losses that their members had suffered as a result of Hatry's share price support machinations. Throughout the 1930s, members resisted suggestions that provincial brokers might be granted direct access to London jobbers: provincial brokers were required to approach the London market through London brokers. Presumably members calculated that denial of direct access would not affect their business unduly in view of London's advantage as the only market where large sales and purchases could be done quickly with a minimal risk of affecting the market price. In practice, provincial brokers increasingly tended to trade between themselves without going through London: a trend that was encouraged in 1931 by the extension to provincial jobbers of the concessionary rate of stamp duty that had been enjoyed by London jobbers since 1920.[606] With the growing use of the telephone and telegraphs, it became possible for jobbers such as JW Nicholson & Son of Sheffield to deal with members from all provincial exchanges and thus to distract a substantial amount of business from London.

By 1939, the scale of this business was sufficiently recognised by London members for them to support negotiations with the provincial exchanges in an attempt to contain the rivalry. London's aim was to stop provincial jobbing in securities that were listed in the London market. The provincial exchanges were prepared to sacrifice the provincial jobbers: after all they only provided an alternative to London for a restricted range of securities. In return they wanted either direct access to London jobbers or big reductions in the fixed rate of commission charged by London brokers for passing business to the jobbers. This proved to be too much for London members so that the compromise that emerged provided only limited

---

605 Stock Exchange Committee minutes; 1 February 1937; 28 June 1937; 23 May 1938; 13 July 1938. Stock Exchange Archive; Guildhall Library.

606 From August 1920, London jobbers enjoyed a concession by which stamp duty was charged at a nominal rate of ten shillings per transaction on all stock held for less than two months, rather than 1% on all sales and purchases.

relief for both parties although the provincial exchanges agreed to enforce single capacity, preventing a country jobber from making a market for anyone but a broker. In the event, the compromise was short-lived and did not survive the onset of war in September 1939.[607]

Determination on the part of a majority of members to deny direct access to provincial brokers and other non-member brokers was accompanied by antipathy towards the sharing of commissions, and, in particular, the sharing of commissions with brokers such as the London offices of American brokers. Although some of these offices had been closed in the wake of the Wall Street crash in October 1929, a number remained and were joined by others.[608] In the face of the fixed commission rates that could not be shared with them, their business was directed abroad which led to a warning from a number of London firms involved in American securities:

> *'If we . . . discontinue the street market and cease dealing at 4 o'clock, a very considerable amount of the American business would be lost to the Stock Exchange members, and as a consequence, be driven into the hands of the outside houses, more particularly to the American firms who have established their own offices in London, or else the public would deal direct with New York. There is no doubt that that this is already being done to a certain extent, but it would undoubtedly be greatly increased if there were no street market.'*[609]

Brokers in other countries acted similarly as de Zoete & Gordon pointed out in 1934 in the case of French clients:

> *'Our clients say quite frankly that they want to put the business through the Stock Exchange but that they feel if this rate is to be maintained, they will not be able to do so on further occasions.'*[610]

There was to be no weakening in such cases. Fixed commission rates were to be maintained and not shared: presumably through fear that a compromise would have encouraged the re-routing through overseas brokers of what would otherwise have been domestic business or demands for lower rates of commission for domestic business.

---

607 Conference between representatives of the London Stock Exchange Committee and the Council of Associated Stock Exchanges; 14–16 June 1939. Stock Exchange Committee minutes; 17 April 1939; 26 June 1939. 14 August 1939. Stock Exchange Archive; Guildhall Library.

608 Saint Phalle and Harvey Fisk closed. Fenner, Bean & Untergleide opened an office in London in 1932 as did Batsell & Company in 1933.

609 Stock Exchange Committee minutes; 17 October 1932. Stock Exchange Archive; Guildhall Library.

610 Stock Exchange Committee minutes; 9 April 1934. Stock Exchange Archive; Guildhall Library.

Some relief from this determination to sustain fixed commission rates was however granted in November 1930 in response to an appeal by Grumbar & See, acting on behalf of 63 firms involved in arbitrage business:

> *' . . . in view of the small margin of profit obtainable at present on arbitrage operations, those houses will not be able to afford to pay the full scale of commissions and that an important shrinkage in the volume of business which this class of operation brings to the exchange is bound to result . . .*
>
> *'We know that many big transactions take place between one outside house and another, and also that business is taken to such Houses direct without going to the Stock Exchange. The margin on which this class of business is transacted is in most cases so small that the full commissions will force outside Houses still more to deal between themselves.'*[611]

In this case, where simultaneous buying and selling was taking place, leading effectively to a balancing of commissions, a lower rate was permitted.

In parallel, members also sought to limit the sharing of commissions more generally: spurred by the collapse in business following the 1929 crash. In 1932, a survey of brokers showed that between 1927 and 1929 the net profit earned by a broker had represented about 43% of commission income after taking account of commissions returned to business introducers, 26%, and wages and office expenses, 31%. Between 1930 and 1932, the net profit percentage had fallen to 22%, after taking account of commissions returned to introducers that had remained almost unchanged at 27% and office expenses which had risen to 51%. As it was difficult to reduce staff costs and office expenses materially, attention was concentrated upon reducing the commission returned to introducers such as banks and others.[612] Although the banks were a principal focus for the campaign to reduce commission sharing, there was a marked reluctance to take action against them because their connections were seen to be highly valuable for stockbrokers:

> *' . . . by virtue of the fact that there are few towns of any importance in the British Isles which have not a bank, or a branch of a bank, the banks are in a position to*

611 Stock Exchange Committee minutes; 17 November 1930. Stock Exchange Archive; Guildhall Library.

612 Stock Exchange Committee minutes; 23 May 1932. Stock Exchange Archive; Guildhall Library.

> *institute business from the very small capitalists in every part of the country who have no means of getting in touch with stockbrokers . . .'*[613]

What is more, the banks made clear that they would resist any attempt to reduce their share of commissions: possibly bypassing the Exchange altogether.[614]

The eventual outcome of this campaign was that a list was to be drawn up by the Exchange of all those who were to be entitled to share commissions. Two categories of recipient were to be identified: banks and related financial institutions, which were to be entitled to a rebate of 50% (as before); and others, such as solicitors and accountants, who were to be entitled to a smaller rebate of one-third (reduced from 50%). The new rates and rules were approved in October 1932 and were in effect by February 1933.[615] Once the list had been created, the Exchange was able to regulate the addition of new names to the list, as was to happen in 1937 when a large number of country brokers applied for addition to the list of intermediaries entitled to receive the higher rate of rebate (50%). Of the 279 applicants, 121 were rejected on the grounds that their business was not substantial. Casual operators were to be discouraged.[616]

This was not the end of the matter, however. Smaller members remained vigilant to ensure that the rules on commissions were not undermined by informal arrangements with the result that the matter was again referred to the committee in December 1938.[617] On this occasion, the issue was not resolved before the onset of war.

In general, loopholes in the commission rules were closed and the freedom to vary fees was gradually reduced. Whilst this reduced the freedom of members, especially the freedom of larger, better-established members to compete on price with smaller members, it also reduced the ability of the Exchange to compete for business with other exchanges on price at both ends of the scale. In effect, the Exchange was deciding not to compete with others on grounds of

---

[613] Stock Exchange Committee minutes; 18 January 1932. Stock Exchange Archive; Guildhall Library.
[614] Stock Exchange Committee minutes; 17 November 1930. Stock Exchange Archive; Guildhall Library.
[615] Stock Exchange Committee minutes; 17 October 1932. Stock Exchange Archive; Guildhall Library.
[616] Stock Exchange Committee minutes; 15 April 1937; 20 May 1937. Stock Exchange Archive; Guildhall Library.
[617] Stock Exchange Committee minutes; 19 December 1938. Stock Exchange Archive; Guildhall Library.

price. Whilst Cazenove believed that fixed commission rates led some larger investors to bypass the Exchange, the business of small investors was also being lost. For example, the Post Office charged less for buying and selling War Loan and Consols.[618] It was later to be argued that whilst price competition had been ruled out, the Exchange still competed: but on grounds of the quality of service. The difficulty was that clients were not able to assess readily the quality of the service being provided. Whilst clients knew whether a buy or sell order had been implemented in a reasonable time, they could not tell readily whether the price of any deal was the best available in the market. Moreover, the quality of such advice as was given would often not become apparent until long after the event. For much of the 1930s, the fact that business was bypassing the Exchange mattered less to members than the protection from competition that they felt was afforded by fixed rates. In short, in prosecuting their business, many members came to rely more upon defences created by the Stock Exchange's rules than upon vigorous competition.

The same defensive tendency can be seen in the Exchange's reactions to members' attempts to develop new lines of business such as unit trusts. The first unit trust was launched in the UK in 1931 by Municipal & General Securities Limited, later M&G, under the inspiration of Ian Fairbairn, a member of the Exchange.[619] The rationale behind the launch was to emulate the comparative robustness of US mutual funds through the 1929 Wall Street crash and to take advantage of the public's reaction against investment trusts following the crash in 1929.[620] The first trust, called the 'First British Fixed Trust', held the shares of 24 leading companies in a fixed portfolio that was not changed for the fixed lifespan of 20 years. The trust was re-launched as the M&G General Trust and later renamed as the Blue Chip Fund and wound up in 1951 at the end of its fixed life.

Attempts were made to persuade the Exchange to permit dealings in the units of the trust, which were rebuffed:

---

618 The minimum charge made by a stockbroker was ten shillings. The equivalent Post Office charge was of the order of five shillings.

619 He had been a noted rower and was the runner up in the Silver Goblets at Henley in 1920 in a coxless pair with Bruce Logan, who had been Hatry's insurance broking partner in Patmore, Logan and Hatry Limited.

620 Investors in closed end funds such as investment trusts suffered badly after the 1929 crash because the value of investment trust shares fell faster than the shares in which they had invested as the pressure from investors to sell their shares led to greater discounts against asset prices. Gleeson (1981); page 23.

> *' . . . the conclusion reached in the early part of the year 1934 was that, for the time being at any rate, it was not desirable to provide a market on the Stock Exchange for the units and sub-units of Fixed Trusts, or to take any official cognisance of the movement. After this date, however, the Fixed Trust "birth-rate" rose so steeply that the Stock Exchange felt itself constrained to make a further investigation of the position, mainly with a view to determining whether it lay in its power to guard the public from exploitation by affording a market restricted to the units and sub-units of such Fixed Trusts as might conform to standards set up by the Stock Exchange for the protection of the investor.'*[621]

This further investigation also ended with rejection because of concern that the prices of units might be manipulated by the respective unit trust managers. Of course, securities called units had long proved troublesome. James White's application for permission to deal in the units of DA Trust Pool Limited in November 1919[622] and the street selling of so-called units in Ford Motor Company in 1925 are merely two examples. In this light, the Exchange's wariness may well have been understandable at a time when, in the aftermath of the Hatry crash, the Exchange was attempting to safeguard its reputation. Yet in hindsight, the decision not to permit dealing in the new units may have been regrettable for it denied access to the market for a new development that promised to address the public's interest in investment. The decision was unwelcome at the time, for the Stock Exchange's fresh consideration of the issue had been in part a response to suggestions made in The Economist,[623] which greeted the Exchange's announcement with heavy sarcasm:

> *'The Stock Exchange authorities, after an inquiry lasting many months, have decided that the fixed trust question is too important and complex for treatment under any auspices less powerful than the State itself . . .'*[624]

On this occasion, the Exchange's wish was granted, for the Board of Trade responded quickly by appointing a departmental committee chaired by Sir Alan Anderson[625] which reported in August 1936.[626]

Similarly, when in 1932 and 1936 members sought permission to create branch offices as a means of serving that same public interest in investment, the Exchange denied permission.[627]

---

621 Stock Exchange minutes; 16 March 1936.
622 Application for permission file; Stock Exchange Archive; Guildhall Library.
623 *The Economist*; 6 April 1935; pages 795–796.
624 *The Economist*; 7 March 1936; pages 530–531.
625 MP for the City of London, 1935–1940; and Chairman of the Orient Steam Navigation Company.
626 Anderson report (1936).
627 Michie (1999); page 205.

As a result, the Exchange's members did not develop retail business as members of the New York Stock Exchange had done, preferring to leave that business to banks, confident that the banks would combine their customer's many individual transactions and then deal through the Exchange, taking advantage of the well-established commission-sharing arrangements.

Indeed, throughout the 1930s, the Exchange tried to preserve all of its rules on the conduct of business: most importantly the rule that denied membership to corporate entities. When in 1934, the committee became aware that Foster & Braithwaite had for some years been using a nominee company to hold shares on behalf of clients, approval for the practice to continue was only granted after the committee had been assured that the device was a precursor to converting the firm into an incorporated company.[628] This was not the end of the matter, however. Later in 1934, Frisby Brothers, brokers who specialised in rubber shares, sought permission to convert into an unlimited company to avoid the tax disadvantages of trading as a partnership. In essence, the disadvantage arose from the treatment of the profits of a partnership as the income of the individual partners: i.e. as if all of the annual profit were distributed. They thus attracted liabilities to Income Tax and Super Tax immediately. In contrast, the profits of a company would only be treated as the income of the participators to the extent that they had been distributed. To the extent that such profits were not distributed, they did not attract a liability to Super Tax in the participators' hands. Members continued to campaign for a change in the Rule that was eventually agreed in principle in January 1939 and in detail in April 1939. Members were to be allowed to register as private unlimited liability companies for tax reasons, a decision which the Committee regarded as maintaining the Rule denying membership to corporations:

> *'From the point of view of the Stock Exchange, the carrying on of business as a private unlimited liability company is for all practical purposes indistinguishable from the present practice of carrying on business in partnership.'*[629]

The Committee's consistent stance was to oppose changes that might allow corporate entities, including banks, to gain access to membership and changes that might permit the development of large, well-capitalised broking or jobbing firms. In this way, the Exchange had become defensive. It was determined to use its control over the Rules to defend the interest of

---

628 Stock Exchange Committee minutes; 24 September 1934; 15 October 1934; 22 October 1934. Stock Exchange Archive; Guildhall Library.

629 Stock Exchange Committee minutes; 9 January 1939; 3 March 1939; 6 January 1939; 3 April 1939. Stock Exchange Archive; Guildhall Library.

the membership: with the result that sustaining that control became even more important than it had ever been. It cannot have been a coincidence that in 1939 the Committee was prepared to consider relaxation of the rule on incorporation and to enter discussions with provincial stock exchanges about the rivalry that had led to business bypassing the Exchange.[630] After all, these modifications to the Exchange's normal stance occurred at a time when members had seen their incomes (and thus cash flow) fall materially after what may have been a peak in 1935/6, but would still have been required to make cash payments to clear Income and Super Tax liabilities arising from the higher profits in previous years.[631] The principal difficulties for the Exchange lay in discerning the direction of events and where lay the long-term interest of members.

Throughout these years, the polarisation of members and firms continued as the influence of corporate and institutional investors increased and some firms concentrated on their business. The experience of Phillips & Drew exemplifies this process. Before 1936, Phillips & Drew was 'a smaller firm without institutional connections'.[632] In March 1936, the firm recruited a new partner, Sidney Perry, who was an actuary with another firm of brokers, David A Bevan & Company, with a view to building a team to develop business with insurance companies. He in turn recruited two accountants, Lionel Potter and Charles Locatelli, and another actuary, Denis Weaver. Together this team developed a successful business in advising life insurance companies on gilt-switching:

> *'At this time we had a piece of luck that had an important influence on our development. Perry had among his private clients an actuary named CW Sanger. He had recently moved from the Eagle Star to the Royal London Mutual [another insurance company] and found himself in charge of the investments, an area in which he had little experience. The Royal London investments had not enjoyed any active supervision, new money being largely placed on underwriting terms with the issue of the moment and then left there. Sanger turned to Perry for help. We were given a full list of investments, and any suggestions we made for improvements were sympathetically considered.'*[633]

By 1939, the business generated by Perry's team dominated Phillips & Drew.

[630] This had led to public comment: 'By-passing the Exchange'; *The Economist*; 12 February 1938; page 346.
[631] Liabilities in respect of Schedule D Cases I and II were payable between 18 and 24 months after the year in which the profits arose.
[632] Reader and Kynaston (1998); page 17.
[633] Weaver's words quoted in Reader and Kynaston (1998); page 23.

New issues

The process of polarisation was spurred by the developing character of the new issues market.

Although after 1929 there was a period during which the level of domestic new issues fell, in 1932 the number and value of new issues began to rise again and this continued. In one respect, the character of new issues changed since the action taken by the Exchange in 1930 discouraged the weakly underwritten issues that had been a prominent feature of the 1928 boom; but the underlying trends which had encouraged business owners to seek a public listing for shares continued:

> *'A further analysis . . . discloses the fact that the greater part of the capital raised for home industry through the new issues market is absorbed by buying out existing owners. The public provides the vendors with cash, acquired the assets, but more often than not leaves the original owners in control. In effect, a great number of capital flotations are the capitalisation at an enhanced figure of industrial profits which have been accumulated by private concerns and reinvested therein over a period of years.'*[634]

In his study of the capital market, Grant reached a similar conclusion:

> *' . . . the Stock Exchange is primarily an institution for imparting marketability to securities; only very secondarily is it an institution for providing new money for enterprise'*[635]

In the 1930s, the factors that led business owners to seek a listing were expanded by the influence of tax legislation.

At the end of the 1914–1918 war, retention of profits within a company had provided a means of mitigating the full effect of the very high rates of personal taxation. A company was taxed on its profit at the standard rate of Income Tax, whereas an individual was liable to pay not only the standard rate of Income Tax but also Super Tax: but only on the income that had been received including any dividends. Thus, if a company did not declare a dividend, a liability to Super Tax would not arise. To discourage this practice, with effect from 1922, the Special Commissioners of Income Tax had been given the power to direct a company that had not been paying 'reasonable' dividends to pay the tax the shareholders would have had to pay as

---

[634] Cole (1935); page 134. The essay cited was a study of 'Recent Capital Issues' by a group of Cambridge economists.
[635] Grant (1937); page 128.

Income Tax and Super Tax had such 'reasonable' dividends been declared.[636] In assessing what was reasonable account was to be taken not only of the current requirements of the business but also of:

> *' . . such other requirements as may be necessary or advisable for the maintenance and development of the business.'*[637]

This provision was amended in 1927 to exempt a company if its shares were traded on a stock exchange and there was a substantial public holding of the shares, which was defined as not less than 25% of the shareholders' voting power (excluding all shares entitled to a fixed rate of interest).[638] As the effect of the charge introduced by the Finance Act 1922 was to increase the effective rate of tax on corporate profits and thus to reduce funds on which managers tended to call first to finance investment, the exemption introduced in 1927 was a strong inducement for companies to seek a quotation on a stock exchange. That this inducement was potent is demonstrated by the experience of Morris Motors which had become a publicly traded company in 1926. William Morris had retained all of the ordinary shares when the company was first listed and followed a policy of retaining profits so as to develop the business. The company was therefore vulnerable to a Super Tax direction which in due course it received in respect of the tax years 1922, 1923, 1927 and 1928. The directions were upheld against legal attack and Morris decided to begin placing his own equity on the market.[639]

This encouragement to business owners to seek a quotation was supported by another: an amendment to Estate Duty legislation. From 1930, for Estate Duty purposes, if a company's equity were traded on a recognised stock exchange the shares would be valued by reference to the stock market price during the year before death. Otherwise the shares would be valued by reference to an estimate of the value of the company's net assets.[640] In cases where there was a dominant shareholder, it was likely that valuation on the basis of stock market prices would be advantageous to the estate since the market would incorporate a minority discount reflecting the fact that the dominant shareholder's shares were withheld from the market. This

636 Section 21(6); Finance Act 1922.
637 Section 21(1); Finance Act 1922.
638 Section 31(3); Finance Act 1927.
639 Cheffins (2008); page 260. Andrews et al (1955); page 174.
640 Section 37(1); Finance Act 1930. The effect of this provision was to bring to an end disputes over application of section 7(5) of the Finance Act 1894 which provided that property should be valued at the price it would have fetched if sold in the open market at the time of death. The varying interpretations of the section are described in Baynes (1966); page 33 et seq.

basis also had the advantage of avoiding the risks attached to agreeing a net asset valuation with the Inland Revenue.[641]

One further change to tax legislation in the 1930s increased the propensity of business owners to seek a quotation for shares. To assist in financing rearmament, in 1937 a National Defence Contribution was introduced for a period of five years as a flat charge of 5% of all profits of an incorporated business and 4% of all profits of an unincorporated business.[642] It had originally been proposed that the charge should be a graduated tax on any increase in profits compared with the average profits of 1933–35, but this proposal had been abandoned in the face of strong opposition.[643] As the introduction of this new charge was followed in 1938 by the end of a period of economic recovery and a reduction in company profits, corporate cash flow became negative. The result was increased pressure on business owners to realise their equity.[644]

For all of these reasons, there was increased interest on the part of business owners in seeking quotations for their companies' shares, an interest which was matched by increasing interest on the part of potential investors. In part, investors were driven to investment in equities by disappointing returns on gilt-edged securities:

> *'The fall of the pound in September 1932 in due course made possible a sensational reduction in money rates in Great Britain. After a short interregnum of dear money, Bank Rate was reduced by stages to 2 per cent. The fall in short money rates was duly followed by the conversion of £2000 million of War Loan from a 5 to a 3 ½ per cent basis. This was the precursor of other Government conversion operations, and these exerted a powerful influence on the general level of long-term rates of interest . . .*
>
> *'Thus from the end of 1932 onwards, the low yields on gilt-edged led investors to turn to new fields in the search for openings bringing in a larger return. The new issue market begins to revive . . .'*[645]

The effect of the government's cheap money policy was keenly felt by insurance companies. Many life policies were designed on the basis of an assumed interest rate of 3% so that bonus distributions of 'profits' required investment yields (net of tax) to exceed this. Alternatively, if policy funds were entirely invested in gilt-edged stocks that by 1936 were yielding less than

641 Rubner (1996); page 125.
642 Section 19; Finance Act 1937.
643 Daunton (2002); pages 172–173. Peden (2004); page 127.
644 Cheffins et al (2007); page 789. Hart (1965); page 21.
645 Grant (1937); page 148.

3%, a life assurance company would be incurring a loss. In 1935, a review of life insurance observed:

> *'A life office which invests in British Government securities at present prices, is heading for insolvency.'*[646]

In contrast, there was a good market in corporate securities offering substantially higher yields, so that many insurance companies decided that they were obliged to invest in them. The result was that, as shown in Table 8.2, life assurance companies generally reduced the proportion of their funds invested in gilt-edged securities, having increased it following the crash of 1929, and increased the proportion invested in corporate securities. Taking account of the increase in the funds available to life assurance companies, this meant that their annual net investment in corporate securities in the mid-1930s exceeded the levels experienced in 1927 and 1928.

Table 8.2 : Percentage distribution of net life assurance company investment 1927–1937[647]

	Brit. govt.	*Foreign & colonial govt.*	*UK local govt.*	*Total corp. secs*	*Mtges and loans*	*Land, property*	*Others*	*Total*	*All new issues*	*Insce invt in corp secs*
	%	*%*	*%*	*%*	*%*	*%*	*%*	*£m*	*£m*	*£m*
1927	*-19.7*	*8.0*	*13.1*	*54.9*	*36.6*	*1.8*	*5.3*	60.45	355.2	33.2
1928	*-26.2*	*26.6*	*0.6*	*72.2*	*33.7*	*2.8*	*0.4*	56.38	369.1	40.7
1929	*-35.0*	*6.7*	*0.3*	*68.6*	*54.8*	*2.3*	*2.4*	58.67	285.2	40.2
1930	*-5.4*	*4.4*	*5.6*	*89.7*	*3.0*	*4.9*	*-2.2*	39.22	267.8	35.1
1931	*54.5*	*-2.9*	*4.3*	*21.9*	*1.5*	*6.4*	*14.3*	45.65	102.1	9.9
1932	*55.5*	*-0.7*	*12.5*	*-3.8*	*21.4*	*5.5*	*9.7*	45.28	188.9	-1.7
1933	*68.2*	*14.7*	*25.4*	*27.7*	*-34.6*	*7.1*	*-8.5*	60.72	244.8	16.8
1934	*28.4*	*9.3*	*8.9*	*47.9*	*-3.2*	*7.0*	*1.8*	65.12	169.2	31.2
1935	*1.0*	*3.2*	*14.6*	*69.6*	*-1.8*	*11.0*	*2.4*	66.90	236.1	46.6
1936	*5.5*	*2.3*	*14.3*	*56.2*	*14.2*	*10.8*	*-3.2*	77.75	255.7	43.6
1937	*8.8*	*-2.6*	*10.4*	*57.9*	*8.9*	*6.3*	*10.4*	75.56	251.6	43.7

This tendency to look for domestic new issues was reinforced by discouragement of investment in overseas securities. In the 1930s, the Treasury encouraged discrimination against capital-raising from countries that were not part of the 'sterling area', a group of

646 *Banker's Magazine* (1935); page 347.
647 Table in Scott (2002); page 85.

countries who deemed it prudent to link their currencies to sterling in view of their connections to Britain.[648]

Although the largest insurance companies invested directly in corporate securities, some smaller companies preferred to invest through investment trusts as a way of employing external expertise. Scott (2002) cites the examples of Clerical Medical, which in 1930 set up its own investment trust with the assistance of Robert Fleming & Sons, which in 1934 formed Equity & Law Investment Trust as a wholly owned subsidiary.

More generally, investment trusts were also growing in numbers and strength, although the funds which they invested were much smaller than those of insurance companies.[649]

The interest of insurance companies and investment trusts in corporate securities led to an increasing interest in issues of governance:

> *'Institutional investors began to negotiate collectively with issuers of securities and their merchant banks regarding securities restructurings. The term for this activity was "investment protection". In 1932, the British Insurance Association established an Investment Protection Committee. Also in 1932, the Association of Investment Trusts (AIT) was established with the primary purpose of coordinating investment protection by investment trusts.'*[650]

Finally, the pressures that had led life assurance companies to consider investment in corporate securities were leading pension funds to consider a change in policy. Avrahampour (2015) cites the case of the Imperial Tobacco pension fund which had been created in 1929 following the merger of 13 British tobacco firms:

> *'At the pension fund's inception, Imperial Tobacco committed to a 5 per cent interest guarantee. This guaranteed rate, around 1 per cent higher than government bond yields, reflects the adoption of an aggressive investment policy that attempted to cheapen pension provision for Imperial Tobacco. However, low interest rates in the inter-war and early post-war periods caused the yield of the pension fund's assets to fall below 5 per cent, triggering the need for additional sponsor contributions at each quinquennial actuarial valuation. In the attempt to procure a yield that could meet the sponsor guarantee, the portfolio had been diversified into corporate securities.*

648 Ellinger (1940); pages 322–326. Cain (1996); page 336.
649 Cheffins (2008); page 269.
650 Avrahampour (2015); page 287.

> *From 1933 there was a declining allocation to UK government bonds, known as gilts, and an increasing investment in corporate bonds, preference shares, and equities.'*[651]

Adoption of more active investment policies by pension funds was slowed, however, by the fact that many trust deeds did not include powers to invest in equities.

Apart from encouraging interest in new domestic issues, the combined effect reinforced the tendency of a number of issuing houses and stockbrokers to dominate the market. Business owners deciding to seek a quotation did not necessarily wish to cede control of their family's business. Normally, the Stock Exchange required that two-thirds of a company's shares should be distributed to the public. However, this rule did not apply to applications for permission to deal following, for example, private placements which had the added advantage of being relatively inexpensive. This option was therefore attractive for business owners who wanted their company's shares to be quoted but did not want to cede control.[652] Placements and introductions were attractive to vendors because they avoided some of the fixed costs of a formal issue and thus provided a relatively inexpensive way of raising money:

> *' . . . in issues of comparatively small amount, the cost of a public prospectus or offer for sale, if not prohibitive, is a very serious charge. While underwriting, commissions, brokerage and some other expenses are automatically adjusted to the amount of the issue, being fixed percentages; other expenses, particularly advertising, are not so easily adjusted.'*[653]

A private placement required that the issuing house and stockbroker involved should have a network of contacts with prospective investors, not least institutional investors, and this in turn required a reputation for only being involved with sound and reliable undertakings and for offering fair terms to investors. This led to issuing houses and stockbrokers vetting prospective opportunities to test their standing, the capabilities of their management and the quality of their commercial prospects.[654]

The Exchange responded to this development by modifying the application of the Rules so that approval was conditional upon whether a prospectus or public offer had been published and whether the sponsoring brokers were able to confirm that the securities had been distributed as widely as possible. By this means, it was intended to limit the possibility that these more

---

651 Avrahampour (2015); page 293.
652 Cheffins (2008); page 299. Cole (1935); page 134.
653 Stock Exchange Committee minutes; 11 July 1935; Stock Exchange Archive; Guildhall Library.
654 Grant (1937); page 155. Ellinger (1940); page 289. Cutforth (1930); page 148.

private ways of raising finance might be abused either by denying an attractive offer to the market or by attracting subscriptions without a proper appreciation of the risks involved.

The result of these developments was that by 1938, the 'new-style' issuing houses predominated in the new issues market:

Table 8.3: New issues in 1938 (domestic commercial): top ten issuing houses ranked by total amount subscribed[655]

	Number of issues	*Total amount subscribed*		*Average size of issue £*
		£	*%age of total*	
Phillip Hill & Partners	5	9,500,000	*23.9*	1,900,000
Erlangers	4	3,222,000	*9.0*	805,500
Helbert, Wagg & Company	8	3,166,000	*8.0*	395,750
Power Securities Corporation	2	2,250,000	*5.7*	1,125,000
Robert Benson & Company	3	1,780,000	*4.5*	660,000
Lazard Brothers & Company	1	1,630,000	*4.1*	1,630,000
Morgan Grenfell	1	1,400,000	*3.5*	1,400,000
British Shareholders Trust	4	1,393,250	*3.5*	348,312
Ocean Trust	2	1,323,500	*3.3*	661,750
Investment Registry	7	1,042,000	*2.6*	148,857
	37	26,706,750	*68.1*	721,804
Others	67	13,094,371	*31.9*	195,438
	104	39,801,121	*100.0*	382,703

In 1928, the top ten issuing houses had managed only 30.6% of the new issues in that year. A similar concentration had continued among stockbrokers, although the information in the Issuing Houses Yearbook requires careful interpretation as more stockbrokers provided information for the yearbook in 1939.

[655] Based on information in the *Issuing Houses Yearbook* 1939 for domestic commercial new issues in 1938. Only lead issuing houses were taken into account.

Table 8.4: New issues in 1938 (domestic commercial): top five lead brokers ranked by total amount subscribed[656]

	Number of issues	*Total amount subscribed*		*Average size of issue £*
		£	*%age of total*	
Rowe Swan & Company	17	9,820,272	*24.6*	577,663
Cazenove	13	8,697,288	*21,8*	669,067
Joseph Sebag & Company	5	5,638,000	*14.3*	1,127,600
W Greenwell & Company	4	5,125,000	*12.9*	1,281,250
de Zoete & Gordon	7	3,281,494	*8.3*	468,784
	46	32,562,054	*89.1*	707,870
Others	58	7,239,067	*10.9*	124,821
	104	39,801,121	*100.0*	382,703

As a reflection of the importance of placements, the yearbook shows that in a significant number of cases the issues managed by these five brokers did not involve an issuing house:

Table 8.5: New issues in 1938 (domestic commercial): issues sponsored by top five lead brokers analysed by involvement of an issuing house[657]

	Issuing house involved		*No issuing house involved*	
	Number of issues	*Amount subscribed £*	*Number of issues*	*Amount subscribed £*
Rowe Swan & Company	5	4,775,000	12	5,045,272
Cazenove	8	5,927,288	5	2,770,000
Joseph Sebag & Company	4	5,600,000	1	38,000
W Greenwell & Company	0	0	4	5,125,000
de Zoete & Gordon	3	2,654,000	4	527,494
	20	18,956,288	26	13,505,766

The yearbook shows that, in addition to the five top firms, 39 firms each managed a single transaction. It also shows that a small number of firms specialised in managing very small issues for provincial utility companies (which are not included in the above figures).[658] None of the brokers that had handled weakly underwritten issues in 1928 appear in the 1939 yearbook.

Exclusion of these firms from sponsoring new issues had doubtless contributed to the impact of the 1930 reforms that were regarded as successful, as was claimed in 1946 by Harold

656 Based on information in the *Issuing Houses Yearbook* 1939 for domestic commercial new issues in 1938. Only lead issuing houses were taken into account.
657 Based on information in the *Issuing Houses Yearbook* 1939 for domestic commercial new issues in 1938. Only lead issuing houses were taken into account.
658 Notably Seymour, Pierce & Company; and Snell & Swaffield.

Wincott, the long-term editor of Investors' Chronicle that was responsible for many exposés of unattractive issues and promoters:

> *'. . . I would commend to you a study of the new issue boom of 1936 and 1937, as compared with the earlier booms I have mentioned. Of course, in 1936 and 1937, many rearmament companies were made the subject of public issues, and the fact that these companies were shortly afterwards geared to the effort of total war meant that prospectus estimates were often exceeded, whereas without the war matters might have gone the other way. Nevertheless, it remains true that there was a vast improvement in the quality of new issues made in the 1936/37 boom relative to those made in earlier booms, and that the proportion of the 1936/37 flotations which went wrong and cost investors the money they put up was only a tiny fraction of the whole. Part of this improvement was due to the new Companies Act of 1929; but I am sure that every reasonable authority will agree that most of the credit must go to the Stock Exchange authorities.'*[659]

Wincott's observation was confirmed by Chambers' analysis of survival rates for IPOs which showed a material improvement in five-year survival rates for IPOs between 1930 and 1938 compared with IPOs in the 1920s:

Table 8.6: Five-year survival rates by industry 1919–1938 (%)[660]

	All	*Foreign*	*New mfg*	*Trad mfg*	*Other mfg*	*Non-mfg*
1919-1920	*71*	*67*	*83*	*80*	*73*	*64*
1921-1926	*85*	*83*	*92*	*79*	*88*	*84*
1927-1929	*64*	*55*	*50*	*71*	*67*	*74*
1930-1933	*100*	*100*	*100*	*100*	*100*	*100*
1934-1938	*96*	*92*	*94*	*100*	*98*	*95*

Chambers attributes this improvement in survival rates to the action taken by the Exchange combined with a number of economic factors including tariff protection, collusion and rearmament spending.[661] He also suggests that the Exchange heeded the advice of the Macmillan Committee:

---

659 Wincott (1946); pages 128–129. Wincott's view was supported by the Cohen Committee which in several places commented favourably on the Exchange's diligence. Cohen Committee report (1945); page 14. Cheffins (2008); page 280.

660 Chambers (2010); page 58. The percentages quoted show the number of surviving firms divided by the total number of IPOs deducting those firms liquidated and acquired for value both from the numerator and the denominator.

661 Chambers (2010); pages 66–70.

> *' . . . that you cannot prevent a fool from his folly is no reason why you cannot give a prudent man guidance.'*[662]

Whilst the Exchange probably did take note of the Macmillan Committee's observation, it cannot have influenced the Exchange's change in approach as the changes in the rules and in the committee's practice occurred many months previously in 1930 in dealing with the crashes of 1929. The practical effect of these changes was that the committee began to reject or defer applications for permission to deal. As Chambers observes, between 1927 and 1929, the rejection rate had been 2%. Between 1934 and 1938, the rejection rate was 7%.[663]

In another paper, Chambers presents data which suggest that the degree of price volatility also fell after 1930.[664]

The Exchange sought to maintain the success of its changed approach firstly by modification of the rules on private placements and introductions, as explained above, but also later by tightening the disclosure requirements for holding companies. In February 1939, it was decided that permission to deal in the shares of holding companies would not be granted unless the company in question undertook to circulate consolidated balance sheets and profit and loss accounts to its shareholders. Although the new requirement only applied to new issues,[665] there was a general hope that the practice would be adopted voluntarily by others:

> *'. . . the official recognition of the principle that consolidated accounts are essential for shareholders may provide a precept for [all companies] to follow.'*[666]

This new requirement was advanced somewhat cautiously. As the Exchange later explained:

> *'. . . we do not want to be told that we are laying the law down and arrogating to ourselves rights we do not possess and so on and we have to be rather cautious.'*[667]

The Committee's caution is also evident from the disclosure in its annual report for the year to March 1939 that the statement on consolidated accounts had only been issued:

---

662 Macmillan report (1931).
663 Chambers (2010); page 69.
664 Chambers (2009); page 1423.
665 Five years later it was extended to all companies.
666 *The Economist*; 25 February 1939; page 402. *The Accountant*; 25 February 1939; page 246.
667 Evidence to the Cohen Committee: Question 6268. This point appears to have been made in recognition of criticism by the President of the Institute of Chartered Accountants that changes of this sort should be made by way of general legislation. *The Accountant*; 6 May 1939; page 608.

> *'. . . after searching investigation and consultation with interested parties to ensure that it would be effective in achieving its primary object – the better protection of the interests of the public.'*[668]

The initiative was effective not merely in improving the quality of disclosure in annual accounts but also in encouraging the involvement of the accounting profession in encouraging better disclosure. Before 1939, the Institute of Chartered Accountants had resisted all suggestions that it should issue guidance on the content and preparation of accounting statements, although a number of firms of accountants were known to have internal standards.[669] Publication by the Stock Exchange of a requirement for publication of consolidated accounts contributed to a nervousness on the part of the profession that its authority in matters of accounting may be challenged and thus to the creation in 1942 of the Institute's Taxation and Financial Relations Committee which comparatively quickly began to publish 'Recommendations on Accounting Principles'.

Off-market activity

As a perverse consequence of the Stock Exchange's action to exclude insubstantial company promotions, there was even more activity outside. It is no easier to estimate the extent of this activity in the 1930s than it is for earlier years. As before, one indication of the scale activity is that the number of reports of abuse in the columns of Money Market Review, Truth and John Bull increased materially again.

For example, in its 1 March 1930 edition, Money Market Review warned readers of the activities of Gilbert Lycett & Company who described themselves as 'stock and share brokers'. The business's technique was to gain the confidence of investors by recommending substantial shares such as Cunard and then to move on to less attractive securities such as Canadian Kevin Oils, which were being offered for sale in advance of the opening of a public market. Mention was also made of circulars produced by R Kenworthy & Company which was assumed to be connected to Gilbert Lycett & Company because the circulars seemed to be identical. Finally, a warning was issued in respect of Whitehall & Kingsway Investment Trust's circulars offering shares in New Age Patent Writing Ink Syndicate.[670]

---

[668] Bircher (1989); page 186.
[669] Cutforth (1934); page 13.
[670] *Money Market Review*; 1 March 1930; page 431.

Such warnings identified a series of allegedly bogus financial newspapers and circulars:

Table 8.7 Exposés of allegedly bogus financial newspapers and circulars 1930–1937[671]

Exposed by	*Date*	*Title of allegedly bogus financial newspaper or circular*
Money Market Review (i.e. Investors Chronicle)	18 January 1930	*Investment Service*
Money Market Review (i.e. Investors Chronicle)	18 January 1930	*Finance and Stock Exchange Observer*
Truth	29 January 1930	*Common Sense*
Truth	29 January 1930	*Money in the Making*
Truth	1 February 1930	*Stock Market Summary*
Truth	19 March 1930	*Finance (formerly City News)*
Money Market Review (i.e. Investors Chronicle)	5 April 1930	*Financial Telegraph*
Money Market Review (i.e. Investors Chronicle)	5 April 1930	*Financial Empire*
Money Market Review (i.e. Investors Chronicle)	18 October 1930	*Financial Chronicle*
Money Market Review (i.e. Investors Chronicle)	18 October 1930	*Motor Finance*
Money Market Review (i.e. Investors Chronicle)	18 October 1930	*The Stock and Shareholder*
Money Market Review (i.e. Investors Chronicle)	25 October 1930	*Stock Market Record*
Daily Mail	25 October 1930	*Financial Telegraph*
Daily Mail	25 October 1930	*Finance*
Money Market Review (i.e. Investors Chronicle)	15 November 1930	*Financial Observer*
Money Market Review (i.e. Investors Chronicle)	15 November 1930	*Stock Exchange Analyst*
Truth	10 June 1931	*Investment Facts*
Truth	2 September 1931	*Bankers Gazette*
Truth	2 September 1931	*Market Notes*
Truth	18 April 1934	*The Financial Guide*
Truth	14 August 1935	*Market News*
Truth	14 August 1935	*The Financial Forum & Investors Guide*
Truth	14 August 1935	*Financial Express*
Truth	15 April 1936	*Stock Exchange Times*
Financial Times	13 May 1936	*The Financial Press*
Financial News	25 November 1937	*The Shareholder*

Porter suggested it was likely that there were more such newspapers and circulars than Newman identified.[672]

[671] Table reproduced from Newman (1984); page 65.
[672] Porter (2006).

Exposés were helpful to daily newspapers that in the early 1930s found themselves in the midst of a circulation war, for their environment had also changed. They had come to depend to an increasing extent on the money they received from advertisements. Larger circulation meant higher advertising rates and hence more income. Each newspaper tried to attract readers by offering gifts of various sorts (e.g. silk stockings, encyclopaedias or sets of classic novels).[673] All titles competed to publish features that would appeal to readers, and for the Daily Mail, share-pusher exposés were especially interesting as they appealed to a readership that had sufficient resources to be interested in investment and which was thus attractive to advertisers.[674]

Matters came to a head in December 1935 with the hearing of a libel action against the Daily Mail. Maurice Singer and the Bank of London had both been named in a series of articles published by the Daily Mail during July and August 1934 that accused them of being fraudulent share-pushers. The first of these articles announced:

> *'The Daily Mail has to warn the public that an intensive share pushing campaign in this country by operators from across the Atlantic is now in preparation. Information from Montreal indicates that the nefarious share pusher Maurice Singer for long associated with Jacob Factor has become a naturalised Canadian and has been provided with a Canadian passport which entitles him to travel without let or hindrance in any part of the British Empire.'*[675]

Three days later, a further article stated:

> *'Maurice Singer, the notorious share-pusher, who has crossed the Atlantic for the express purpose of organizing a gigantic raid on the pockets of British investors, is still hesitating to set foot in England. He has been seen in Paris, where, with his trunks crammed with share boosting literature, he took a room at a fashionable hotel. His arrival coincided with the exposure in the Daily Mail and the Continental Daily Mail of his plans for foisting shares of his latest creation in Canada, the Associated Gold Mining and Finance Co. and of the Plymouth Gold Mining Co. Ltd. on the unsophisticated public.'*[676]

---

673 Taylor (1965); page 311.

674 The *Daily Mail's* circulation was under attack from the *Daily Express*. Surveys of readership in the 1930s show that the *Daily Express's* readership rose from about 1.1 million in 1930 to about 2.5 million in 1939, while the *Daily Mail's* circulation fell from about 1.8 million to about 1.5 million. The surveys also show that the Daily Mail's penetration of the more prosperous elements of the middle class was greater than the *Daily Express's.* Maintenance of the *Daily Mail's* claim to be the leading newspaper depended upon clear success among the middle classes. Jeffery et al (1987); page 27 et seq.

675 *Daily Mail*; 7 July 1934.

676 *Daily Mail;* 10 July 1934.

On the next day, yet another article asserted that:

> *'[Mr Singer] has established a share pushing organisation in the Dutch capital in the form of a branch of the so-called Bank of London. This concern is a bucket-shop of the worst description and must not on any account be confused with the Bank of London and South America Ltd, an institution of the highest repute.'*[677]

In suggesting a connection with Jacob Factor, the Daily Mail was reminding readers of another share-pushing scandal. In October 1930, the Court had heard an action brought by Revd Arthur Travis Faber and his wife against Tyler Wilson & Company Limited in which the plaintiff claimed damages for loss caused in 1928 by investing in shares on the basis of fraudulent misrepresentation.[678] It was claimed that the misrepresentations were made on behalf of Tyler Wilson & Company who claimed to be stockbrokers and that the name given by the person responsible was an alias for an American called Jacob Factor.[679] The outcome of the hearing was that damages were awarded to the plaintiffs.[680] Subsequently, charges were issued against Jacob Factor but could not be served as he was found to have left the country. Attempts were made to secure his extradition from Illinois but failed because of difficulties in establishing that the criminal code of Illinois recognised a crime that was equivalent to the charges issued in England[681] and because Factor could not be found before the warrant expired.[682] The result was that the charges against Factor had not been tried in the United Kingdom.

In its defence to the allegation of libel, the Daily Mail claimed 'justification': in other words, that the articles had been correct. As the judge put it in his summing up:

---

677 *Daily Mail*; 11 July 1934.

678 *The Times*; 28–31 October 1930. McConnell (1943).

679 Factor had been a share-pusher in the United States of America after the end of the 1914–1918 war. In 1924, backed by money provided by a criminal gang in New York, Factor travelled to England to make money through share-pushing. Allegedly, during this first visit, Factor made a profit of US$ 1.5 million. He returned in 1925, for a second share-pushing campaign, on this occasion using the name Tyler Wilson & Company. When his operation attracted press attention in 1930, he returned to the United States, by which point his accumulated profit is said to have amounted to US$ 8 million or £ 1.6 million. Tuohy (2001); page 132.

680 *The Times*; 31 October 1930; page 4.

681 Memorandum dated 23 April 1932 by Albert Robbins, an American lawyer. National Archives; files FO 115/3402; CAB 24/248/36; CAB 24/248/39.

682 It has been claimed that Factor arranged to be 'kidnapped' in Chicago when the warrant was about to expire. Tuohy (2001); page 140 et seq.

> *'What the jury had to consider was whether Mr Singer was a swindling share-pusher and whether the Bank of London was a swindling bucket-shop. That was the real sting of the libel.'*[683]

In short order, the jury found that Mr Singer was a 'swindling share-pusher' and that the Bank of London was a 'swindling bucket-shop'.[684] The Daily Mail was acquitted of the alleged libel and awarded costs.

Perhaps by coincidence, the verdict in the Singer libel case was reinforced in January 1936 in the hearing of an application by the Liquidator of Broad Street Press Limited, another of Jacob Factor's companies:

> *'. . . the Official Receiver [as liquidator] desired directions as to the disposition of a fund amounting substantially to £360,000, which was extracted from Jacob Factor in America. Counsel read an affidavit by the Official Receiver in which it was stated that Broad Street Press Limited, had by false representations sold large numbers of shares in various companies, and that the person responsible for the incorporation of Broad Street Press Limited and mainly responsible for its fraudulent activities was John (otherwise Jacob) Factor who had left England at the beginning of October 1930 and went to Chicago. An order for his extradition not having been executed within the prescribed time he was still in Chicago.*
>
> *'An agreement had been arrived at with Factor as a result of which the liquidator had received approximately £360,000.'*[685]

If the outcome of the Daily Mail libel action had left any doubt about Jacob Factor and his henchmen, it must have been dispelled by the fact that Factor had paid a substantial sum to the liquidator. From this point, if not before, it was evident that there had been a sustained attempt by internationally mobile fraudsters to take advantage of unsophisticated UK investors.

Conclusions

There are a number of similarities between the changing character of the market in the 1930s and in the 1920s. The search for expert advice and for alleviation of tax liabilities led many to invest through financial institutions, whether life assurance companies, investment trusts or pension funds. Vendors, finding it more difficult to finance investment by profit retention saw in the market a source of finance; but they also looked askance at the risk of speculation and

683 *The Times*; 18 December 1935; page 4.
684 *The Times*; 19 December 1935; page 4.
685 *The Times*; 25 January 1936; page 4.

the troublesome relationship with shareholders that many companies that had floated in 1919 and 1920 had experienced. They preferred to look for sustainable relationships. As in the 1920s, these trends encouraged the development of new issuing houses in substitution for the old-style promoters and were of prime importance to the Exchange because domestic corporate securities were becoming more significant as international business declined.

These developments validated the thrust of the Exchange's reforms in 1930 that had discouraged the most speculative issues and thus favoured greater stability, and supported the recovery in the mid-1930s of the level of activity. Unfortunately, they brought with them other consequences for members.

New institutional interest in investment in corporate securities and the growth of new issuing houses favouring stable relationships tended to concentrate the numbers of brokers involved in corporate business and diminished the role played by broker members. As institutional investors began to negotiate the terms of a new issue directly with the issuing house, so brokers were more likely to be seen as functionaries who facilitated transactions rather than as leaders who negotiated the terms of transactions. It was likely that the fees payable to brokers would be adjusted accordingly and there was, indeed, pressure to reduce rates of commission. The membership thus came to be even more polarised as the interests of the corporate business brokers continued to diverge from the interests of brokers concentrating on personal business.

Unable to compete with the changing character of the market and its demand for services, the smaller firms used their control of a majority of the members' votes to impede further changes to the rules. The perverse consequence was to encourage others to find ways of bypassing the Exchange whenever possible.

In many cases, it proved possible for business to bypass the Exchange without significant risk through, for example, the service provided by country jobbers such as JW Nicholson & Company of Sheffield. In other cases, however, the business that bypassed the Exchange was highly abusive. In short, one consequence of the Exchange reforming to avoid speculative issues was to expose many unsuspecting investors who shared a desire to improve the returns on their small holdings to abusive traders who operated in an unregulated space.

Members of the London Exchange had always assumed that, provided that they managed their own marketplace successfully, their control would not be threatened by whatever happened outside that market. This assumption was to be tested by the public outcry that grew from the scandalous activities of off-market traders and the apparent futility of existing arrangements for controlling them. This was the significance of the Broad Street Press libel action, which appeared to suggest that Jacob Factor and Maurice Singer had been able to make money almost beyond the dreams of avarice with impunity. In this context, the subsequent payment by Factor to eliminate any obligation to the liquidator not only confirmed the conclusion of the libel action but would have seemed insultingly small when compared with the profit that he had allegedly made.

It was inevitable that these events would lead to demands for action to control share trading and to a somewhat uncomfortable recognition for the Exchange that its unsupervised independence depended in part of society's success in regulating off-market activity, from which the Exchange had traditionally held itself aloof. If the Exchange were to preserve the independent, unsupervised position it had created for itself, it would have to explain why any new rules to control share trading generally should not apply equally to its members and marketplace.

CHAPTER NINE – 1930–1939 – REGULATING SHARE TRADING – PART II

Introduction

The outcome of the Broad Street Press libel trial was significant because it served to validate not only the campaigns of national newspapers such as the *Daily Mail* and the *Daily Express* but also the assertions of political commentators who criticised the financial institutions of the City, complaining that by permitting the misapplication of capital they were not serving the national interest. In the subsequent debate, the London Stock Exchange was to be embarrassed by the realisation of the threat posed by the unregulated market place because it had refused to broaden its responsibilities by accepting a proposal that it should be granted a Royal Charter, thus becoming the body to regulate all share traders.

There was a further significance in the Broad Street Press trial: the absence of Jacob Factor. Vindication of the *Daily Mail* suggested that crimes had been committed for which someone could have been prosecuted. Whilst there was no difficulty in identifying the principal suspect, Jacob Factor, the criminal justice system had been unable to apprehend him whilst in the country and all efforts to secure his return were to fail. Politically the matter was taken so seriously that attempts to extradite Factor from the United States were discussed twice in Cabinet.

Thus attention came to be focussed on the success of the criminal justice system in controlling or deterring share trading abuse.

Prosecutions

It was quickly recognised that the actions taken by the government in 1928 to 1929 in line with the Greene Committee's recommendations had not been successful. The report had proposed measures aimed at providing more information to the DPP and had suggested that prosecutions initiated on the basis of information provided by Board of Trade Inspectors should be conducted at the public's expense and not the shareholders'.[686] In practice, no additional funds were forthcoming.

Further, the committee proposed that door-to-door selling should be made an offence and that offers of shares should be accompanied by written statements of prescribed particulars.[687] Although implemented urgently in the Companies Act 1928, the proposed new offence proved ineffective because the offence was too rigidly defined. It could be avoided by a number of simple devices: one of which was already being used by many share-pushers. Mailing circulars to members of the public could not be construed as door-to-door selling and thus did not fall within the newly created offence. If a member of the public then responded to an invitation in a circular and in return received a call from a share-pusher it would not attract prosecution under the new offence for it was not unsolicited.

Alternatively, a caller who chose to visit houses in alternate streets or alternate villages would not strictly be selling door-to-door, and so would not have committed the new offence.

As a result there were few prosecutions under the new law.

The ineffectiveness of these measures was reflected in information provided to the Bodkin Committee that was later to be appointed by the Board of Trade in 1936 to inquire into share-pushing. The report, which appears to have been based on the registers maintained by the DPP, listed 29 cases which arose between January 1930 and the end of 1935. The list of cases is set out in Appendix One to this Chapter. Of those listed, only four cases that were brought to trial involved charges under the Companies Act 1929.[688] Moreover, in 16 of the remaining cases it had either been decided that no further action should be taken or trials had not commenced. In other words, between 1930 and 1935, a time when there had been growing public concern, only 13 cases had proceeded to trial.[689]

As the information provided to the Bodkin Committee did not cover subsequent years and because of the possibility that it may not have covered all of the cases brought against abusive

---

686 Greene Committee Report (1926); page 27.
687 Greene Committee Report (1926); pages 50–51.
688 Cases 38/30 (Cresset Trust); 7/33 (Herrick, Smithyes & White); 53/34 (Gilbert White & Company); and 268/35 (Period Investment Trust).
689 Attribution of the data to the Director's registers is suggested because the reference numbers quoted are similar to those in the Director's registers which are held in the National Archives.

company promoters and share-pushers (perhaps because of offenders being charged with other types of offence), a search was performed for this study of cases reported in newspapers.[690] This search, which included both civil and criminal actions, identified 66 cases between 1930 and 1938 (31 before the end of 1935, and 35 between January 1936 and December 1938). Even this search will not have traced all instances of prosecutions of fraudulent company promoters and share-pushers, probably because the cases were published under headlines that did not use the relevant words (e.g. the initial searches failed to trace the prosecution in November 1930 of Francis Lorang, the promoter of the Blue Bird companies,[691] and the prosecution in July 1932 of Eugen Spier, who in 1927 had been the promoter of Combined Pulp and Paper Mills Limited.[692] Omissions may also have occurred because the three newspapers searched did not report a case such as the prosecution of three defendants in 1934 over the promotion of RMC Textiles (1928) Limited which was reported in *The Accountant.*[693]

These two sources of information, together with the analysis of the reasons for the failure of prosecutions set out in the Bodkin report itself, demonstrate why prosecution activity was failing to prevent or deter abusive company promotion and share-pushing.

Variations in the numbers of cases considered in each year suggest that the diligence of the authorities in chasing offenders varied from year to year.

Table 9.1: Number of cases arising 1930-1938

	1930	*1931*	*1932*	*1933*	*1934*	*1935*	*1936*	*1937*	*1938*	*Totals*
Bodkin Committee data	8	1	4	6	4	6	0	0	0	29
Newspaper search	10	6	6	4	1	4	9	17	9	66

690 The search was conducted digitally using the databases of issues of the *Financial Times*, *The Time*s and the *Manchester Guardian* for the years 1930–1938. Searches were conducted in each case, using the terms: ‘share fraud’, ‘fraudulent prospectus’, ‘share pushers’, and ‘company promoters’. Only one reference to a case (usually the earliest) is included in the list: i.e. the list does not attempt to record all of the references to each case in all of the newspapers. For example, all three newspapers may have carried a separate report in respect of each day of a trial. Many of the reports were short, not describing the charges in detail. A list of the cases identified is set out in Appendix Two to this Chapter.

691 *The Times*; 26 November 1930; page 5.

692 Cheffins (2008); page 2823. *The Times*; 28 July 1932.

693 *The Accountant*; 13 August 1934; page 201 et seq. The case included charges relating to an allegedly false statement in a prospectus and was presumably reported in *The Accountant* because one of the accused had been the company’s auditor.

Coverage in publications such as *Money Market Review* and T*ruth* of abusive trading did not increase substantially in the months before 1936: it appears to have been reasonably constant between 1930 and 1936. This suggests that the increase in the number of cases arising in 1936–1937 did not result from a marked increase in the activity of share-pushers and is more likely to have resulted from a marked increase in police activity. As an example of this, in 1936 the City of London Police created a specialist team to deal with such cases. 12 officers were trained in company law and set to 'clean up' the City. It was claimed that by February 1937, 40 arrest warrants had been issued as a result of this team's work.[694] Unless there was a sharp increase in abusive activity in 1937, for which there is no other evidence, the increase in cases in that year implies a certain inactivity on the part of the police in earlier years. This suggestion is reinforced by the fact that the earlier years include a number of cases in which suspects who were believed to be fraudulent promoters or share-pushers were arraigned for immigration offences: either for giving false information to passport officers or for attempting to enter the country after 'gating' orders had been issued by the Home Secretary.

Even when a crime was investigated and suspects identified, it was not straightforward to apprehend them. In a number of the cases reported to the Bodkin Committee, the suspects had not been apprehended:

Table 9.2: Cases in which arrest warrants were not executed

	Trading name	*Suspect*	*Reasons given*
1930	G Lycett & Co	RC Guest (American)	Had left country. Prosecution of other suspects but they were not the prime movers.
1930	Bank of London/Broad Street Press case	J Factor (American)	Had left country as warrants were issued. Prosecution continued against other suspects. Factor was prime mover and removed most of the gang's profit.
1933	Percy Bennett & Company	C Young, White	Could not be found.
1933	Leonard Briggs	AE Wagstaff	Absconded.
1934	Peter Gordon & Company	Cranwell	Absconded.
1934	James Stewart & Crichton	James Stewart	Absconded.

694 *Evening News*; 23 February 1937.

The Bank of London/Broad Street Press case illustrates some of the difficulties that were faced in apprehending suspects. Jacob Factor, an American who was the prime mover in this affair, operated under a series of aliases. It is known, for example, that he held a bank account in the North of Scotland bank in the name of H Guest and took residence in London under the name of J Wise.[695] As identification depended on written descriptions and photographs, it was not easy to pursue a suspect through changes in alias. In Factor's case, he was known to have left the country with an allegedly substantial amount of money and was eventually traced to Chicago where he was living openly. Attempts to extradite him failed. Factor had been careful to avoid direct meetings with potential investors and the handling of their money, so that it was believed that on the available evidence a prosecution on charges of obtaining money with false pretences would be unlikely to succeed.[696] As a result, the warrant for his arrest was issued for the crime of 'receiving property knowing the same to have been fraudulently obtained'.[697] Factor's lawyers contended that there was no crime in the Illinois criminal code that matched this offence and that there was no common law equivalent so that extradition would be impermissible. This issue was to be considered by the Supreme Court, but that hearing was put off when Factor was 'kidnapped' (in a raid that he arranged) and by the time he reappeared, the arrest warrant had expired.[698]

Even when suspects were apprehended successfully, as the Factor case and the record of prosecutions demonstrate, it was not always straightforward to decide which charges should be brought. As the Bodkin Committee pointed out, some of the available charges such as the charge of obtaining money with false pretences could present difficulty:

> *'The seller naturally praises the good he offers, and shares at one time worth little or nothing may "jump in value" on some sudden turn in the fortunes of the company. This may well happen in regard to such fortunes as mining or oil companies, where at the time when the shares are offered the company is profitably producing neither ore nor oil and may have abandoned the working, yet after events may show that the shares, worthless when sold, become worth the price paid for them.'*[699]

This may explain the variety of charges that were used in cases against share promoters and hawkers.

---

695 McConnell (1943); pages 9 and 12.
696 *The Times*; 19 December 1935; page 4.
697 Section 33 of the Larceny Act 1916.
698 Tuohy (2001).
699 Bodkin Committee report (1937); pages 22–23.

Once a charge was selected, it might prove difficult to collect the evidence necessary for a successful prosecution. After all, abusive promoters or pushers would have been aware that a prosecution would be assisted by any records that they caused to be created and held so there was an incentive either not to hold records or to destroy them when investigations began.

> *'. . . where a bucketeer was seeking to bamboozle a client, there was little incentive to store evidence that might subsequently assist a prosecution.'*[700]

Notably at the end of the trial of Maurice Singer's libel action against the Daily Mail, the newspaper's barrister requested that the Court should retain the records adduced in Court by Singer to substantiate his case:

> *'Mr Holmes asked that the papers in the case should be retained in the custody of the Court. The allegation was that the words complained of by the plaintiffs meant that they had been engaged in defrauding the public and in a criminal conspiracy. The defendants had pleaded justification and had succeeded. Many of the books said counsel came from abroad.'*

The appropriate order was made, and had the result that records which otherwise might easily have disappeared would have been available as the evidence in a subsequent prosecution of Singer.[701] The significance of the documents was described by Roderick Dew of Lewis & Lewis, the *Daily Mail's* solicitors, in a memorandum of evidence submitted to the Bodkin Committee:

> *'All these companies were registered in Canada, and one of the chief difficulties with which [the* Daily Mail *was] faced in the course of the proceedings was to prove that Mr Singer not only had formed the companies but that he was responsible for the sale of the shares in England and elsewhere. Naturally enough the actual sales were not carried out by Mr Singer himself and the difficulty was to find the link between Canada and England, but this [the* Daily Mail *was] able to do by obtaining in Canada duplicates of letters written by the secretary of the various companies to Maurice Singer and/or the Bank of London sending share certificates in blank the numbers of which were afterwards found to tally with those in the possession of people who had bought shares in England.'*

The contents of these records can be judged from similar documents that were disclosed in another case: the prosecution of Stanley Grove Spiro, who in 1934 had gained control of a Scottish outside broking firm, Maclean and Henderson. In that case, the salesmen's records included reports on the potential investors they had visited such as:

---

700 Porter (2006); page 105.
701 *The Times*; 19 December 1935; page 4. Singer was prosecuted later on other charges.

> *'Small house about six miles from Birmingham. Retired coachman. Very cautious. Has checked up on the firm. Prefers industrials to gold. Says "yes" to everything, but then switches. Think £3,000 could be lifted.'*[702]

Other documents mentioned by Mr Dew included the detailed notes kept by Bank of London of salesmen's visits to potential investors who were being persuaded to buy worthless shares. Embarrassingly for Singer, it had been found necessary to keep records of which potential investors had been visited and what they had been told so that follow-up visits could be organised successfully.[703]

If all else failed, fraudulent promoters and pushers appear to have resorted to bribery. As the Bodkin Committee was to put it:

> *'It was also made plain to us that it is very desirable that the superior officers of the Police Force should keep in close touch with the action of their subordinates, especially as it is to be borne in mind that several of the recent share-pushing cases have disclosed the possession of considerable capital and the obtaining of enormous sums of money from the public, with the result that there is the possibility of police officers being tempted to act otherwise than in accordance with their duties.'*[704]

This and other references in the report to the inefficiency of the City Police and the need for reorganisation, even possibly a merger of anti-fraud resources with the Metropolitan Police, caused some consternation in the City and led the Court of Aldermen to seek access to the evidence on which it had been based. Access was refused.[705] Evidence to support the reference had come from a number of sources, including a memorandum or evidence submitted by Geoffrey Roberts, Treasury Counsel and adviser to the DPP:

> *'I believe that in the case of the Carlisle Investment Trust, a Bank applied in confidence to the Director of Public Prosecutions stating that they had some £70,000 standing to the credit of that customer – that they suspected a bucket shop – but that they would be forced to pay the money out in a few days unless process was obtained. Thereupon the Director of Public Prosecutions asked for an officer from the City Police, and was allotted the Inspector who was in charge of the Murdoch & Barr case. Enquiries were made – and the statements of three victims taken. An application was then made for a warrant, but the victims were paid off, process could not be obtained, and the bank had to pay over the money. I do not know the details of this case, but it indicates that the Bucket shop proprietor was receiving information*

702 *Manchester Guardian*; 25 March 1938; page 17. Cited in: Hollow (2015); page 81.
703 National Archives; file BT 58/226, SP 25.
704 Bodkin Committee report (1937); page 28.
705 National Archives; file BT 58/228; COS 9390/1937. The Aldermen seem to have been especially concerned by the suggestion that there should be a merger of resources with the Metropolitan Police.

> *from the Inspector, and so was enabled to pay off the selected victims so as to avoid arrest and a stop being put on the bank account. Two different firms of solicitors in the City have complained that they reported a share-pushing concern and that he did nothing. These reports were quite independent of each other and were separated by some months.'*[706]

There is later evidence that bribery may have been a common practice. At the trial of his libel action against the *Daily Mail*, Maurice Singer and the Bank of London were represented by Frederick de Verteuil, a barrister who was later to be prosecuted for conspiracy to defraud Edward Guylee who himself had been convicted of fraudulent share-pushing:

> *'Edward Harold Guylee . . . gave evidence . . . of his association with de Verteuil who, he alleged, said he could "arrange" matters with three gentlemen in the Public Prosecutor's office for £3,000. The witness said he gave de Verteuil that sum in £1 notes. Later, Guylee added, he was arrested . . . after the hearing at Guildhall de Verteuil told him that he could stop reports in the Press of the Court proceedings for £1,000. He gave him that sum. . . On February 15, 1937, he was committed for trial after which Whelan*[707] *told him that de Verteuil required 2,000 guineas to "grease the wheels" in his favour. . . the witness said that he understood that the money was to be handed to some legal people at the Court and that was why the payment was to be in guineas.'*[708]

The case ended with the conviction of both de Verteuil and his instructing solicitor, Whelan. In Guylee's case, there does not seem to have been proof that the money was used to pay bribes, but Guylee accepted that the payment of bribes was normal, and was prepared to make considerable sums available for the purpose. De Verteuil had defended promoters and share pushers on other occasions, and was to find himself mentioned in libel proceedings brought by one of his former clients, Martin Harman,[709] against *London Express Newspaper* in respect of an article that alleged that de Verteuil's disgrace at the bar[710] and the prosecution had been engineered by Harman who was embittered as a result of being convicted in spite of de Verteuil's defence. In evidence, it was also suggested that when de Verteuil was defending Harman, he had tried to persuade him to bribe a public official. The libel action failed.[711]

---

706 National Archives; file 58/226, SP25. Related evidence was submitted by Valentine Holmes, another barrister; National Archives; file 58/226, SP 22.

707 De Verteuil's co-accused who was a solicitor.

708 *The Times*; 3 June 1938; page 4.

709 During the 1920s, Harman had become a director of Morris & Jones, a Liverpool grocery company for the express purpose of persuading the company to buy up worthless shares in his other companies: Robb (1992); page 131; Hollow (2015).

710 He had been disbarred by Gray's Inn.

711 *The Times*; 28 April 1939; page 4. 29 April 1939; page 4. 2 May 1939; page 4.

For all these reasons, in the early 1930s, company promoters and share-pushers would have been justified in regarding the threat of prosecution as a distant and uncertain prospect: especially those such as Factor and Singer who were the ringleaders. To make their apprehension even more difficult, they were said to base themselves in Paris. When there was a need to visit England they would travel using false passports and the return halves of air tickets bought by others. This fitted the long-standing popular view that the courts tended to punish the foot soldiers rather than the generals of any scheme:

> *'Criminal prosecutions in cases of commercial fraud in this country are apt to go by fits and starts; sensational trials take place at the call of an angry public; but it is very seldom that the real authors and inventors of fraudulent schemes find their way into the dock. Some unfortunate dupe or over-sanguine capitalist becomes the scapegoat of the sins of others.'*[712]

This would have been held to be even more true for sophisticated City financiers as is demonstrated by the Royal Mail Steamship case.

Superficially, the case might appear to have demonstrated that City financiers were vulnerable to prosecution since the company's Chairman, Lord Kylsant, was convicted, and in spite of all manner of applications to the Home Secretary, was obliged to serve his sentence.[713] Yet the case also suggested that prosecution and conviction could easily have been avoided by careful drafting of the prospectus in question and that Lord Kylsant's problem arose as much because of inconsistencies in the law as from criminal acts on his part.

These implications of the outcome of the prosecution were immediately appreciated: at least within the accounting profession. Speeches by the President of the Institute of Chartered Accountants and the Society of Incorporated Accountants drew attention to the inadequacies of the law with regard to disclosure in accounts and the duties of auditors and were explored in articles in the professional journals:

---

712 HR Grenfell; 'Banking and Commercial Legislation'; *Nineteenth Century* (March 1879); page 535. Cited in Robb (1992); pages 162–3. See also: 'The Morals of Business'; *Meliora* (1858); page 51. Also cited in Robb (1992); page 162.

713 Various appeals for clemency were made privately to the Home Secretary. National Archives; file HO 144/15364.

> *' . . . the ordinary investor does not realise the limitations which are placed upon an auditor by the failure of the Companies Act to lay down more explicitly the lines upon which the profit and loss account should be prepared.'*[714]

There were also people who believed that social standing served as a prophylactic against prosecution:

> *' . . . one cannot help feeling that there exists on the part both of the authorities and of that block of vested interests compendiously known as the "City", a certain aversion to the launching of proceedings which involve the ventilation of scandals affecting highly placed and influential personages.'*[715]

Samuel went on:

> *'The prosecution of Lord Kylsant of Carmarthen in 1931 indicates, no doubt, a welcome progress in the direction of a somewhat more drastic administration of the law. But even in that case, no action was taken until approximately one year after the debacle, when various queries were addressed to the Attorney General . . . including the following pointed question by Mr Chuter Ede on 2nd March 1931: "Can my honourable and learned friend assure the House that any decision taken will be absolutely irrespective of the social prestige of the persons involved."'*[716]

The case arose from the use for several years of transfers from secret reserves to augment the group's annual profit with only the barest reference in the group's accounts:

> *'In simple language the charges referring to the balance sheets amounted to this: that in 1926 and 1927 by the profit and loss accounts and the balance sheets, for the form of which Lord Kylsant, as chairman, was responsible, the public was led to believe that the RMSP group had in those two years made large trading profits whereas in fact the group made serious losses, and that the auditor to the company, knowing perfectly well what had been done, had condoned the deception and signed the report at the foot of each balance sheet, stating that a true and correct view of the state of the company's affairs as shown by the books of the company had been given. The charge relating to the prospectus was not in substance dissimilar. It was that the document contained a false statement with regard to the issue of debenture stock and was intended to induce people to entrust or advance money to the company.'*[717]

---

714 *The Accountant;* Volume 86; page 44–45. Volume 86; page 623. Volume 86; page 521. Edwards (1976); page 298 et seq. Stewart (1991); pages 45–46.

715 Samuel (1933); page 8.

716 Samuel (1933); page 9. The question was merely one of a series of questions put to the ministers almost on a weekly basis after the Royal Mail Steamship Group AGM on 12 February 1931. House of Commons Hansard: 17 February 1931; 24 February 1931; 2 March 1931; 3 March 1931; 30 March 1931; and 20 April 1931.

717 Brooks (1933); pages xxii-xxiii.

Convictions were not secured in respect of the charges relating to the annual accounts, as a result of expert accountancy advice that the inclusion of the words 'after adjustment of taxation reserves' were sufficient indication that some transfers had taken place. One of the curiosities of this case is that the evidence of one of the accountants called by the prosecution, Lord Plender, agreed on this point with the expert evidence tendered for the defence.[718] On this point, the prosecution seems to have been ill-prepared. It was doubtless appreciated that the evidence of so distinguished and decorated an accountant as Lord Plender would be critical to the outcome of the case for Sir Patrick Hastings; the auditor's barrister certainly took this view.[719] To be unable to deal with his confirmation of the defence's expert evidence suggests a lack of preparation and might also suggest that the decision to prosecute was taken without knowledge of the implications of all the expert opinions.

Words similar to those used in the accounts had not been included in a relevant place in the prospectus. Under the law at the time the auditor had not been required to sign a report for inclusion in the prospectus and had not been involved in preparing the prospectus.[720] Impliedly, had the auditor been involved the words would have been amended and the possibility of conviction would have been avoided. As it was the jury gave the impression of being unenthusiastic about finding that Lord Kylsant was guilty. After considering their verdict for two hours, the jury sent a note to the judge asking whether to justify a verdict of guilty it was necessary for the intent of the accused to be fraudulent, adding:

> *'They can visualise an intent to deceive without being fraudulent'.*

The judge directed that:

> *' . . . in my judgment, the intent to deceive must be fraudulent under the statute . . . An intent to deceive . . . necessarily involves a fraudulent intent . . .'*[721]

In the event, Lord Kylsant was sentenced to the relatively lenient term of one year's imprisonment, a precedent which was subsequently to constrain other judges.[722] Unease about

---

718 The defence's accountancy experts were HLH Hill, President of the Institute of Chartered Accountants, and BOD Manning of Cole, Bond & Company. Jones (1995); page 153.

719 Ashton (1986); page 9.

720 The prospectus was published before the commencement of the Companies Act 1929.

721 Brooks (1933); pages 261–262.

722 In the RMC Textiles (1928) Limited trial in 1934, John Waterhouse and John Monk were handed down sentences of one year and nine months respectively. The judge explained that the prospectuses and statements that were the subjects of that case 'were published at about the same time as those in

Lord Kylsant's guilt was not confined to the jury for his clubs were to decline his resignation and Sir Patrick Hastings, the barrister who had represented the auditor, later admitted:

> *'As a mere observer my opinion is completely valueless, but I was never completely satisfied of the justice of that conviction. I was very sorry for Lord Kylsant.'*[723]

The predicament of such as Lord Kylsant had been recognised by DM Evans in 1859:

> *'Evans explained that 'high art' crime subsisted as a spectrum marked by the extremes of the apprentice boy who robbed a few shillings from the till and the gigantic forger or swindler. Lying between these points lay a 'reckless speculator' who "would risk everything in the hope of sudden gain, rather than toil safely and laboriously for a distant reward. Evans conceded this speculator might well be a man of honour "who would instinctively shrink from any deed which would invoke the interference of the criminal law", but who if fortune was adverse would move "ever closer to wrongdoing", here appreciating the perpetrator with no criminal self-image".'*[724]

The overall implication of the experience of the early 1930s was that prosecutions were failing to deter the activities of company directors and company promoters let alone the gangs of share-pushers who had come to England from New York. In practice, the likelihood of prosecution was too remote to be taken seriously and if a suspect was prosecuted, ways could be found to limit the risk of conviction. As was said by Sir Horace Avory, the judge at Hatry's trial:

> *'. . . the only real deterrent to crime is the* certainty[725] *that the proper penalty will follow upon its commission.'*[726]

Of course, even if suspects were convicted and imprisoned, it was possible for them to recommence the activity immediately on release for there were no powers by which the Board of Trade or any other authority could prevent that. In the cases identified by the Board of Trade and the newspaper search for this study, there are two examples of serial offenders:

---

the Kylsant case'. The auditor was criticised for being negligent but was acquitted. *The Accountant*; 6 October 1934; page 479.

723 Hastings (1949); page 346. Green and Moss (1982); page 142. Anon (1931). Anon (1932). Ashton (1986). Arnold (1991). Davies (1981); Davies and Bourn (1972). Robb (1992); page 144.

724 Wilson (2104); page 89 quoting Evans (1859); pages 1-2.

725 Emphasis added.

726 Address to the Grand Jury at Exeter Assizes, May 1922. Quoted in Bell (1939); page 237.

Table 9.3: Serial company promoter/share-pusher prosecutions

	First prosecution		*Subsequent prosecutions*	
	Date	*Description*	*Year*	*Description*
Tanfield	January 1931	Financial Telegraph case	February 1938	Metropolitan Chain Stores
Harman	October 1933	Chosen Corporation case	February 1938	Metropolitan Chain Stores

Jacob Factor and Maurice Singer had also been involved in such activities in the mid-1920s and it had been possible for them to continue until the mid-1930s.

Appointment of the Bodkin Committee

The unsatisfactory state of affairs was brought to a head when Maurice Singer's failed libel action against the *Daily Mail* attracted political interest and led to a number of questions in the House of Commons. On 15 July 1936, in a debate on the Estimates, the MP for North Tottenham, RC Morrison, asked the President of the Board of Trade to appoint a departmental committee to consider what might be done to curb the activities of share-pushers as misleading circulars were going out in their thousand almost every day and new firms were springing up with high-sounding names that were defrauding innocent people of thousands of pounds. He was supported by others who suggested that the time had come for a thorough review of company law. In response, the President said that he would give the matter careful consideration.[727]

Doubtless encouraged by the *Daily Mail*, Roderick Dew, a solicitor who had acted for the *Daily Mail* in the Singer libel case, began to speak in public both about the Singer case itself, the inadequacy of the existing law and the means by which the abuses of promoters and pushers could be remedied. For example, he spoke on this subject to the provincial meeting of the Law Society in September 1936.[728] In this address, having explained why the London Stock Exchange opposed the most obvious remedy of granting a charter to the Exchange so that it could regulate all share trading, Dew raised the possibility of requiring that all share traders should be required to seek a licence and be registered.

---

[727] House of Commons Hansard; 15 July 1936. Morrison referred to Factor expressly, reporting that he had said: 'I guess the British government is tired of spending money on me'.
[728] *The Accountant;* 24 October 1936; pages 559–563.

In October 1936, to campaigning of this type was added the arrival in London of the Jarrow marchers. Unemployment in Jarrow had become unbearably high following the closure of the Palmers shipbuilding yard. This company had floated a debenture stock in 1919[729] to finance expansion and in the 1920s had invested in new facilities. The last merchant vessel to be built at Jarrow was launched in 1931.[730] There had been later attempts to encourage employment in the shipyard – notably led by Sir John Jarvis, the erstwhile partner in the company promoters, Clare & Company – but they had not been equal to the town's problem. In the political rhetoric surrounding the march, blame was attached to the City. In the words of Ellen Wilkinson, MP for Jarrow:

> *'The great shipyard of Jarrow was dead . . . killed because it was a powerful competitor, . . . rooted out, not because it was inefficient but because it stood in the way of a group of big financial interests, who wished to consolidate their grip on the shipping industry and get control of shipping prices in the doing of this . . . this group have crippled the British shipbuilding industry.'*[731]

Within the Board of Trade, the subject was being considered: but slowly. At the end of October, Edwin Marker,[732] the Comptroller of the Companies Division, prepared a memorandum examining the possibilities that had been raised in the debate on 15 July and concluded that the suggestion that company law should be reviewed as a whole was the least attractive:

> *'To sum up – so far as Company Law Amendment is concerned, there is no real case for enquiry at present and the President . . . might continue to reply . . . that the time is not yet ripe for enquiry.'*

---

729 Exceptionally this stock was promoted by a clearing bank: National Provincial Bank. Minutes of the Court of the National Provincial Bank, 25 March 1919. RBS Archive; file NAT/934/3.

730 MV British Strength. Cuthbert et al (2004); page 40.

731 Wilkinson (1939). Dougan (1968); page 168. ThIS study has found no evidence that abusive company promotion or share pushing contributed directly to the failure of Palmer's yard at Jarrow. There had been a public offer of debentures in 1919, respectably sponsored by a clearing bank. The funds raised by that issue had been invested in facilities in Jarrow which had not been fully used because of the slump in demand for shipbuilding which had not been foreseen. Campaigners principally complained that financial interests had concluded that shipbuilding capacity should be reduced and that the yard at Jarrow was sacrificed as a result without taking into account the social distress that would be caused. Arrival of the Jarrow marchers in London was however significant as it coincided with debate within government over share-pushing and served to heighten political attention. Ironically, Sir John Jarvis, the erstwhile partner in Clare & Company which had promoted new issues in 1919, became a leader of efforts to bring relief to Jarrow, acquiring old ships that were taken to Jarrow to be broken up.

732 An exact contemporary of Clarence Hatry at St Paul's School.

The memorandum admitted that the case for action on share-pushing was much stronger; but Marker suggested that the real difficulty lay in knowing what to do. Of the possible courses of action, licensing of share traders was the first and only substantial proposal considered in the memorandum. In other words, at this early stage, registration of share trading was already emerging as a credible, perhaps the only credible, option. It was thought that appointment of a committee of inquiry should be considered.[733]

However slowly the board had been acting, from this point movement was rapid. On 4 November 1936, Marker discussed the subject with Sir Horace Hamilton, the Permanent Secretary of the Board of Trade, who agreed that share promotion was a subject that should be taken forward by the board's appointment of a committee. By this stage, Marker had been told that the Treasury and the DPP, E Tindall Atkinson, were firmly in favour. Moreover, the Treasury, the Bank of England and the Stock Exchange also supported the appointment of a committee. All seemed agreed that Sir Archibald Bodkin, the former DPP, should be invited to serve as Chairman. Dew was the only other person named as a possible member of the committee. This suggests that although there was no certainty about the outcome of an inquiry, the introduction of registration was thought likely as Dew, whose paper was mentioned by Marker, was known to be a supporter of the proposal.

By 18 November 1936, matters had moved forward. Terms of reference had been considered in some detail, membership of the committee had been given further thought and the Home Office had said that it supported the proposed committee.[734]

On 2 December 1936, in the midst of the abdication crisis and just a few weeks after Marker wrote his original memorandum, the committee was appointed.[735] Dew was not named as a member.

Appointment of the committee had eventually received wide departmental support. For the Board of Trade, the committee offered a way of dealing with a problem that had caused public concern and threatened to encourage those who were campaigning for widespread reform of company law. Moreover, since the board had appointed other committees to examine areas of company law (e.g. fixed trusts and motor insurance) it was more difficult to resist examination

733 National Archives; file BT 58/226, COS 6734, SP17.
734 National Archives; files BT 58/226 COS 6734. SP17.
735 Bodkin Committee report (1937); page 2.

of share-pushing. For the Treasury and the Bank of England, the committee offered a way of dealing with concerns about distraction of investment by untrammelled speculation and roguery. For the Home Office and the Stock Exchange, wider considerations must have been involved.

At this time, Clarence Hatry was residing in Maidenhead Prison. By all accounts he had proved an untroublesome prisoner, save in one respect. Throughout the early years of Hatry's sentence, the Governor of the prison received a series of requests seeking Hatry's assistance with litigation arising from the crash of Hatry's companies in 1929. In dealing with these requests, the Governor, the Prisons Commission and the Home Office were concerned not to accord Hatry privileges that would not be permitted to any other prisoner and that by permitting such visits, they should not find that they had inadvertently permitted Hatry to continue with his business activities whilst still in prison.[736] It seems likely that a further concern was added in late 1935, when the family recommenced their campaign[737] to seek an early release for Hatry with the publication of a pamphlet reviewing the story of Hatry's collapse. Although there was wide support for the application for the early release,[738] the Home Office was concerned that as there were no powers to prevent anyone from acting as a share trader, on release, Hatry would have been able to return immediately to his previous activities. It thus seems probable that the call for Hatry's release provided a clear

736 They were unable to prevent this. Through his solicitor, Atherton Powys, and his son, Cecil Hatry, Clarence Hatry appears to have been able to pass instructions for investment of his wife's funds. During Hatry's incarceration, Atherton Powys acted in respect of Hatry's personal affairs, whilst Sir John Crisp of Ashurst Morris Crisp continued to act in respect of Hatry's corporate matters and as a leading light in the campaign to free Hatry. Powys had first encountered Hatry in 1915–1916 when he acted as solicitor for the Earl of March who served as a director of various companies promoted by Hatry. National Archives; file HO 144/21218.

737 It seems probable that the recommencement of the campaign occurred then because the judge at Hatry's trial, Sir Horace Avory, died on 13 June 1935. It was known to be the normal practice of the Home Secretary to consult the trial judge on any application for early release from a prison sentence and it was assumed that Sir Horace would not have approved an early release in Hatry's case. In due course, the Home Secretary was to consult the Lord Chief Justice, Lord Hewart. National Archives; file HO 144/21218.

738 Applications for early release were supported by Sir William Jowitt, who as Attorney General conducted Hatry's prosecution, and GB McClure who had assisted Jowitt. The campaign was also supported by other MPs (AP Herbert, Harold Nicolson and George Lansbury), Henry Newnham (the editor of *Truth* which campaigned against promoters and share-pushers) and Ben Tillett (the dockworkers' union leader). Anon (1937); pages 3–5.

demonstration to the Home Office of the weakness in regulation of share speculation that might be resolved by registration of share traders.[739]

For the Stock Exchange, appointment of a committee of inquiry was challenging. The prospect of a committee which was expected to recommend the introduction of a licensing system for share traders could potentially threaten the independence of the Stock Exchange by, for example, recommending that registration should apply to all: even members of the Exchange. Even a recommendation for the Stock Exchange's members to be excluded from registration could be a threat if it carried with it a suggestion that the exemption should be subject to a review of the acceptability of the Exchange's rules. That the Exchange welcomed the appointment of a committee suggests that the Exchange accepted that the need for action was paramount and trusted that appointment of its Deputy Chairman to the committee would provide a means of securing a congenial outcome.

The overriding question nonetheless is why fraudulent company promotion and share-pushing seemed so important in 1936 that a committee should be appointed quickly: especially as it was likely to recommend a change from the long-standing policy of lukewarm deterrence to regulation by compliance. That the existing policy of deterrence through prosecution was weak and demonstrably ineffective had long been recognised, as the comment in periodicals shows. Yet the position had been tolerated and allowed to continue. Indeed, after a period in the 1890s when the efforts of a campaigning official had engineered a series of successful prosecutions, on the official's retirement the Board of Trade took steps to reorganise his department with the result that the flow of prosecutions from that source dried up. It is almost as though it had been decided that the use of prosecutions as a regulatory approach was too burdensome so that a period of deregulation was introduced.

---

[739] As matters developed, a decision to release Hatry was delayed by the Home Secretary personally by six months until mid-1938. His release was finally approved by the Home Secretary in July 1938, two days after the Cabinet had approved the draft legislation that would introduce registration of share traders and the date chosen for his release was just before Parliament's approval of the bill that became the Prevention of Fraud (Investments) Act 1939. The decision to release Hatry early was not made known in a formal statement but 'leaked' on a date chosen by the Home Secretary immediately before the Prime Minister visited Munich to meet the German Chancellor, Adolf Hitler, and immediately after a Cabinet group (including the Home Secretary) had met throughout the weekend to consider the diplomatic crisis created by Hitler's speeches. As the newspapers' attention concentrated on foreign affairs, the decision to release Hatry received little attention. In modern parlance, it was a 'bad news day'.No formal statement was ever made. The manner of the announcement was chosen on the basis of advice from officials. National Archives; file HO 144/21218.

What had changed is the political environment, which in 1936 was febrile. In the words of Middlemass and Barnes (1969):

> *'The crises seemed to grow like a geometrical progression.'*[740]

To the gathering international storms of Germany, Italy, Abyssinia and Spain, were added domestic concerns over the growth of extreme political factions which led to the Public Order Act being passed in December 1936. This was a time when there was a widespread debate over the extent to which the institutions of capitalism were failing to meet reasonable aspirations.

Horace Samuel's book '*Shareholders' Money*', published in 1933 had argued for thoroughgoing reform of company law:

> *'So far as the author is aware, the present impetus of Company Law Reform tends mainly to be confined to the question of company accounts. Without in any way detracting from the importance of this question . . . the author puts forward the view that in . . . wide and important matters . . . the law, as it now stands, is also riddled with loopholes.'*[741]

Samuel was a solicitor who specialised in company law matters and wrote from a technical, rather than a political, perspective. In this he was supported by a number of voices in the accounting profession and industry who argued for reform on technical grounds.[742] But Samuel's book was followed a year later by two others. In 1934, Tom Johnston published *The Financiers and the Nation*. Johnston had been a Cabinet member in the former Labour government and had declined to be a member of the national government when it was formed in 1931. Unsurprisingly for an author who had attacked the financiers who had profited from the 1914–1918 war,[743] Johnston's new book exposed what he regarded as the pernicious effects of fraud and the attempts made by the City to negate campaigns for reform. As Sydney Webb wrote in his preface to the book:

> *'Whenever the Government, or some important members of Parliament, are at last moved to devise some legislative reform, which would make the successive financial swindles more difficult or more dangerous to their perpetrators, there is only the*

740 Middlemass and Barnes (1969); page 926.
741 Samuel (1933); page viii.
742 Such as Henry Morgan, President of the Society of Incorporated Accountants, and the Association of British Chambers of Commerce. Maltby (2007); pages 43–44.
743 Johnston (1917).

> *faintest support from "the City". Presently . . . memoranda begin to pour in, showing that the proposed new restrictions to prevent swindling, or the suggested additional requirement in the revelations of promoters' prospectuses would "interfere with legitimate business". The desired reforms are obstructed, whittled down and often prevented. That legitimate concern for their own profits, which the honest and respectable financiers are so prompt to manifest, actually keeps open the door for renewed swindles. It is even argued that the losses from such swindles are the price that had to be paid for industrial and financial freedom.'*[744]

Although it did not propose replacement of the Exchange, Johnston's book supported radical institutional reform, whose introduction might in his view require extra-parliamentary action:

> *'Johnston, also on September 11, expressed agreement with Brockway, and said that he doubted for the first time in his life whether gradual evolutionary progress was possible.'*[745]

In 1935, Johnston's book was followed by a collection of essays published by the New Fabian Research Bureau which opened with an essay by HD Dickinson, a Professor at Bristol University, arguing that economic individualism had failed and that the financial system needed radical reform. A later essay in the same book reviewed recent new issues of capital and argued for a central planning agency that would direct capital and into which insurance companies and investment trusts would be absorbed.[746]

Books such as these were significant because related ideas had appeared in the manifestoes of political parties, and in the thinking of many who did not necessarily support the market socialism of Professor Dickinson.[747] For many of these commentators, company law reform offered an opportunity:

> *'. . . to enable what Laski called "public regulation of the company". This was a staging post on the way to public ownership. Both Tawney and Laski recognised the desirability of minimising private ownership, but also the need for governance arrangements which would increase public accountability over the transitional period.'*[748]

---

744 Webb (1934); page vii.
745 Speech in the debate on the National Economy Bill; 11 September 1931. Bassett (1958); page 233.
746 Cole (1935); page 168.
747 Currie (1979); page 104 et seq. Middlemas (1979); page 214 et seq. Smith (1979); page 28 et seq. Newton et al (1979); page 65 et seq. Clift (1999).
748 Maltby (2007); page 42. Clift (1999). Tawney (1921); page 96. Laski (1925); page 113.

Similar ideas were shared by wide range of opinion including groups such as the Oxford-based Liberty and Democratic Leadership which included Conservative MPs as well as Liberal and Labour members.[749] In July 1935, the group published 'The Next Five Years' proposing the creation of an Economic General Staff to work through a National Investment Board, which would:

> *' . . . centralize and coordinate . . . the issue of all loans for the Government, local authorities, and public bodies of all kinds. It should further have the right to exercise a certain supervision over other issues.'*

Apart from discouraging fraudulent promotions, it was anticipated that the board would:

> *' . . . discourage issues of a kind which it considered to be already overdone, and conversely to encourage issues in directions where further investment seemed to it to be desirable.'*[750]

Although the detailed proposals of all of these groups, and others, differed in detail, they were unanimous in believing that management of the capital market and direction of investment should not be left to a private body such as the Stock Exchange.

Any thoroughgoing attempt to review company law and the raising of finance in particular would therefore have been bound to take into account a wide range of proposals for institutional reform with an outcome that might not have been predictable or manageable. In the political atmosphere of 1936, the desire to avoid a broad spectrum review of company law was understandable.

The problem of company promotion and share-pushing could not simply be ignored, however, not least because it seemed a live demonstration that existing arrangements were flawed. The newspaper campaigns, culminating in Singer's libel case against the *Daily Mail,* appeared to justify the lurid criticisms of such as Samuel, Johnston and the New Fabian Research Bureau; and they had attracted political attention. A narrow inquiry into the extremes of company promotion and share-pushing offered a means of dealing with this issue and of heading off demands for a thoroughgoing reform of company law. It thus offered a means of controlling the political risk that share-pushing presented: a threat to the government's legitimacy in managing demands for wider reform. In effect, the larger political issue was avoided by

[749] The group included Sir Francis Acland MP and Harold Macmillan MP; Tom Johnston had formerly been associated with the group.

[750] Liberty and Democratic Leadership (1935); page 120.

examination of the technical question of how a system of registration could be introduced to deal with share-pushing.[751]

There remained a risk that the committee might recommend a form of regulation that would be inimical to the interests of the City and this was guarded against by careful selection of the members, who included Charles Vickers VC, a partner in Slaughter & May, the eminent firm of City solicitors;[752] RP Wilkinson, the Deputy Chairman of the London Stock Exchange; CL Dalziel, a partner in Higginson & Company; JH McEwen, Chairman of the Associated Provincial Stock Exchanges; and Sir Malcolm Hogg, the Deputy Chairman of the Westminster Bank. Whatever such a group might recommend, it was likely to be well aware of and to take account of the City's interests.

The Bodkin report

So it proved.

Almost all witnesses before the committee urged that share dealing should be restricted to properly registered persons. By 16 March 1937, barely two months after the committee had commenced its work, the chairman, Sir Archibald Bodkin, was able to circulate a memorandum entitled 'Points for Consideration' which suggested what the eventual report might say:

> *'The majority of suggestions made by witnesses before the Committee indicate that there should be some kind of machinery for insisting on Registration of all stockbrokers and dealers in stocks and shares, who are not already members of the London Stock Exchange, or of one of the recognised Stock Exchanges . . . Registration involves some general legislative provisions prohibiting any form of dealing in stocks and shares by unregistered persons and any form of approach to the public by offers to deal in or to dispose of securities, by advertisement or circularisation, except as permitted by the rules of membership of any such organisation.'*[753]

That was to be the approach adopted in the final report which recommended that no person should be permitted to transact business in shares with any member of the public or to describe himself in a way that indicated that he transacted such business unless he were registered or were an exempt person. Members of the London Stock Exchange and certain

751 Haines (2011); page 48.
752 Whose name had been preferred to that of Roderick Dew.
753 National Archives; file BT58/226, SP 22.

other exchanges should be exempt for this purpose.[754] It was envisaged that the Board of Trade should appoint a Registrar to maintain a register for this purpose and to define the conditions of registration. Those conditions should include the provision of appropriate references by a bank, a member of a recognised stock exchange and a solicitor, barrister or Justice of the Peace. An applicant would be required to give undertakings about the way in which he proposes to conduct his business. The Board of Trade was to be empowered to recognise additional stock exchanges and other associations whose persons would be exempted from the requirement for registration, and to make such changes in the list of recognised stock exchanges as seemed from time to time to be appropriate. As far as share-pushing was concerned, the committee proposed that it should be unlawful for anyone who purported to be a dealer in shares during any call (including a telephone call) made by him upon any other person to offer any shares for subscription or to negotiate the purchase of shares by that other person.[755]

From the point of view of the Stock Exchange, these proposals may not have appeared too troubling. Whilst a licensing scheme had been recommended, the Exchange's position had been protected as it was suggested that the implementing statute should recognise the Exchange's members as exempted persons. The practical effect of this would have been to give some statutory recognition without the Exchange being subjected to oversight by the Board of Trade that the Exchange had always regarded as objectionable. Moreover, recognition in primary legislation would have been likely to be long-lived as pressure on parliamentary time discouraged amendment. In other words, such recognition would have provided some safeguard of the Exchange's position without the disadvantages that had led the Exchange to resist proposals that it should become a Chartered body.

Satisfaction at this position was to be short-lived.

The Board of Trade's reaction

The Board consulted on the committee's recommendations and found that there was general support for them, subject to a small number of reservations. These concerned the definition of

---

754 The other exchanges listed by the committee were the 'Associated Stock Exchanges', the Provincial Brokers' Stock Exchange, the Mincing Lane Tea and Rubber Share Brokers' Association Limited. Bodkin Committee report (1937); page 67.

755 Bodkin Committee report (1937); pages 67–70.

'calling', which it was suggested would impose serious restrictions on the business of legitimate outside dealers; the requirement for a dealer to produce a reference from a member of a recognised stock exchange as it was thought this would give such exchanges an unjustified veto on recognition; the absence of a disciplinary power to remove names from the register except after a court judgment; and the form of the register, which some argued should include all of those recognised.[756]

After reflection, the board therefore proposed that the Bodkin Committee's recommendations should be implemented by creating a register to include the names of all people entitled to deal in shares (whether members of a recognised exchange or not). In recognition of the standing of the London Stock Exchange and certain provincial stock exchanges, the Board of Trade would have the power to recognise them so that their members would automatically be included in the register. In other words, the primary legislation would not include an exemption for the London Stock Exchange's members. Inclusion in the register would be open to other dealers, subject to their satisfying conditions to be specified by the board; and subsequent exclusion from the register would follow decisions of the court.

In departing from the recommendations of the committee, the board was risking the opposition of the Stock Exchange for rather than primary legislation giving members of the Exchange the right to automatic authorisation, the Board of Trade proposal would have made that recognition subject to a decision of the department which could, presumably, be revoked if thought appropriate. In discussion with the Exchange on Trafalgar Day 1937, this changed approach was explained in the following way:

> *' . . . the difficulty that the department felt about the Committee's recommendation was primarily a political difficulty in that it would be urged in debate on the Bill that discrimination in favour of members of a club which might refuse membership on other than objective grounds was involved. [The minister] made it clear that the department's tentative solution of the problem carried no intention of trenching on the privileges of the Stock Exchange.'*

Strikingly, these words suggest that, against the implicit view of the Bodkin Committee, the Board of Trade had accepted that regulation could not be left to a private body such as the Stock Exchange.

---

756 Board of Trade memorandum on criticisms of the committee's report: National Archives; file BT 58/226, SP3.

As the minister's brief for the meeting had observed:

> *'To have a register which omits by far the most important would be like Hamlet without the Prince of Denmark or a medical register which omitted from it Fellows and Licentiates of the Royal College of Surgeons and the Royal College of Physicians.'*

At the same meeting, the Exchange's Chairman responded:

> *' . . . members of the Stock Exchange would resent the new proposals mainly on the ground that they would alter the status of members of the Stock Exchange who would be placed on a level with outside brokers and for the first time in history a measure of governmental control over them would be introduced.'*[757]

No conclusion was reached immediately, and the argument continued for some months. In the end, the Board of Trade gave way to the Stock Exchange, and were encouraged to do so by the Treasury as was recorded in a somewhat tart memorandum:

> *'The reason for exempting the London Stock Exchange by Statute is that we know we shall, in any case, have to give an exemption and that, so far as it is possible to foresee, there is no possibility of the exemption being withdrawn. This is not the case with the Provincial stock exchanges taken as a body. The order exempting the London Stock Exchange would, therefore, to that extent be farcical.*
>
> *'If it should be decided that the London Stock Exchange should be exempted by Statute, then it may be suggested that it should be impressed upon them that they should do what they profess to do and that is act in the public interest in connection with share-pushing legislation and not merely in what they conceive to be the narrow interests of the London Stock Exchange. This came out forcibly recently in connection with their refusal to extend commission terms to persons who should join the proposed Association of Outside Dealers . . . It is suggested that a body that takes so narrow a view of its public duties cannot properly be placed in the special position in which it desires to be placed.'*[758]

The department would have been especially irritated by the Exchange's lack of co-operation over the proposed Association of Outside Dealers. It had no wish to become heavily involved in regulation of individual dealers and to this end was attempting to arrange that associations existed that every dealer could be encouraged to join rather than seeking approval from the department itself. An agreement with the Exchange over commission rates would have provided an incentive for dealers to join the proposed association but had been refused by the Exchange, holding to its customary position.

---

757 Notes of a meeting between the Board of Trade and representatives of the Stock Exchange on Trafalgar Day 1937; National Archives; file BT 58/226, SP4.

758 Memorandum; undated; probably spring 1938; National Archives; file BT 58/226, SP 4.

In this respect, the Board of Trade was adopting an approach that was similar to that adopted by the Securities and Exchange Commission (SEC) in the United States which promoted 'over the counter' (OTC) organisations to deal with the difficulty for the commission of regulating so decentralised an activity:

> *'A trade association would facilitate regulation by providing the cohesive force that was lacking. Moreover, self-regulation by means of a trade association held three additional promises: (1) if regulatory authority were vested in a private institution representing the OTC brokers and dealers, the administrative costs of regulation could be borne by the regulated themselves, (2) because the rules would be drafted and enforced by a voluntary organisation, any members that rejected a particular regulation could simply leave the association thus limiting the SEC's exposure to legal challenges, and (3) the use of an association as an organ of self-regulation could prove more effective than government regulation, allowing an extension of regulation to activities normally beyond the detection of the SEC.'*[759]

Officials may not have understood fully the Exchange's position and did not expect the Exchange's negative response. At root, the Exchange still saw itself as an association of people who agreed to undertake a particular business in a common market place and subject to common rules. The members had attempted to create an orderly place in which share dealing could be undertaken at a time when no public agency considered that it was a public responsibility to arrange this. For all members, their continued membership depended on the sustained demonstration that the benefits of membership outweighed the costs of membership: not simply the direct financial cost of membership but also the costs which flowed from subjection to the common rules of the Exchange and the constraints that they placed on the conduct of members' business.

Since 1919, the members had gradually become more defensive about their business interests and their control over the rules was becoming more important. Any suggestion that their control of the rules would be subject to oversight from some external agency was bound to attract suspicion and opposition, as was any suggestion of external interference with the committee's freedom to deal with applications for membership.

---

[759] Eisner (2000); page 110. Adoption of this approach became possible for the SEC after amendment of the Exchange Act in 1938: the year in which the Board of Trade was negotiating implementation of the Bodkin Committee's recommendations. In the event, the amended US legislation led to the creation of only one body: the National Association of Securities Dealers which registered in 1939, the year in which the PF(I) Act was promulgated. Macey and Novogrod (2011–2012); page 968.

Moreover, as concern was growing that the Exchange was being bypassed, suggestions such as the preparation of a common register that appeared to diminish the differences between Exchange and outside brokers were inevitably contentious. That this appears to have caught officials by surprise suggests that they had forgotten Roderick Dew's paper which attempted to explain his understanding of the reasons for the Exchange's opposition becoming a Chartered body: that it would involve equal recognition of outside brokers and that it would lead to their inclusion in the membership. It was seen as a first step to government control and eventually nationalisation.[760]

In its battle with the department, the Exchange was assisted by the fact that the pre-eminent issuing houses in the City were no more enthusiastic about joining any form of register that included the outside dealers. Indeed, in discussions with the Board of Trade they made it clear that they simply would not register.[761] Yet the Board of Trade could not afford to exclude them from share dealing and new issues in particular, and needed to find a way of exempting them from the registration requirements. In other words, the Board was fighting on two fronts and the Exchange had powerful allies.

In the end, a resolution was found for most of these difficulties. The Prevention of Fraud (Investments) Act 1939 was passed and provided that a licence would be required by anyone carrying on business as a share dealer.[762] Members of stock exchanges and of associations of dealers recognised by the Board of Trade were to be exempted from this requirement,[763] as were persons carrying on banking activities who were recognised for this purpose by the Board of Trade[764].

---

760 ER Dew (1936); Share-pushers and the Law; *The Accountant*, 24 October 1936, pages 559–563.

761 The principal houses concerned were Baring Brothers and Company Limited, NM Rothschild and Sons, Morgan Grenfell and Company Limited, Lazard Brothers and Company Limited and J Henry Schroder and Company. The Board of Trade considered that if these houses were to be granted some form of exemption it would in practice also be necessary to exempt Higginson and Company, Helbert Wagg and Company Limited, Erlangers Limited and S Japhet and Company Limited. Undated memorandum; National Archives; file BT 58/226, SP5.

762 Section 1.

763 Sections 12 and 1. The power to recognise associations of dealers was introduced as the Board wished to encourage the formation of new associations that would take responsibility for monitoring their members and thus relieve the Board of Trade.

764 The terms of the power of recognition were drafted with assistance of lawyers acting for a number of issuing houses to exclude them from the requirement to register. Sections 13 and 1.

In effect, the Stock Exchange had won its most important battle, with the support of HM Treasury[765]. The Act defined 'recognised stock exchange' as:

> *'. . . the Stock Exchange, London, or a body of persons declared by an order of the Board of Trade for the time being in force to be a recognised stock exchange for the purposes of this Act.'*[766]

Some minor arguments were also won. For example, the Board of Trade was required to publish only the names of people who were granted licences to deal (i.e. there was no requirement to publish a register naming all those permitted to deal whether licensed or in some way exempted from licensing);[767] although the Stock Exchange had undertaken privately that it would provide to the Board of Trade a copy of its register of members which the Board agreed not to publish.

In Parliament, the bill's passage was not without incident. Although the bill was generally welcomed by the Opposition, which did not formally oppose it, questions were raised over the powers being granted to stock exchanges without effective oversight:

> *' . . . nowhere in this Bill is there anything to prevent stock exchanges from continuing to be what they are now, private unregulated bodies. A stock exchange can refuse any application for membership and give no reasons. It can and does from time to time act unreasonably. . . At present any stock exchange can refuse membership on any ground it pleases, or on no grounds at all. Such arrogant power is bad enough at present, but when this Bill passes into law it will be much worse.'*[768]

In effect, this was the point that the Board of Trade had put to the Exchange in negotiating the way in which the Bodkin Committee's recommendations should be implemented. For the Opposition it was suggested that certain stock exchanges (including London) used their power to exclude women from membership and that the passage of the bill would seriously disadvantage women who were trading as share dealers independently unless they were able to secure individual licences from the Board of Trade. One of the few amendments proposed by the Opposition which would have empowered the Board of Trade to oversee all exchanges, including the London Stock Exchange, was lost on a division after a junior minister had argued

[765] Board of Trade files, National Archives; file BT 58/215, SP4.
[766] Section 26(1).
[767] Section 7. It was agreed privately between the Stock Exchange and the Board of Trade that a list of the Exchange's members would be provided periodically to the Board.
[768] Speech by William Leech, MP for Bradford Central; House of Commons Hansard; 14 February 1939; column 1627.

that oversight of such matters as admission to membership, 'a minor matter', was not necessary to prevent fraud among their members.[769]

Whilst it may have seemed a minor matter to the minister, for the Exchange the amendment was aimed at a key freedom: the freedom to control the composition of the membership.

The Act was passed on 28 April 1939,[770] and the Board of Trade intended that it should be implemented forthwith. To this end, preparatory work had been undertaken so that a consultation on drafts of the enabling regulations could begin almost immediately. The regulations themselves were promulgated in July 1939.[771] Although the Board of Trade did not immediately announce the date on which the requirement for registration would come into force, applications were invited by 15 September 1939 by those intending to register as dealers. In the event, the declaration of war intervened and the deadline for applications was put off, in the first instance until 15 March 1940.

Conclusions

By the onset of war in 1939, the legislation had been passed that would in due course provide the framework of regulation of share trading within which the Stock Exchange would be obliged to operate.

That the need for the legislation was recognised reflects the interest in investment that had developed since the end of the 1914–1918 war and the exposure of many unsuspecting investors to the attentions of unscrupulous off-market traders, partly as a result of the failure to make more conventional support services available to them.

It also reflects the outcome of the Broad Street Press libel action which incontrovertibly demonstrated that the criminal justice system did not offer a reliable means of controlling share trading abuse. Although prosecution might offer a means of satisfying a public appetite for retribution in a few visible cases, the incidence of prosecution appeared to vary according to the degree of public and private attention afforded to it. Hence the number of prosecutions

---

[769] Ronald Cross, Parliamentary Secretary to the Board of Trade; House of Commons Hansard; 14 February 1939; column 1633.

[770] House of Lords Hansard; 28 April 1939; column 793.

[771] Licensing Regulations were issued on 26 July 1939; SR&O 1939 Number 794. Conduct of Business of Licensed Dealers were also issued on 26 July 1939; SR&O 1939 Number 787. The Conduct of Business Rules did not prohibit advertising by Licensed Dealers.

seems to have increased in the years after 1936 when the conclusion of the Broad Street Press case had demonstrated publicly that the criminal justice system was failing. In particular, the City Police became especially active in 1937 after the continued existence of its fraud squad independently of the Metropolitan Police was called into question.

In any event, prosecutions operated retrospectively: after a crime had been committed and investors had suffered losses they could ill afford. Without a compensation scheme for all share trading, including off-market transactions as well as market transactions, the socially unacceptable abuse of unsuspecting investors would not be avoided or corrected by a subsequent prosecution.

That the legislation was passed reflects the poisonous impact of the off-market abuses against the background of widespread political acceptance that the City's financial institutions were not serving the national interest. It was more appealing politically to deal with the limited issue of share trading abuse than to try to manage a debate over thoroughgoing reform. This calculation imposed a constraint upon any scheme of registration as it would need the acquiescence of those institutions, including, in particular, the London Stock Exchange. Since the Exchange, with the support of the Bank of England and the issuing houses, was strongly opposed to being placed under any supervision, this was a serious impediment. Whilst recognising the undesirability of delegating powers to an unsupervised private body, the Board of Trade had no option but to accept the Exchange's position. Ultimately this was to prove a flaw in the scheme of regulation, but, in the context of 1939, it was regarded as a politically acceptable compromise that enabled a desirable reform to be introduced without unavoidable constraints.

From the Exchange's point of view, the legislation represented the best possible outcome once the inevitability of a scheme of registration had been accepted. It was granted a measure of legislative recognition without suffering the imposition of oversight that might have interfered with its control of the rules.

From the government's point of view, acceptance of the flaw recognised pragmatically that the Exchange could not afford to ignore the government's wishes. After all, trading in government securities formed a considerable proportion of the market's volume and thus of members' income. Acceptance thus offered a reasonable prospect that the government would nonetheless be able to achieve its objectives by co-operation and avoided a debilitating dispute with the Exchange.

In reaching this conclusion, there had been almost no reference to the reforms that were being implemented elsewhere: not least in the United States, beginning in 1933. Horace Samuel's book had referred to the Blue Sky laws, but not to the federal legislation that had been introduced by FD Roosevelt and led in 1934 to the creation of the Securities and Exchange Commission. Nor was there any reference to the consultations taking place in the United States of the regulation of off-market traders which led to the Mahoney Act[772] in 1938 and the subsequent creation of the National Association of Securities Dealers under the oversight of the SEC, a parallel to the creation in the United Kingdom of associations of off-market dealers that could be recognised by the Board of Trade following the PF(I) Act 1939. Although there were similarities between the problems faced in both countries, there were also differences. In London, the Exchange, under Montagu Norman's direction, had been able to manage the crisis created by the Hatry crash in September 1929. The NYSE had not been able to manage the crisis created by the crash in October 1929. In London, the crash appeared in public to have been caused by the criminal activities of outsiders. In New York, responsibility for the crash appeared to be borne by insiders.

[772] Which defined the powers of the SEC with regard to off-market dealers.

APPENDIX ONE TO CHAPTER NINE – CASES OF SUSPECTED SHARE-PUSHING

JANUARY 1930–FEBRUARY 1936

Number	*Name of concern and individuals*	*Date of complaint*	*Principal shares involved*	*Action taken*	*Modus operandi*
10/30	G Lycett & Co E Kenworthy & Co R Kenworthy, RC Guest (American), JF Nigell, GI Charman, EH Sheay	March 1930	Anglo-Colonial Territories	Kenworthy arrested. Result unknown.	Issued circulars – employed share touts who induced investors to sell good shares and buy worthless shares.
129/30	Union Securities Co Ltd CC Willson, WT Whalley, JB Cowly, D Beaumont, Earl of Carnwath, EG Bonering	March 1930	Not known	Report to the Board of Trade. No prosecution.	Issued circulars.
180/30	Seward Fraser & Co PS Seward, Jacob Factor, S Fraser, JW Davis, HJ Speller, SW Moncrieff, H Elman, AJ Elkin, RC Guest, S Godfrey, RB Logan, M Gershow	April 1930	Hellim Sulphur		Issued financial journal – *The Stock & Shareholder* – employed share touts and induced shareholders to sell good shares and buy worthless shares.
38/30	Cressett Trust Ltd HE Setts, B Quint, Lt Col G Paget, R Vanderell	May 1930	Cressett Trust Ltd – British Feeding Meals Ltd – British Dominions and Settlement Corporation Ltd	Cressett Trust fined £200. Setts and Quint both sentenced to four months' imprisonment at the Old Bailey – February 1931 – for offences contrary to Companies Act 1929.	Share tout called on and induced investors to sell good shares and buy worthless shares – issued circular offerings shares for sale which did not comply with Companies Act.
283/30	Bank of London Ltd Sir Arthur Beck, H Bliss, J Miller, PH Ableson, JN Farmer, P Seligman Business controlled by M Singer	July 1930	Various speculative gold mining shares	No prosecution May 1930. Company compulsorily wound up.	Issued circulars – also operated on continent from an office in Amsterdam.
61/30	Stock Marker Record GC McMillan, EH Guyler (suspected)	September 1930	Bogosu Gold Mines Ltd	Enquiries at instigation of DPP. No prosecution.	Issued financial journal – The Stock Market Record.
86/30	Edward Coates E Coates, ES Donallon	December 1930	Various	Coates fined £110 and ten guineas costs at Mansion House, March 1932 for offences against Registration of Business Names Act 1916. Board of Trade case.	Issued circular.
12/21	British Investors Association Ltd (Pinners Hall) J Campbell, Lillian N Garrett, S Godfery, AJ Klein (suspected)	February 1931	Power Oil and Mining Co Ltd	Enquiries at instigation of DPP. No prosecution. Company in voluntary liquidation June 1933.	Issued financial journal.
31/32	Douglas W Wells British & Dominions Investment Trust Ltd DW Wells	June 1932	General Engineering Development Trust Ltd	Enquiries at instigation of DPP. No prosecution.	Issued circulars.

Number	*Name of concern and individuals*	*Date of complaint*	*Principal shares involved*	*Action taken*	*Modus operandi*
45/32	Contract Finance Corporation Ltd HC Brown, R Maurice M Hindle (suspected)	May 1932	Not known	Brown and Morris each fined £50 and five guineas costs at Mansion House June 1932 for offences against Companies Act 1929. Board of Trade case.	Issued circulars.
44/32	John A Anderson J Anderson, E Young	November 1932	Blackburn Philanthropic Assurance Co Ltd	Anderson sentenced to 12 months' hard labour at Old Bailey in January 1933 for attempted false pretences.	Offered shares that he did not possess to complainant – obtained cheque for same – but payment was stopped.
7/33	Herrick, Smithyes and White WF White, P Lockyer, ES Smithyes,	February 1933	Cameroons Alluvial Gold Syndicate Ltd, Associated Tin Mines of Nigeria Ltd	Merrick, Smithyes and White each fined £125 and three guineas costs at Guildhall in April 1933 for offences against Companies Act 1929.	Issued financial journal. Underwriters Registry – employed share touts to call on investors.
27/33	Vincent Devereux & Burle R Burle	May 1932	Rowntree Ltd Bobbys Ltd	Application for warrant against Burle refused at Guildhall – May 1933. Warrant issued in June 1933 at Clerkenwell Police Court to Metropolitan Police. Not executed.	Issued circulars – offering shares below Stock Exchange quotations.
32/33	Ward Dew & Co Federal Industrial Development Bank Ltd RW Day, F Townes, HE Bates, T Appleton (suspected)	July 1933	Pool operations.	Enquiries proceeding.	Issues circulars – firm bank with Federal Industrial development bank under same control – to which they refer clients for banker's references.
34/33	Percy Bennett & Co Ltd C Young, White, AN Chapman, RE Land, I Baumgarten	August 1933	J&J Colman	Baumgarten sentenced to 18 months' hard labour at Old Bailey in May 1936. Warrants for White and Young not yet executed.	Employed share touts who obtained shares from investors ostensibly to be held as collateral security against the purchase of other shares. Shares so obtained were sold and fraudulently converted.
22/33	Leonard Briggs AE Wagstaff	July 1933		Warrant issued at Guildhall – July 1933. Not yet executed.	Purchased established brokering business. Induced clients to part with shares to be sold in order that other shares might be purchased. Fraudulently converted proceeds –

Number	*Name of concern and individuals*	*Date of complaint*	*Principal shares involved*	*Action taken*	*Modus operandi*
					absconded.
29/33	Hugh Longman & Crane E Crane, I Primhak	May 1933		Primhak sentenced to 18 months' imprisonment at Old Bailey in January 1934 for fraudulent conversion and false pretences.	Wrote to investors offering shares for sale – obtained money – absconded.
151/33	Laurence Duncan & Co L Duncan, J Duncan	October 1933	Raycol British Corporation	Report April 1934 shows that facts were submitted to the Chief Clerk, Mansion House – expressed opinion that there was insufficient evidence for criminal process.	Issued circulars and telephoned investors inducing them to sell good shares and buy worthless shares.
12/34	Lee, Watson & Murray D Murray	April 1934	Foster Lodge Gold Mines Ltd	Warrant issued in Edinburgh subsequently withdrawn – defalcations made good by friend.	Issued circulars and telephoned investors inducing them to sell good shares and buy worthless shares.
14/34	Peter Gordon Company Cranwell	April 1934	Various	Warrant issued for Cranwell at Guildhall – August 1935. Not executed.	Issued circulars.
29/34	Financial Express Charlton	March 1934	Building Construction Investment Ltd	Charlton charged at Edinburgh with offences relating to the sale of shares by the Financial Express. Result not known.	Issued financial journal – Financial Express – employed touts to sell to investors.
53/34	Gilbert White & Co J Brunton	November 1934	General Brisk and Finance Corporation Limited	Brunton fined £200 and £75 costs at Bow Street Police Court in July 1935 for offences against Companies Act. DPP case.	Employed share touts to call on investors.
5/35	Jackson Bruce & Co J Bruce	February 1935	Building Construction Investment Ltd and General Brick and Finance Corporation	Enquiries at instigation of DPP. Proceeding.	Issued circulars.
363/34	James Stewart and Crichton J Stewart	September 1934	Consolidated Gold Mining Corporation Ltd	Report submitted to DPP at his request. No prosecution. Warrant issued April 1935 at Duns Berwickshire for arrest of Stewart for fraud. Not yet executed.	Issued circulars and employed share touts.
189/35	Austin Childs Co H Courtauld British and Dominions Securities Trust J Johnson	July 1935	City Gold Reefs & Dredging Co Ltd and pool operations	Johnson sentenced to six months' and three months' hard labour (consecutively) at Mansion House – September 1936 – for false pretences (2 cases).	Issued circulars.
278/35	E Rankin Nevens & Co ER Nevens	August 1935	Kirkland Gold Rand	Enquiries at instigation of DPP. No prosecution.	Issued circulars.
277/35	Maclean & Henderson Underhill.	August 1935	Brucefield Collieries Ltd, Gold	Warrants against Underhill and	Acquired an established share

Number	*Name of concern and individuals*	*Date of complaint*	*Principal shares involved*	*Action taken*	*Modus operandi*
	Elphinstone.		Refs of West Africa Ltd, West African Mining Corporation Ltd.	Elphinstone withdrawn. Further warrants issued against all principals. Underhill and Elphinstone and arrested.	broking business. Circularised and called on all clients and induced them to buy worthless shares at high prices.
268/35	Period Investment Trust Limited. Caddey. Hurlock.	February 1936	Pool operations	Caddey and Hurlock each fined £105 and ten guineas costs at Guildhall, July 1936. For offences contrary to sections 34 and 35, Companies Act 1929.	Issued circulars.
449/35	Spencer Bradley Co Ltd	December 1935	Universal Carburation Limited, Building Construction Investment Ltd, Amalgamated Electrical & Lighting Equipment	Enquiries at instigation of DPP still proceeding.	Issued circulars.

APPENDIX TWO TO CHAPTER NINE – CASES RELATED TO SHARE-PUSHING AND FRAUD OCTOBER 1929–SEPTEMBER 1939

No.	*Dates*	*Parties*	*Nature of process/charges*	*Comments*	*Source*
1	October 1929	R v Louis Gordon	Trial – making a false statement to obtain a passport.	American citizen – alias for Murray Cole – alleged share pusher.	*The Times*; 18 October 1929.
2	January 1930	R v Hatry R v Tabor R v Dixon	Trial – forgery and fraud.	Austin Friars Trust offences.	*The Times*; 25 January 1930.
3	March 1930	R v Shapiro	Trial – being in UK without the permission of an immigration officer.	American citizen – entered UK on a weekend ticket from France – alleged share-pusher. Cresset Trust.	*The Times*; 27 March 1930.
4	September 1930	R v Osborne R v Bayford	Police court – conspiracy to defraud.	Circulars inviting subscriptions for shares.	*Manchester Guardian*; 20 September 1930.
5	October 1930	R v Laidlaw R v Popham R v White	Police court – obtaining money by false pretences.	Trading in shares in Pitts Tucker Limited – said to be an estates company (name similar to that of a firm of solicitors).	*Manchester Guardian*; 20 October 1930.
6	October 1930	Faber and another v Tyler Wilson & Co Limited and others	Damages for loss through fraudulent misrepresentations.	Allied Mines Syndicate Limited. Allegedly linked to Jacob Factor.	*The Times*; 28 October 1930.
7	November 1930	R v Spellen R v Wise R v Moncrieff	Trial – conspiracy to defraud.	Traded in the name of Broad Street Press.	*The Times*; 11 November 1930.
8	November 1930	R v Morrison	Police court – obtaining money by false pretences.	American. Fraud involving Canadian Pacific Railway shares.	*Manchester Guardian*; 30 November 1930.
9	December 1930	R v Newbury	Police court – conspiracy to defraud.	Traded as Broad Street Press. Conspired with Spellen, Wise and Moncrieff. Cases consolidated and subsequently heard together.	*The Times*; 1 December 1930.
10	December 1930	R v Kenworthy	Trial – conspiracy to defraud and offences against the Registration of	Associated with a number of Americans.	*The Times*; 12 December 1930.

No.	*Dates*	*Parties*	*Nature of process/charges*	*Comments*	*Source*
			Business Names Act.		
11	January 1931	R v Kennedy R v Bowering R v Godfrey R v Tanfield	Magistrate's court – conspiracy to defraud.	Alias Bruce Logan. '*Financial Telegraph*' case.	*The Times*; 22 January 1931.
12	February 1931	R v Betts R v Qunit	Trial – offences against CA 1929.	Through Cresset Trust. British Dominions Land Settlement Corporation.	*Financial Times*; 3 February 1931.
13	March 1931	Clifton v Weil & others	Damages for loss through fraudulent misrepresentation.	Concerned Cliftophone & Records Limited. Through Frederick Investment Corporation Limited.	*The Times;* 12 March 1933.
14	June 1932	R v Turner R v Lofthouse R v Ratcliffe	Trial – conspiracy to defraud.	Concerned Rayon Corporation and Yorkshire Artificial Silk Company.	Manchester Guardian; 16 June 1932.
15	September 1931	R v Clements	Police court obtaining money by false pretences.	Fraudulent share trades.	*Manchester Guardian*; 5 September 1931.
16	November 1931	R v Kylsant R v Morland	Trial – false accounts – fraudulent prospectus.	Royal Mail Steamship Group.	*The Times;* 5 November 1931.
17	November 1931	R v Newbery R v Elman	Appeal – trial was not satisfactory.	Allegations of fraudulent pretences – Broad Street Press case.	*The Times*; 18 November 1931.
18	January 1932	R v Crane (alias Kent, alias Kershaw) R v Braithwaite	Trial – conspiracy to defraud.	Shares in Mendala Development Corporation.	*Financial Times*; 22 January 1932.
19	January 1932	R v Klein	Trial – conspiracy to defraud.	'*City News*' case. Associated with Broad Street Press.	*The Times*; 27 January 1932.
20	February 1932	Morris & Jones Limited v Harman, Clarke and Williams	Action to recover money lost through alleged breach of trust.	Involved transactions in shares of Ascot Motor and Manufacturing Company and Chosen Syndicate Limited.	*Manchester Guardian*; 3 February 1932.
21	April 1932	R v Young R v Todd R v Tomlinson R v Morison R v Wilkie R v Johnstone R v Coats	Trial – conspiracy to defraud.	Scottish Silks case.	
22	September	R v Firth	Trial – obtaining	Concerned Economic	*Manchester*

No.	*Dates*	*Parties*	*Nature of process/charges*	*Comments*	*Source*
	1932	R v de Castro R v Holdaway R v Clinton R v Hilton R v Harding R v Greenboam	money by false pretences.	Finance Corporation.	*Guardian*; 28 September 1932.
23	January 1933	R v Geen	Trial – conspiracy to defraud.	Received money from Broad Street Press.	*The Times*; 18 January 1932.
24	May 1933	R v Turner R v Huntley	Trial – fraudulent prospectus.	False statements in prospectus for Linen and Artsilk.	*Financial Times*; 16 May 1933.
25	July 1933	R v Factor	Application to US for extradition.		*Manchester Guardian*; 10 July 1933.
26	October 1933	R v Conigrave R v Pounds R v Harman R v Changeat	Trial – conspiracy to defraud.	Concerned Chosen Corporation.	*Manchester Guardian; 25* October 1933.
27	January 1934	R v Distelmen R v More R v McGregor	Police court – conspiracy to defraud.	Venezuelan Consolidated Oil Company. Plea of mistaken identity was successfully raised by Montague Baumgart – who was discharged.	*The Times*; 18 January 1934.
28	February 1935	R v Laub	Trial – failing to stay out of UK after a deportation order had been made.	Share-pusher associated with Jacob Factor and with Broad Street Press. Known in music halls as the 'human bird'.	*The Times*; 18 February 1935.
29	July 1935	R v Gordon R v Markus R v Brunton R v Mather	Police court – Companies Act 1929 offences – door-to-door selling of shares.	Through Gilbert White & Co.	*Financial Times;* 24 July 1935.
30	September 1935	R v Riley R v House R v House	Trail – forgery, uttering false documents, conspiracy to defraud.	Concerned Household Stores Limited.	*Manchester Guardian;* 29 November 1935.
31	December 1935	Singer v Associated Newspapers Limited Bank of London v Associated Newspapers Limited	Libel action concerning articles identifying Singer with the Broad Street Press case.		*The Times*; 6 December 1935.

No.	*Dates*	*Parties*	*Nature of process/charges*	*Comments*	*Source*
32	January 1936	Application by liquidator of Broad Street Press Limited, Vulcan Copper Mines Limited and Rhodesia Border Mining Corporation Limited	Liquidator sought a court order directing how to apply funds provided under an agreement with Jacob Factor.	As John Slade, Factor had incorporated Broad Street Press. Funds had been extracted from deposits (US$ 2 million) in Factor's name in Chicago.	*Manchester Guardian*; 25 January 1936.
33	February 1936	R v Bishirgian R v Howeson R v Hardy	Trial – conspiracy to defraud by publishing a false prospectus.	Concerned a public company: James & Shakespeare.	*Financial Times*; 21 February 1936.
34	March 1936	R v Baumgart	Magistrate's court – conspiracy to defraud.	American citizen by naturalisation.	*The Times*; 12 March 1936.
35	March 1936	Dunn Trust Limited v Canon Paynter	Recovery of funds due on bills of exchange. Defence alleged that the bills had been obtained fraudulently through the action of SW Tanfield.	Concerned a company called John Dew Limited, apparently involved in share trading.	*Manchester Guardian*; 14 October 1936.
36	April 1936	R v Wright	Trial – obtaining cheques by false pretences.	Mortimer, West & Co, investment brokers. Said to have been the 'catspaw of two ingenious share pushers'.	*The Times*; 25 April 1936.
37	May 1936	R v Marinus	Police court – obtaining money by false pretences – warrant for extradition to France.	Alias De Koregel. Edited '*Letters of a stockbroker'*.	*The Times*; 18 May 1936.
38	September 1936	R v Corrigan (Alias Cassidy)	Trial – obtaining money by false pretences.	Interests in Mexico.	*Manchester Guardian*; 28 September 1936.
39	November 1936	R v Angus	Police court – obtaining money by false pretences.	United British Oilfields of Trinidad. ('U-Boats').	*The Times*; 5 November 1936.
40	November 1936	R v Abrams	Magistrate's court – making a false statement under the Aliens Order and being in possession of an irregular passport.	American citizen – requested to leave UK in 1928 – said to be known as an active share-pusher – alias John van Allen.	*The Times*; 16 November 1936.
41	February	R v Novak	Magistrate's court –	American citizen –	*The Times*; 5

No.	*Dates*	*Parties*	*Nature of process/charges*	*Comments*	*Source*
	1937		charged with contravening the Aliens Act – making false statements to immigration officers.	convicted in 1931 in US for share-pushing – principal of a chain store bucket-shop.	February 1937.
42	February 1937	R v Korbin	Magistrate's court – unlawfully in UK in defiance of an order of expulsion.	Alias: Theodore Kroll. Expelled from UK in 1933 for share-pushing.	*The Times*; 8 February 1937.
43	March 1937	Brendon, Cunningham, RE Brendon, JW Brendon, AG Brendon v Spiro, Maclean & Henderson, SR Bunt & co, Taylor and Underhill	Action to recover loss through a fraudulent share conspiracy.	Spiro believed to be in Mexico.	*Manchester Guardian*; 2 March 1937.
44	March 1937	R v Guylee R v Cheeseley R v Bennett R v Narramore R v Noirtham R v Dixon	Old Bailey – preliminary hearing – conspiracy to defraud.	Donald Grant & Hamilton of Coleman Street; Murdoch & Barr, Basinghall Street; Lloyd Palmer & Co, New Broad Street. Alleged to have associated with Maurice Singer.	*The Times*; 4 March 1937.
45	April 1937	Pearson v Charlton and Singer	Action to recover loss caused by allegedly fraudulent misrepresentations.	Concerned Building Construction Investment Limited. Subscriptions for shares invited through '*Financial Express*'. Evidence in the Singer libel action used re Bank of London.	*Manchester Guardian*; 14 April 1937.
46	April 1937	R v Underhill R v Taylor R v Elphinstone	Magistrate's court – conspiracy to defraud.	Alleged to have conspired with Stanley Spiro. Maclean & Henderson of New Broad Street. Gold Reefs of West Africa.	*The Times*; 17 April 1937.
47	September 1937	R v Brown R v Brander R v Robinson	Trial – conspiracy to defraud.	Kenwest Limited, dealers.	*The Times*; 9 September 1937.

No.	*Dates*	*Parties*	*Nature of process/charges*	*Comments*	*Source*
				Consolidated Gold Alluvials.	
48	September 1937	R v Agard R v Laker (alias Wegoda) R v Spinelly	Trial – conspiracy to defraud.	Through Smith Lawrie & Co.	*Manchester Guardian*; 21 September 1937.
49	September 1937	R v Rothfield R v Isaacs	Trial – conspiracy to defraud.	Livingstone Trust – the solicitor for the trust was said to be Burnett Elman, an associate of Jacob Factor.	*The Times*; 24 September 1937.
50	October 1937	R v Scher	Police court – offering shares without the formal statement of particulars required by CA 1929.	Patent Paper Packing (Foreign) Limited. A native of Dublin. Associated with share-pushers in London and Paris.	*The Times*; 30 October 1937.
51	October 1937	R v Allingham R v Brownlow R v Harbarow	Trial – conspiracy to defraud.	Allegedly conspired with Louise Crum. BM Clarke & Co., stockbrokers, Copthall Buildings. Associated with Maurice Singer.	*The Times*; 30 October 1937.
52	November 1937	R v Woods R v Hamilton-Mowforth R v Campbell R v Rockfelt R v Wegoda R v Barnes	Magistrate's court – conspiracy to defraud.	Through Carlisle Investment Trust, Cannon Street. Selling shares in Universal Carburation Co.	*The Times*; 3 November 1937.
53	November 1937	R v Daw R v Darwin (alias Daw) R v Long	Magistrate's court – conspiracy to defraud.	Through Ward, Daw & Co, stockbrokers of London Street.	*The Times*; 10 November 1937.
54	November 1937	R v Borden R v Zoller	Trial – conspiracy to defraud.	Employed by Henry Rothfield to write Stock Exchange reports. Norden had previous convictions in US.	*The Times*; 20 November 1937.
55	November 1937	R v Louvain R v Kaye R v Waldron	Magistrate's court - conspiracy to defraud.	Through Grey Waldron & Co Limited of Bishopsgate. Shares in Reservations Limited, a promotion linked to the	*The Times*; 22 November 1937.

No.	*Dates*	*Parties*	*Nature of process/charges*	*Comments*	*Source*
				coronation.	
56	November 1937	R v Dreyfus	Magistrate's court – obtaining money by false pretences.	Through Federal Industrial Development Bank Limited of Mincing Lane. Bank established to assist in fraudulent share-pushing.	*Manchester Guardian*; 30 November 1937.
57	December 1937	R v Shulman R v Seeley	Police court – offences under the CA 1929 relating to share-pushing.	Shulman was a member of the Canadian bar – had arrived in UK allegedly to lead a 'gang' of 4/5 share-pushers. Claimed to be Jacob Factor's legal adviser.	*The Times*; 3 December 1937.
58	February 1938	R v Burnett R v Grimes R v Byford R v Tanfield R v Hazard R v Roberts R v Banfield	Magistrate's court – conspiracy to defraud.	Through Wetnall Jenkins & Co. Limited, stockbrokers. Metropolitan 3d and 6d Chain Stores.	*The Times*; 16 February 1938.
59	February 1938	R v Appleton	Magistrate's court – conspiracy to defraud.	Involved in Wetnall Jenkins case.	*The Times*; 17 February 1938.
60	February 1938	Williams v Brady and others.	Damages for loss through fraudulent misrepresentation and breach of contract.	Concerned Aeronautical Corporation of Great Britain Limited.	*The Times*; 25 February 1938.
61	April 1938	R v Westwood R v Smith	Policed court – obtaining money by false pretences.	Debentures in Bescar Cabinet Company of Scarisbrick.	*Manchester Guardian*; 12 April 1938.
62	September 1938	R v Hamlisch	Police court – false statement to an immigration officer.	Coming to UK for share-pushing – shares in Yellowstone Gold Mine Corporation. Associated with Maurice Singer.	*Manchester Guardian*; 2 September 1938.
63	September 1938	R v Spiro	Trial – conspiracy to defraud.	Through Maclean & Henderson, stockbrokers.	*Manchester Guardian*; 6 September 1938.
64	October 1938	R v Firth R v Broughton R v Dickeson	Police court – conspiracy to defraud.	Through Sir John Seton & Company, Took's Court, Chancery Lane. Business associated with or successor to Ward Daw & Company.	*Manchester Guardian*; 14 October 1938.

No.	*Dates*	*Parties*	*Nature of process/charges*	*Comments*	*Source*
65	October 1938	Silverman v Wolfenden, Junction Boxing Stadium Limited	Action to recover loss through allegedly fraudulent misrepresentations.	Concerned promotion of shares in Junction Boxing Stadium.	*Manchester Guardian*; 15 October 1938.
66	November 1938	Ullstrom v Petter, Naar, Owen, Richmand, and A Williams & Co.	Action to recover loss through fraudulent misrepresentations.	Concerned shares in Nash (London) Limited. Through Williams & Co, outside brokers. Petter currently in USA.	*Manchester Guardian*; 24 November 1938.

CHAPTER TEN – 1939–1945 – SURVIVING ANOTHER WAR

Introduction

When war came on 3 September 1939, it had long been expected. Remembering the experience of the 1914–1918 war, preparations had been made. The hard-learned lesson that success might depend on which countries could best harness their economies to the overwhelming national objective did not have to be re-learned; and senior officials who had begun their careers in the earlier war found that they could build upon their experience.[773] Members of the public knew what they could expect to happen. In the City, the markets understood what their role would be and that business as usual could not be expected.[774] As a result, the onset of war was accompanied by the introduction of capital issue controls which largely avoided the difficulties experienced in 1915.

Inception of capital issue controls

Consequently, the transition to a wartime economy began smoothly. Accomplishing the transition in terms of financial policy had been considered by the Committee on Economic Information[775] immediately before the war. In a report entitled 'Defence Expenditure and the economic and financial problems connected therewith' the committee recommended that:

> *'. . . the rationing of the investment expenditure which firms and individuals in this country are permitted to incur, with a view to maintaining the capacity in the investment industries available for defence production and for exports.'*[776]

Thus, in the committee's view, financial control was not as important as control of materials. Indeed, Keynes argued that control of new issues would have such slight effect that it would

---

773 For example, Edwin Marker, who was to be Comptroller of Companies during the 1939–1945 war and responsible for implementation of the Prevention of Fraud (Investments) Act 1939, had worked with the Ministry of Reconstruction and was secretary of the Committee on the Shipping and Shipbuilding Industries in 1918. Ministry of Reconstruction (1918); page 8.

774 Kynaston (2000); page 460-461. Michie (1999); pages 287–288.

775 Originally set up in 1931 as a standing committee of the Economic Advisory Council, this committee was charged with making regular reports on the economic situation. It was chaired by Lord Stamp, and in 1939 the other members were GDH Cole, HD Henderson, JM Keynes, Sir Alfred Lewis, Professor DH Robertson, Sir Arthur Salter, Sir Frederick Leith-Ross and Sir Frederick Phillips.

776 Sayers (1956); page 163.

be immaterial to control of materials and not worth introducing at a preparatory stage. This view did not convince the committee, partly because of the administrative simplicity of a control of new issues, and Keynes' view was not supported. The desirability of a new issues control was also urged by others, including the Committee on Control of Savings and Investment which reported in August 1939, making the suggestion that the peacetime Foreign Transactions Advisory Committee, chaired by Lord Kennet, should extend its work to cover 'domestic and imperial; as well as "foreign"' issues:

> *'The chief consideration on which the Committee judges applications at present, support for the sterling exchange, will stand for foreign issues, for domestic issues the prior needs of rearmament finance should be the decisive consideration and issues permitted only if they can be related to rearmament.'* [777]

These recommendations were incorporated in the Treasury's War Book immediately. On 25 August 1939, Lord Kennet returned to London on being advised by the Treasury that his committee might be required to take action rapidly. His committee met on 1 September 1939 to consider the implications. The necessary regulations were issued by the Treasury on 3 September 1939, and announced in a press release on Monday 4 September 1939. On the same day, the Treasury sent Lord Kennet a memorandum of guidance that elaborated the information provided in the press release and specified the manner in which the committee should consult with interested parties. The Times reported:

> *'Two principles may be traced in the regulations for the control of capital issues. No issue of whatever nature may be made without the prior consent of the Treasury. But broadly permission will be given when the operation does not involve the subscription of new money or where it is shown to be in the natural interest. Nor in ordinary cases will the Treasury withhold its permission when it is merely a question of renewal of bills or other short-dated maturities. Issues in replacement of longer term obligations 'maturing upon a definite date' will be given special consideration.*
>
> *None of the various measures is more than is prudent or necessary and though they entail a restriction of individual enterprise the change is not as radical as that entailed at the outset of the last war.'*[778]

The Treasury had learned a lesson from the 1914–1918 war: the control of capital issues was implemented by government regulation[779] that thus applied to outside as well as Exchange issues, rather than by a temporary regulation of the Exchange that could only apply to

---

777 Sayers (1956); page 164.
778 *The Times*; 4 September 1939; page 14.
779 Defence (Finance) Regulation Number 6 under the Emergency Powers (Defence) Act 1939.

members. Other lessons had been learned. Rather than establish a new committee to apply the new controls, it was decided to adapt an existing committee: the Foreign Transactions Advisory Committee. That committee had been established in April 1936 under the chairmanship of Lord Kennet to advise the Chancellor of the Exchequer on application of the restrictions on borrowing for the purpose of foreign lending or the purchase of foreign securities.[780] Although the committee's work had not been completely uncontroversial, under the chairmanship of Lord Kennet, a stockbroker, it had a reputation for beneficence and a manner of working that was well understood.[781] Moreover, it was to work with a certain elasticity[782] that ensured that there were few complaints about its operations: indeed, the earliest public complaint to be reported came in March 1945 from the Chairman of the Premier Investment Company Limited who complained of a slow response to application to raise new capital.[783] Most comments were positive; for example, the comment by Philip Hill of Philip Hill & Partners, whose new issue business had been decimated by the regulations:

> *'Under existing conditions, no sane man could find fault with these regulations.'*[784]

In other words, the Treasury had learned other lessons from the way in which the equivalent committee had worked and been criticised during the 1914–1918 war.

Relationship with the Stock Exchange

This benign state of affairs owed much to the constructive relationship between the committee and the Stock Exchange. From the beginning, there were clear divisions of responsibility between Lord Kennet's committee and the Exchange. Whilst Lord Kennet's committee dealt with the approval of new issues within the terms of the government's regulations, the Exchange dealt with questions relating to trading within the exchange and the grant of permission to deal in a newly issued security. To this end, in parallel with the issue of the Defence (Finance) Regulations in September 1939, the Exchange issued its own Temporary

---

[780] House of Commons Hansard; 7 April 1936. Sayers (1976); Volume II; page 582. For the terms of reference and initial membership of the committee see Sayers (1976); Volume III; Appendix 30; page 299. Apart from Lord Kennet, the members included the Deputy Governor of the Bank of England and the Chairman of the Stock Exchange. Peden (2000); page 314.

[781] *The Times*; 15 September 1939; page 13. Remarkably, Lord Kennet was to remain as Chairman of this committee until March 1959: almost to the end of the committee's life. *The Times*; 23 March 1959; page 10.

[782] 'The war-time Treasury control of capital issues has always, and rightly, been characterised by a certain degree of elasticity . . .' *Financial Times*; 24 November 1942; page 2.

[783] *Financial Times*; 9 March 1945; page 1.

[784] *The Times;* 7 June 1940; page 11.

Regulations which provided that if the Treasury's committee objected to an issue it would not be listed or traded and, as in 1915, required that all trading was to be for cash and for immediate delivery (i.e. fortnightly settlement was suspended). Continuations and options were banned. Minimum prices were set for all government debt and associated securities.[785] By these means, it was hoped to avoid speculation particularly in relation to news of military successes or failures.

There was thus an active co-operation between the Exchange and the Treasury in which the Exchange readily accepted its junior role. As the Exchange's committee was to suggest in its Annual Report for the year ended 24 March 1942:

> *'The Stock Exchange has settled down to a wartime routine which not only affords all essential facilities to the investing public but at the same time provides means for carrying out the policy of the Government in various important directions such as the control of new capital issues.'*[786]

There were, of course, occasional difficulties in the relationship as practical problems in applying the government's controls arose and were resolved. Although the legal framework established in September 1939 was to remain largely unchanged throughout the war, there was continual agitation for changes to be made. Sayers (1956) suggests that the explanation for this 'paradoxical contrast' between the stability of the framework and the agitation for change lies in confusion over the purposes for which the control had been introduced. He suggests that public opinion accepted that its principal purpose had been to check the use of real resources for inessential purposes, although a control of new issues was of little use for this. In practice, the Treasury and the Bank of England turned it to quite different service as an instrument to 'groom the market' in gilt-edged securities. He therefore suggests that the control became devoted to questions not of whether an issue should be permitted but of what should be the terms of the issue. If so, it would help to explain why market reaction to the operation of the control during the 1939–1945 war was so much less negative than reaction during the 1914–1918 war.[787]

Agitation was incited in May 1940 when the Chancellor of the Exchequer introduced a Limitation of Dividends Bill which aimed to set a maximum level for dividend declarations but,

---

785 Stock Exchange (1945); pages 74–77.
786 *Financial Times*; 2 October 9142; page 3.
787 Sayers (1956); page 167.

inter alia, provided that no securities should be issued by way of capitalisation of profits or reserves.[788] It was proposed that the maximum amount should be determined by reference to dividends declared by a company between 1936 and 1939 irrespective of subsequent changes such as the issue of additional capital. Thus, even if the issue of additional capital had been sanctioned by Lord Kennet's committee, it would not have been permissible to increase proportionately the total amount paid by way of dividend. After consultation, and protests, the bill was withdrawn.[789]

Similarly, a practical solution was found by agreement in 1942 when experience showed that companies had been taking advantage of an exemption from the ban on new issues that had been granted to facilitate mergers and amalgamations. A holding company would be formed to acquire the capital of another, usually in the same trade, by the allotment of shares that would then be sold to stockbrokers for introduction to the market. This was thought to be contrary to the spirit of the regulations and was dealt with by an agreement that permission to deal on the London Stock Exchange (or the provincial exchanges) would not be granted except with the consent of the Treasury. As The Times observed:

> *'The [Stock Exchange] Committee and the Treasury have hitherto worked harmoniously together, and probably the new procedure (which is designed to close certain loopholes that experience has shown to have been left open by those regulations) will entail in practice little change from those at present.'*[790]

The position of members

The fact that the Exchange was able to work harmoniously with the Capital Issues Committee did not mean that wartime conditions were proving benign for members. In the years immediately before the onset of war, members' incomes had proved disappointing. No member can have expected that incomes would be improved by wartime conditions, but the experience may have been worse than expected. After all, the Exchange's position had deteriorated since 1919. There had been a gradual development of the volume of business handled by provincial exchanges partly as a result of the London Stock Exchange's policy on rates of commissions and its attitude towards the provincial exchanges. Although an attempt

---

788 Bill 1940/46; 9 May 1940; BPP. *Financial Times*; 17 May 1940; page 2.

789 'Exit Dividend Limitation'; *Financial Times*; 5 June 1940; page 2. The bill was dropped in part because Excess Profits Tax was raised to 100%; but also because it was believed that the bill's objects could be achieved through the existing controls on capital issues.

790 *The Times*; 23 May; page 7. *Financial Times*; 22 May 1942; pages 1 and 2.

had been made in 1939 to reach an accommodation with the provincial exchanges in the hope that the activities of country jobbers might be restrained, the attempt had been undermined by the London Stock Exchange's refusal to grant provincial brokers direct access to the London market. Even the limited compromises that were reached faded away following the onset of war.[791] At the same time, overseas brokers remained active competitors through their offices in London. In September 1939, there had been 15 offices, all of which became members of the newly formed Association of New York Stock Exchange Member Firms having representation in the United Kingdom.[792]

Above all, although there had been a considerable increase in public interest in investment and shareholding, the London Stock Exchange had done little either to attract this new business or to encourage the lower cost investment media that were being developed to meet the demand.

There was yet one other factor. The government's need to borrow to finance the war might have led to an increase in business for members. Yet among the lessons that the Treasury and the Bank of England had learned from the 1914–1918 war was that there were ways of raising loans that did not involve the Exchange or the cost of that involvement. In other words, the government tended to design its securities so that they appealed directly to institutions and to members of the public:

> *'An important feature of wartime borrowing was the large sums raised in various securities not quoted on the Stock Exchange; Treasury Bills, Treasury Deposit Receipts, Tax Reserve Certificates, Savings Certificates, Defence Bonds, and annuities issued to the savings bank. Thus at the end of the financial year 1945-6, the total internal national debt was £23,373 million, but only £12,268 million was in Stock exchange securities. Of this, £2,019 million was held by the National Debt Commissioners, the Bank of England, the Exchange Account and other public departments. Individuals seem to have done their saving largely through the institutions and the National Savings Movement, and their holdings of Stock exchange securities increased by much less than they had done in the First World War. The holdings of the banks, the discount market, insurance companies and pension funds all increased greatly and there was also a big rise in foreign holdings.'*[793]

---

791 Conference between the London Stock Exchange and the Associated Stock Exchanges; June 1939; Stock Exchange Archive; Guildhall Library. Michie (1999); page 239.
792 *Financial Times*; 16 September 1939; page 3.
793 Morgan and Thomas (1961); page 196.

All of these factors cohered to undermine the volume of business transacted on the Exchange and thus the incomes of members. The initial decline in the volume of business is reflected in Paukert's statistics, based on Stamp Duty data:

Table 10.1: Estimated value of dutiable Stock Exchange transactions 1938–1946[794]

Year	*1938–9*	*1939–40*	*1940–1*	*1941–2*	*1942–3*	*1943–4*	*1944–5*	*1945–6*
£m	464	348	233	301	409	522	553	788

As a comparison, Paukert's data suggest that the highest annual volume reached during the 1930s was £1,034,000 in the year 1936–1937, a level that was not reached again until the year 1946–1947. Although matching data for members' incomes do not exist for these years, they must have been proportionately lower than in the pre-war years as without fees from new issues and without income from 'own account' speculation, which was discouraged by the requirement of cash trading, income was bound to be almost wholly commission-based.

Consistent with this conclusion, the numbers of members fell between 1939 and 1945:

Table 10.2: Members' numbers: brokers and jobbers 1938–9 compared with 1945–6[795]

	Brokers			*Jobbers*		
	1938–9	*1945–6*	*+/-%*	*1938–9*	*1945–6*	*+/- %*
Number of firms	466	402	*-13.8*	344	254	*-26.2*
Number of partners	1,765	1,486	*-15.8*	1,127	852	*-24.4*
Number of partners per firm	*3.8*	*3.7*		*3.3*	*3.4*	
Number of clerks	2,447	2,132	*-12.8*	1,292	1,062	*-15.7*
Number of clerks per firm	*5.3*	*5.3*		*3.8*	*4.2*	
Total of partners and clerks	4,212	3,618	*-14.1*	2,419	1,914	*-20.8*
Gearing; i.e. partners as a proportion of total of partners and clerks	*41.9%*	*41.1%*	*-1.9*	*48.3%*	*44.5%*	*-7.9*

794 Paukert (1961); page 304.
795 Stock Exchange committee Annual Reports; Stock Exchange Archive; Guildhall Library.

These data demonstrate that there was an absolute decline in the numbers of firms between 1938 and 1946, and that this decline affected jobbers more than brokers. Moreover, among jobbing firms, the decline in profit-sharing participants was greater than the decline in participants remunerated largely by salary. This is consistent with pressure on the profitability of jobbing firms reflecting the increased cost of maintaining trading liquidity against a background of declining trading volume. As further confirmation of the pressure on incomes, the cost of a nomination remained low throughout the war.[796]

There were other signs that members were under pressure. The increased cost of maintaining trading liquidity led jobbers to try to increase the margin between quoted buying and selling prices.[797]

For brokers, as there was no possibility of increasing trading volumes, the obvious response was to re-examine commission rates and rebates although this option was not without risk. Both increases in commission rates and reductions in rebates payable to introducers threatened to increase the incentive for counterparties to bypass the Exchange. The campaign on these issues began soon after the beginning of the war for in February 1940 JB Braithwaite of Foster & Braithwaite was suggesting that there was both an opportunity and need to reduce rebate costs:

> *'. . . war conditions present us with a unique opportunity . . . We cannot raise our charges to the public to meet these conditions, as is being done on every hand by other businesses and industries, but we can, and I think that in the interests of members that we must, achieve a similar end by the internal economy of reducing our rebates to agents.'*[798]

Discussions led to a proposal in May 1940 that the rebate payable to all agents should be reduced from 50% to 33%: a proposal that encountered opposition from banks. It was eventually agreed that, with effect from June 1941, the rebate payable to banks would be reduced to 33% and that, at the banks' insistence, the rebate payable to all other agents would be reduced to 25%.[799]

---

796 Michie (1999); page 302.
797 Stock Exchange Committee minutes; 16 October 1939; Stock Exchange Archive; Guildhall Library.
798 Stock Exchange Country Jobbing Sub-Committee; 27 February 1940; Stock Exchange Archive; Guildhall Library.
799 Stock Exchange Committee minutes; 28 January 1941; Stock Exchange Archive; Guildhall Library.

There always was a possibility that reductions in rebates would encourage introducers to direct their business away from the Exchange, either managing transactions through their own private networks in the case of issuing houses and institutional investors or directing business to provincial or overseas brokers. In an attempt to mitigate this possibility, the Exchange was prepared to recognise all members of certain overseas exchanges as eligible to be agents who would qualify for the higher level of rebates of commission.[800] Members of the New York Stock Exchange were not included in this arrangement as the London offices of New York brokerage houses presented direct competition for London brokers.

Sources of competition

Provincial brokers were regarded as a greater and more dangerous form of competition, however. Indeed, in May 1940, when commissions and rebates were being re-examined, there was support for a suggestion that provincial brokers should not be eligible for any rebate at all.[801] The result was that the Exchange looked again at its relationship with provincial exchanges and in particular at the threat posed by provincial jobbers which dominated attention at the conference with provincial exchanges in June 1939, before the war. The outcome of the Exchange's re-consideration was to attempt to deny access to non-members who were involved in jobbing and thus involved in closing deals that otherwise might have been directed through London. To this end, as was to be done for members of overseas exchanges, the London Stock Exchange offered the higher rate of rebate to provincial stock exchanges, thus treating them in the same way as banks. The offer was, however, conditional on provincial exchanges outlawing double capacity.[802] Although this change was implemented, it proved unsuccessful because provincial brokers who had combined broking business with jobbing easily evaded its effect by dividing their businesses between broking and jobbing activities. The divided firms that were the result thus formally complied with the London Exchange's requirement for eligibility for rebates although they continued to operate in practice as joint businesses. Time was to show that the provincial exchanges remained disinclined to assist in eliminating this practice unless the Exchange permitted direct access for provincial brokers to the London market: a negotiating position that had long been held by the

---

800 Stock Exchange Committee minutes; 5 August 1941; 8 September 1941; Stock Exchange Archive; Guildhall Library.

801 Stock Exchange Committee minutes; 6 May 1940; Stock Exchange Archive; Guildhall Library.

802 Stock Exchange Country Jobbing Sub-Committee; March 1940; Stock Exchange Archive; Guildhall Library.

provincial exchanges. This the London Exchange would not grant as it threatened the income earned by London brokers by handling business on behalf of provincial brokers.

Frustration over the difficulty of finding a way of mitigating the competition from provincial brokers was joined by frustration over the tendency for issuing houses and institutional investors to close deals in larger blocks of shares outside the Exchange. Although the regulations introduced in September 1939 regulated new issues, they did not apply to private placements of shares. It was thus possible for blocks of existing shares to be placed with purchasers acting privately outside any organised exchange. Such sales were not illegal since the regulations on new issues did not apply to existing shares. If the transaction was to be unaccompanied by any request for permission to deal in the shares on the Stock Exchange, such a placing would escape all independent scrutiny on grounds of investment merit or public interest. This single route to realisation of an equity interest appears to have been used by business owners for whom the attractions of continuing to own a business were undermined by the introduction in 1939 of an Excess Profits Tax levied at a rate of 100% on excess profits calculated by reference to pre-war profits and subject only to a credit of 20% payable only after the end of the war.[803] As The Times was to point out in November 1943:

> *'By by-passing the Sub-Committee of the Stock Exchange the parties in effect contract out of the conditions and obligations which the Stock Exchange has attached to its grant of permission to deal. The directors give no undertaking of responsibility, for example, for any statements made in connexion with the operation. There is no need for disclosure of any intermediary profits derived from the placings.'*[804]

Of course, this was a problem that had arisen during the 1914–1918 war, although in that war the problem was even more extensive as in regulating the new issue market reliance was placed upon the Stock Exchange's own regulations which did not apply to non-members. By September 1942, the problem was causing such concern to members that the Exchange was obliged to complain to the Treasury:

> *'For the placing of issues of the highest class, the Stock Exchange has developed a system which works satisfactorily as an alternative to an offer through the press. The brokers who handle such issues have learnt by experience the type of investor with whom the stock can best be placed; the amount of stock which it is wise to offer to each, and the extent to which the market can best be sued for the transaction of the business. . .*

803 Cheffins (2008); page 324. Sayers (1956); pages 88–89.
804 *The Times*; 19 November 1943; page 9.

> *'If brokers are to be debarred from the exercise of their knowledge and experience in the placing of securities for the companies for whom they act the gradual development of an outside and uncontrolled market both for the original placing and subsequent transactions in securities is a danger which cannot be ignored. . .*
>
> *'The issue is confined to a very small circle of large institutional investors, and the price received by the Company may be, through lack of competition, thereby depressed. The public can only participate later at an advanced price.'*[805]

This complaint did not bring forth a response from the Treasury, perhaps understandably since extending the existing regulations to cover private transactions of the sort that had led to the complaint would have involved a serious interference with private dealing. Thus the Exchange returned to its complaint in December 1943:

> *'The capital market is controlled by the Treasury through its Advisory Committee and by agreement gives to the Treasury complete control over all Stock Exchange markets, but it leaves wholly uncontrolled the very large and powerful, but mainly non-professional markets that are outside the Stock Exchange jurisdiction. The principal constituents of those markets are the Banks, the Insurance Companies, the Investment Trust Companies, the Acceptance Houses, the Finance and Issuing Houses, the Association of Stock and Share Dealers, the Mincing Lane Tea and Rubber Brokers' Association, and the large number of 'Somerset House' and other outside stock and sharebrokers up and down the country. . .*
>
> *'The effect of leaving this large outside market uncontrolled is naturally to drive into it that very business that the Treasury thinks it is against the national interest to permit.'*[806]

The combination of pressure on members' incomes and the inability of the Exchange to secure any significant improvement in their circumstances either by reaching agreement with provincial exchanges or by lobbying the Treasury led the Exchange to take a number of new directions.

New directions

In June 1942, a committee was created jointly with the provincial exchanges to discuss matters of common interest on a regular basis for although the interests of the various exchanges were not completely aligned, there were points on which they were in agreement.[807]

---

805 Stock Exchange Committee minutes; 21 September 1942; Stock Exchange Archive; Guildhall Library.

806 Stock Exchange Committee minutes; 6 December 1943; Stock Exchange Archive; Guildhall Library.

Also in spring 1942, informal discussions began between members and the proprietors of the London Stock Exchange with a view to unification of control: discussions that were to lead in July 1942 to the formation of a joint committee to develop proposals and in May 1943 to an agreement to the formation of the Council of the London Stock Exchange to replace both the Committee for General Purposes and the Committee of Trustees and Managers.[808] In part this constitutional innovation resulted from the parlous financial condition of the Exchange which, as between 1914 and 1918, had resulted from the reduction in activity and active membership brought about by the war.

But at this time thoughts were beginning to turn to post-war conditions and their implications for the Exchange. In July 1943, Nuffield College, Oxford, published a report entitled 'Employment Policy and Organization of Industry after the War' which was based on private conferences during the previous 12 months that had involved representatives of many interests. The report envisaged that after the war there would be a continuing need for some form of control of investment, both domestic and overseas:

> *'The certainty of a high post-war demand for capital goods will make it necessary to see that resources for investment are not frittered away and that priority is given to forms of investment most serviceable to the community.'*[809]

These objectives were similar to those of the Treasury in establishing the Capital Issues Committee in 1939 and implied that there would be support for continuation of capital issue controls after the end of the war. In other words, the Stock Exchange must have been contemplating a future in which members would be permanently disadvantaged by a permanent system of new issue controls that allowed certain types of unregulated trading to continue outside the Exchange. Added to this prospect would have been the realisation that however harmoniously the exchange had been able to work with the Capital Issues

---

807 The committee consisted of four delegates from the London Stock Exchange, four from the Council of Associated Stock Exchanges and two from the Provincial Brokers Stock Exchange. *Financial Times*; 2 October 1942; page 3.

808 Morgan and Thomas (1961); page 232. The council was to consist of nine Trustees and Managers ex officio as foundation members and 30 ordinary members elected by ballot. The constitution therefore recognised the supremacy of the membership in all matters. In 1920 negotiations about mutualisation had foundered on the issue of acquisition of the proprietors' shares. In 1943, this issue was deferred and finally resolved in 1948 when for the shares were substituted redeemable annuities.

809 Nuffield College Social Reconstruction Survey (1943). *The Times*; 1 July 1943; page 5. The Survey had begun work in 1941. Nuffield College Library: MSS NCSRS.

Committee, it had not been able to capitalise upon this relationship when lobbying the Treasury to seek relief for members from outside trading. The Exchange needed to become more effective in lobbying on behalf of members' interests and to find a way in which outside trading could be regulated.

The formation of a joint committee with provincial exchanges was one element of a response, for chances of success in lobbying were bound to be maximised by campaigning together. Moreover, the innovation in London of a council replacing the two former committees was intended to create a single unified voice that could speak authoritatively for the London Stock Exchange.

It was against the background of these developments that in December 1943 the Exchange had renewed its request that the government should discourage the outside trading in blocks of shares. To this request was added a request that the Prevention of Fraud (Investments) Act 1939 should be brought into force:

> *'If the Prevention of Fraud Act had been brought into force, the Treasury would have had ready to its hand an easy means of exercising its control over the outside market, because all dealers in stocks and shares outside the recognised Stock Exchanges would have had to become either licensed or exempted dealers and so would have been known and controllable.'*[810]

Although the proposed legislation had caused the Exchange some difficulty in 1937, these difficulties had subsequently been resolved and the Board of Trade's draft regulations had found general approval in the City:

> *'While, therefore, the regulations might seem extremely severe, they were necessarily so in view of the type of business they were designed to control.'*[811]

Moreover, in 1939 it had seemed that implementation of the Act would have the desired effect on outside activity:

> *'The recent decisions of two well-known and reputable firms of outside share dealers to go into voluntary liquidation underline the stringent control over dealings in*

[810] Stock Exchange Committee minutes; 6 December 1943; Stock Exchange Archive; Guildhall Library.
[811] *Financial Times*; 2 June 1939; page 5.

> *securities which will be imposed by the Prevention of Fraud (Investments) Act when it becomes fully operative.'*[812]

Although the onset of war had prevented full implementation in the autumn of 1939, in formal terms it had only been postponed by six months: a postponement that had subsequently been repeated at six-monthly intervals. The Stock Exchange's request in December 1943, doubtless supported by the provincial stock exchanges, found a receptive audience in the Board of Trade, a rumour that implementation was about to be ordered appearing in the newspapers as early as 1 January 1944.[813] A month later, on 1 February 1944, it was formally announced that applications for licences should be submitted by 15 April 1944 in preparation for implementation in mid-July 1944.[814]

The 'grey' market

Although the Board of Trade thus responded positively to the Exchange's request for the 1939 Act to be brought into force, it did not agree that the Act could or should be used as a form of protection against the circumvention of its controls and thus against the grey market; although it was accepted that there was a problem that required some action. Instead, the Bank of England was invited to open negotiations with issuing houses and institutional investors which led to a 'gentleman's agreement' in June 1944. It was agreed that shares involved in a placing would only be sold to institutions on an approved list. In turn, those institutions undertook that they would not re-sell the securities at a discount within six months and that they would not buy new unquoted securities unless the proposed placing had first been approved by the Treasury: approval that would be given on the basis of voluntary disclosure as the regulations were not amended to require prior disclosure of proposed placings. This approach was adopted because of nervousness over the extent of interference that would be involved in an attempt to regulate private transactions of this sort (i.e. transactions that did not take place through a recognised exchange). This agreement appears to have reduced the incentive to bypass the recognised exchanges but did not eliminate it since houses that were not parties to the agreement were not be bound by it. In the end, the agreement collapsed.[815]

---

812 *Financial Times*; 10 August 1939; page 4.
813 *Financial Times*; 1 January 1944; page 1.
814 *Financial Times*; 2 February 1944; page 3. 6 March 1944; page 2.
815 *The Times*; 5 June 1944; page 4. 6 June 1944; page 7. 23 June 1944; page 9. 21 December 1944; page 9. Morgan et al (1961); page 230. Michie (1999).

In December 1944, matters came to a head when the Stock Exchange refused an application for permission to deal in the 2 million new 4¼% 'C' preference shares of General Electric Company Limited which had been issued to repay a loan from an insurance company. In accordance with the informal agreement with the Bank of England, although it was not intended that the shares would be offered to the public or to the existing shareholders, the Capital Issues Committee's approval was sought, and obtained, before the shares were placed with a syndicate of finance houses. Subsequently, the shares were placed with institutions on the approved list, including an allotment of £150,000 to three firms of jobbers. A delay had occurred between approval of the transaction and its completion, during which time prices rose on news that the German offensive in the Ardennes had been defeated with the result that the allottees of the shares benefitted from a substantial unforeseen profit. This caused some resentment as the financial institutions involved in this transaction appeared to have benefitted from a private arrangement: especially since an opportunity to subscribe for the shares would normally have been a right of the existing shareholders. Whatever the merits of the case and the Stock Exchange's decision may have been, it exposed the unattractiveness of reliance upon an informal agreement, leading The Times to adopt a parsonical tone:

> *'It will be generally agreed that it is desirable to avoid any risk of a further Order, with all its disadvantages at this stage of the war; and the Treasury, which may be expected to share this view, would not doubt refrain from making one so long as it can be avoided. However, it is clear that the efficacy of a gentleman's agreement depends on the willingness of all people either at the one stratum of the market or at the other – that is to say, either the finance houses who place the shares or the institutions which buy them – to be gentlemen. Whether the restriction as such is necessary in the national interest is of course quite another question and opinions thereon differ widely.'*[816]

In response to these events, in February 1945, the Bank of England proposed with Treasury support that those to whom securities were allotted in similar circumstances should not be permitted to dispose of them for six months: a proposal that the Exchange opposed on the grounds that it would discourage anyone from investing in new securities. Whilst this suggestion was withdrawn, the penalty for the Exchange was an agreement by which issues would continue to be cleared with the Bank which would also be entitled to declare that the new issue market was closed. By this point, the timing and amount of new issues could be determined by the government acting through the Capital Issues Committee and the Bank of

[816] *The Times*; 21 December 1944; pages 4 and 9. Morgan et al (1961); page 230.

England whilst the Exchange was left considering applications for permission to deal and thus determine whether the securities were acceptable.

Conclusions

By the end of the 1939–1945 war, there was no questioning the position: statutory regulation had arrived and would continue in the form of the Prevention of Fraud (Investments) Act 1939 under the umbrella of the Board of Trade. In parallel, the Capital Issues Committee would continue and was soon afterwards to be given formal statutory authority, working under the guidance of the Treasury.[817]

Public regulation had once been an anathema to the Exchange, even the remotest form of oversight that was implicit in the grant of a Charter. Ironically, when the 1939 Act was brought into force in 1944, it was in response to a request from the Exchange. Compared with 1914, when such an eventuality would have been unthinkable, the Exchange's position had changed. Before the 1914–1918 war, the Exchange had been robust in its independence: confident in the ability of its members to compete with all-comers and prevail. As The Economist observed in an article published in June 1945:

> *'Forty years ago, that is, at a time when some of those who are today the leading figures of the profession were already in, or about to enter, the 'House', competition between brokers was nearly as absolute as may be. Between 1905 and 1909, however, as a result of continuous pressure, the committee was persuaded to introduce the scales of minimum commissions, which remain in force, with minor changes until today. To a large extent, this reform substituted competition in service for competition in price, a distinction which has been of growing importance from then on.'*[818]

By 1945, after years of poor trading, both in peacetime and in war, the Exchange had lost its pre-eminent position internationally and was aware that it was being bypassed domestically. Through refusal to seek out opportunities for business development, either by meeting the new broader public interest in investment or the new investment media others were developing to take advantage of that interest, the Exchange had lost ground. Increasingly its members had come to rely upon their control of the rules as a means of defensively protecting their interests rather than confidently sustaining their reputation as a safe place in which to do

---

[817] Borrowing (Controls and Guarantees) Act 1946. A draft memorandum of guidance to the committee was then published by the Treasury as a White Paper. (Cmd 6726). Peden (2000); page 376.

[818] 'Responsible stockbroking.' *The Economist*; 23 June 1945; page 858.

business. As The Economist went on to observe, having reviewed the developments that had occurred between 1914 and 1945:

> *'All these changes add up to an altered mentality among brokers, which is the counterpart of similar movements in so many other fields. It is a mentality which prefers reasonable, but secure, profits to long risks with the alternatives of brilliant success or equally striking failure. The business of stock broking is becoming a service industry, and the members are behaving in a way which tends to limit the possibilities of speculation both for themselves and for the public.'*[819]

For the government, acceptance of the Exchange's control of the Conduct of Business Rules was justified by the avoidance of a repetition of the experience of January 1919 when opposition to the continuation of capital controls had led to a humiliating withdrawal. Realistically, this concession was unlikely to result in frustration of the government's wishes in terms of market management. Trading in government securities represented too large a proportion of the market for the Exchange to ignore government pressure. By pragmatically accepting the compromise, a debilitating dispute with the Exchange was avoided together with any collateral effect this may have had on proposals for reforms of other City institutions. If nothing else, the role played by Montagu Norman in stage-managing the Hatry crisis had demonstrated the potency of his role compared with the more limited influence of the Exchange and thus the greater significance of proposals to nationalise the Bank of England.

[819] 'Responsible Stockbroking'; *The Economist*; 23 June 1945; page 859.

CHAPTER ELEVEN – CONCLUSIONS

At the close of business on 14 May 1945, a week after VE Day, members gathered around the South African War Memorial on the trading floor for a service of thanksgiving to mark the end of the war. In the presence of the Lord Mayor and a Sheriff,[820] the Doxology was sung in hearty voice[821] as had happened at a similar gathering in November 1918:[822]

> *'Praise God from whom all blessings flow.'*

It was as if members were determined to show that little had changed since 1918 when there had been a similar gathering in the same place singing the same hymn. Appearances belied reality. The Exchange, its practices and its prejudices had changed beyond measure.

In 1945, the groups that the Exchange existed to serve were looking for risk-free execution: a share transmission system that did not itself add to the risks of investment. In contrast, some have likened the market before 1914 to the Wild West. In 1945 the Exchange was operating in the context of a statutory framework of registration and regulation. To the members of 1914, this would have been an anathema.

As The Economist was to note in an article a month later:

> *' . . . stock-broking is becoming a service industry . . .'*[823]

This study has examined the process by which these changes had come about and in particular the pressures that led to a series of flawed regulatory interventions and, ultimately, the statutory regulation of share traders. In the process of change, 1929 was a watershed that led to the abandonment of the Exchange's traditional approaches.

---

820 The Sheriff in question was also a member: the senior partner of Charles Stanley & Company, one of the firms involved in weak underwriting in 1929.

821 *Financial Times;* 15 May 1945.

822 On that occasion in the presence of the Lord Mayor and the Governor of the Bank of England. *The Times*; 12 November 1918; page 13.

823 'Responsible Stockbroking'; *The Economist*; 23 June 1945; page 859.

Stock Exchange attitudes before 1929

At the turn of the century, the Exchange viewed itself as a private club which provided a place where members could undertake a particular kind of business. Its function was to facilitate members' trading: no more. No corporate responsibility was accepted for the trading activities of members: they were the responsibility of members alone. Whilst members were required to comply with the rules of the Exchange, the purpose of the rules was to facilitate trading and to protect the reputation of the Exchange. These rules served to mitigate counterparty risk for members, but only tangentially affected investors' risks. The Exchange mediated disputes between members, but was not concerned with disputes between members and their clients. The market was expected to be volatile and from time to time investors incurred losses. That was a matter for them. The Exchange did not accept responsibility for mitigating the risks for investors.

This attitude persisted during and after the 1914–1918 war. New issue controls were welcomed by members in 1915, as the price of the government's acquiescence to the reopening of the Exchange. In January 1919, the Exchange supported the introduction of Regulation 30F to discourage the transfer of business to off-market traders. When Regulation 30F was opposed by members appalled by the prospect of prolonging government control, the Exchange campaigned for the early removal of all wartime controls and restraints. In effect, the Exchange ignored the warnings that an early return to pre-war trading conditions might expose unsuspecting new investors to abuse. The Exchange was doing no more than holding to its pre-war position. For the Exchange, this was reversion to 'business as usual'.

After the war, the Exchange continued to hold to this approach. It protected the rules against manipulation, for example when it acted in December 1919 to conform the rules for offers for sale to those for prospectuses, but it did not act to limit the incipient risks of a crash. When the first crash of 1929 occurred, it was realised that standard underwriting contracts had been rendered unreliable. Removing the liability of lead underwriters for defaults by sub-underwriters had cleared the way for placing underwriting with insubstantial companies that could not honour their undertakings. The result was that a large number of insubstantial companies floated in 1928 failed in 1929 and many investors lost their money. It was then realised that the shares in question had been promoted by off-market operators involved in abusive selling. Both the degradation of underwriting contracts and the character of the off-market interests involved ought to have been known to the Exchange's committee, which could have refused the applications for dealing in the shares. This had not been done, presumably because the committee accepted without question the sponsoring brokers' undertakings that the issues were sound. Investors' risks were not the Exchange's concern.

Whilst the Exchange was holding to this view, others had been dismayed by the failure to realise post-war hopes of economic reconstruction. There had been a prolonged debate in academic and political circles about the failure of capitalism and the need for reform of financial institutions. The reports of two government committees show why the Exchange could hope to be untouched by this debate. The Greene Committee was charged with examining company law, and found that the law on share issues and prospectuses was largely satisfactory. It accepted that the law on abusive selling of shares was inadequate, and that arrangements for investigation of company failure were disappointing. Yet the measures it proposed were not grounded in a detailed analysis of the success or failure of methods of control employed in other jurisdictions and proved futile.

The Balfour Committee was charged with examining the effectiveness of the financial system in providing finance for industry and also concluded that the system worked adequately. It inquired into the consequences of over-capitalisation caused by predatory company promoters but found that there was no difference in principle between over-capitalisation caused by promoters and that caused by strategic management errors. Companies could and did survive over-capitalisation. This analysis distracted attention from the losses of unsuspecting investors duped by the promoters.

Buoyed by such analyses, it was possible for the Exchange to maintain its traditional position. There is no evidence that, before 1929, anyone within the Exchange had foreseen the implications of the growing risk that recent issues of insubstantial companies would collapse and the development of an increasingly risk-sensitive marketplace. Indeed, there is no evidence that the Exchange understood the implications of the changing character of investors and vendors. Many newly involved investors were ill-equipped to manage their own risks and were not able to rely on advice from members or on the support of the network of close relationships within the City. Such investors easily became the prey of abusive share-pushers operating either in collusion with members or completely outside the Exchange. Meanwhile, an increasing number of companies looked to the Exchange to finance investment or reorganisation as their own internal sources of finance proved inadequate. Such investors and vendors looked to the Exchange for a marketplace that was less speculative and volatile than had traditionally been the case, and which by its undue volatility did not add significantly to the risks that they were obliged to manage.

Although some members were able individually able to manage their businesses to take advantage of changes in the market, it proved difficult for the Committee to infer from this disaggregated evidence how the overall market would develop.

The two crashes of 1929

By posing an existential threat, the two crashes of 1929 convinced the Exchange that its traditional attitude was no longer tenable. In the first crash of 1929, failure so quickly of so many companies floated in 1928 caused intolerable losses for many unsuspecting investors, including many whose interest had been kindled during and since the war. The second 1929 crash, the Hatry crash, threatened to impose losses on investors as a result of a failure of the Exchange's processes, and thus caused increasingly important corporate investors to question whether they could rely on the Exchange to provide a risk-free transmission system. 1929's crashes were a validation of criticisms of the City's financial institutions that had gained currency in academic and political circles. They appeared to justify the policies of the new minority Labour government.

Encouraged by the Governor of the Bank of England, the Exchange's response was direct and effective, entailing for the first time abrogation of caveat emptor, acceptance of responsibility on behalf of members who were not personally exposed to the deferred Hatry settlement and an acceptance that provincial exchanges must be involved in the scheme for the deferred settlement. This acceptance is implicit in the members' creation of a fund to settle deferred Hatry-related deals irrespective of the individual members who had been responsible for the deals. It is also implicit in the emphasis placed on the role of sponsoring brokers in assuring the substance of new issues, and by the Exchange taking power to confirm for itself that members' undertakings were reliable. Coupled with 'warning off' the brokers that had been prepared to collaborate with discredited off-market operators, these actions were not only radical, but they were costly to members since they involved terminating a source of income at a time when members' incomes were under pressure. They were, however, undeniably successful in eliminating virtually all insubstantial issues, as the Exchange itself was later able to boast:

> *'The new attitude to promotions was so effective that when there was another boom in 1936 it was completely unaccompanied by the scandals and misfortunes of previous booms.'*[824]

Stock Exchange attitudes after 1929

Ironically, the Exchange's success contributed to its ultimate failure to stave off government intervention. The market always responded to regulatory interventions in the same way. At first an attempt would be made to find a way of achieving the clients' objectives within or around the rules. If that attempt failed, the business would move outside the market. In the early 1930s, denied access to the Exchange's market, abusive share traders continued their activities outside the market. Beyond the reach of the rules of any recognised exchange, traders knew that the threat of prosecution was the only constraint on their activities and evidently had no respect for that threat. The ensuing boom in abusive off-market share-pushing was gleefully seized by newspapers as an opportunity to campaign on behalf of middle class investors in a bid to increase readership. Notable among the campaigning newspapers was the Daily Mail which had been instrumental in drawing attention to the American Jacob Factor in the 1920s and focussed on him again in the 1930s. In an attempt to put an end to the Daily Mail's campaign, Maurice Singer, one of Factor's associates, initiated a libel action that exonerated the Daily Mail by the unqualified acceptance that its articles were true in every particular. In political circles, this judgment was regarded as a new validation of a critique of the City's financial institutions and led to renewed pressure for reform. Rather than resist, the government opted to appoint a committee to investigate ways in which share-pushing could be controlled, thus turning a debate about institutions into a technical argument about methods of control. Having conclusively established that prosecutions had not deterred abusive trading, the Bodkin Committee recommended that all share traders should be registered under arrangements that would respect and favour the independence of the Exchange. These arrangements were accepted by the government even though they involved delegation of authority under public law to an unsupervised private body: an arrangement that preserved the Exchange's independence and enabled it to manage the Conduct of Business Rules in defence of members' private interests.

Although these arrangements were not brought into force before the onset of war in September 1939, they came into operation in 1944, following a request by the Exchange.

824 Address by the Vice-Chairman of the Quotations Committee. *The Accountant;* 2 February 1952.

Capital issue controls had been re-introduced at the beginning of the war. By 1943 it was clear that they would remain for some time after the war had ended, and the Exchange decided that it should not leave reaching agreement with the government on regulation of share trading until after the end of the war. For the government, agreement on implementation was preferable to imposition and justified acceptance of a compromise in which the Exchange was not explicitly subject to oversight by the Board of Trade. It was thus allowed to retain its formal independence, in return for an understanding that there would in private be consultation and co-operation.

Thus the Stock Exchange had been able to preserve the appearance if not the full substance of independence and largely remained in control of the Conduct of Business Rules which had proved to be important in defence of the members' interests. For its part, the government had accepted that the Exchange retained a measure of control over its rules with the appearance of independence but in return had secured acceptance of its influence over the market's management. This delicate balance between substance and appearance was to be the foundation for the relationship between government and the Exchange for 30 years.

The cost of settlement

In reaching this settlement, both parties had been obliged to accept a price that they would both have preferred to avoid.

As far as the government was concerned, the main price was acceptance that it should not have the statutory power to oversee the Exchange. Rather than power to direct, the government accepted that achievement of its policy objectives would rest upon the Exchange's acceptance of government influence communicated privately.

As far as the Exchange was concerned, the price was more substantial. Apart from an acceptance that government influence would continue, in part through the prolongation of capital issue controls, it included the abandonment of caveat emptor as an organising principle, a change in its relationship with members and a change in its relationship with the provincial exchanges.

In 1929, the Exchange had been obliged to accept that it had a responsibility to investors beyond the membership by creating a fund to meet the cost of settlement of Hatry-related deals which had been deferred following the crash of Hatry's group of companies. Since its foundation, the Exchange refused to accept any such responsibility, concentrating solely on its duty to mitigate counterparty risk for the benefit of members. The change was only accepted when it became clear that the collusion of members with disreputable off-market operators created the danger that the Exchange's adherence to the principle of caveat emptor could be made to appear as a cynical device to take advantage of unsuspecting and unsophisticated investors.

This departure changed the financial risk for members and inevitably brought with it a change in the relationship between members and the committee. Although the fund to cover the costs of the deferred Hatry settlement was not to become a permanent arrangement, members must have known that if similar circumstances ever arose again, they would not be able to avoid financing a similar compensation arrangement. From this point it was in the members' interest that the committee should seek to prevent a recurrence of events such as those of 1928 when members had colluded with disreputable interest. A recurrence would bring with it financial liabilities for all members: a prospect that the members would expect the committee to avoid.

Adoption of a sterner disciplinary regime within the Exchange involved a greater sense of distance between members and the committee, which took powers to investigate members' undertakings where previously it would have tended to accept them readily. That this change in the relationship with members was likely to be permanent was eventually recognised by the Exchange in its new constitution, foreshadowed during but agreed after the war, in which the annual committee elections were to be replaced by election of committee members for three-year terms.

By 1944, the Exchange had also accepted that the wartime capital controls would continue after the war, and that government's continuing role required a change in the relationship between the London and provincial stock exchanges to avoid the risk of the exchanges' influence being undermined by the government exploiting their divisions.

Dawning realisation

Reaching this settlement took many years. Only slowly and at times reluctantly did the government and the Exchange acknowledge the changed circumstances that emerged from the 1914–1918 war.

Government interest in securities trading

As a consequence of the 1914–1918 war, securities trading and the Exchange became more important to the government. Having realised by the end of 1914 that a functioning stock exchange was necessary if its borrowing needs were to be satisfied, the government facilitated the reopening of the Exchange. The national debt was never to return to pre-war levels so that the Exchange's role in its financing became a permanent concern for government.

To this interest was added the political imperative of managing the country's return to prosperity and thus the importance of a properly functioning capital market.

By the summer of 1918, the Treasury had acknowledged these concerns, as the development of Regulation 30F shows. In supporting rather than opposing the introduction of Regulation 30F, the Exchange's committee had also shown that it recognised these concerns. The Exchange's members did not share this conclusion, however, and joined the opposition which forced withdrawal of the regulation. Moreover there is no evidence that either the Treasury or the Exchange realised that the government's interest in the market would last longer than a period of adjustment to peacetime conditions. The acknowledgement that the interest must be regarded as permanent came only with the end of the 1920s.

Importance of market insight and support

It also took the government many years to learn that market regulation works better when there is agreement between regulators and those regulated over the objectives of regulation. If there were substantial disagreement, then any regulatory intervention would be undermined by members seeking to exploit weaknesses in the regulations and, if that failed, trading outside the regulated marketplace.

This should have been evident from the experience of the Fresh Issues Committee during the war. Appointment of a committee with no market experience, which behaved in an autocratic manner and made decisions that seemed irrational, forfeited the market's initial support and encouraged off-market activity. However clear this now seems in retrospect, the Treasury was not deterred from drafting Regulation 30F, without prior consultation, to prolong the controls beyond the end of the war, only showing a draft to the Exchange shortly before promulgation. Subsequently the regulation had to be withdrawn in the face of fierce opposition.

The importance of market support had been acknowledged by 1939, for in the 1939–1945 war new issue controls were administered by an existing committee that had already established a satisfactory reputation for its manner of working and the rationality of its decisions.

The advantage of the approach adopted in 1915 was that the Fresh Issues Committee was isolated from pressures within the market that might have led it to compromise the purpose of the controls, as articulated by the Chancellor in private to the committee's chairman: the denial of approval to as many new issues as possible. In other words, it served to avoid the risk that the committee might be 'captured' by the market. Conversely, the disadvantage of the approach adopted in 1939 was a risk that the committee might be 'captured'.

Market support for interventions was better understood by the Exchange, for the committee was constrained by the practical requirement that its innovations required the approval of members. The committee must always have been mindful that any lack of support would lead to defeat at the next annual election.

Throughout the 1920s, this constraint proved troublesome for the Exchange. Changes in the character of the market tended to polarise the membership between those who concentrated on serving the increasingly important institutional investors and those who concentrated on more traditional, personal business, who were in the majority. There is no evidence that either the committee or the members generally were able to infer from the disaggregated trading of individual members the implications for the market overall of the changes that were taking place: the growing expectation that the market's processes and behaviour should not add unduly to the risks that investors and vendors were obliged to manage. Thus, not only were proposed rule changes frequently rejected but there was no action to stave off the risks to the Exchange's independence that would eventually be made evident by the crashes of 1929.

This failure of insight was not corrected until 1930, by which time the consequences of further inaction had been made unavoidably clear for all members by the crashes of 1929.

Reliance on prosecutions

Abusive off-market share-pushers were not a creation of the 1920s: there had been many before. But with a broadening interest in investment they were to thrive in the 1920s so that their abuses became more troublesome and the failure of prosecutorial activity to deter share-pushers became more evident.

The danger had been recognised officially as early as 1925 when the Greene Committee's report recommended the creation of a new offence of door-to-door share selling which implicitly accepted that the existing law was inadequate to prevent abuses occurring and unsuspecting investors incurring heavy losses. Acknowledgement by government that the position had become untenable did not come until 1936, after it had become clear that the Exchange's 1930 reforms had driven all abusive activity off-market. This acknowledgement was precipitated by the outcome of a libel action in which Maurice Singer sought redress in respect of articles published by the *Daily Mail* in which Singer had been described as an unscrupulous share-pusher. The Court's acceptance that the articles had been true in every particular and the subsequent news that Jacob Factor, the leader of the gang of which Singer was a member, had paid back a substantial amount of cash to a liquidator vindicated newspaper campaigns for more aggressive action against share-pushers. Just as the Exchange had resisted suggestions that the market's practices should change, the government had resisted suggestions that either prosecutorial activity should be redoubled or that alternative approaches should be considered. In the Exchange's case it took the crashes of 1929 to bring about change. In the government's case, it took the Opposition's use of the *Daily Mail's* libel case as a pretext for renewed argument about fundamental reform of financial institutions.

The *Daily Mail's* case was influential principally because it was an unavoidable demonstration that, for an extended period, the criminal justice system had failed not only to deter but also to apprehend and punish a determined gang of share-pushers. It also demonstrated that the Stock Exchange's regulation was irrelevant. Although the disciplinary action taken in 1930 had been successful in deterring members from colluding with Jacob Factor so that shares he pushed were traded on the floor of the Exchange, that success had driven Factor and his associates from the Exchange. His share-pushing continued but beyond the jurisdiction of the Exchange. The result was that many were duped. Those who recalled the Faber v Tyler Wilson case of 1930,[825] would have realised that prospective investors of many classes and degrees of education were vulnerable to these activities, especially if denied access to reliable advice and the benefit of the personal relationships on which City operators themselves tended to rely.

For those who made the comparison, the laws of New York provided an example of a regime that had been effective in limiting the share-pushers, for Jacob Factor had transferred his attention to London to escape the attention of a new Attorney General in New York. In essence, the success in New York had been brought about by intrusive investigative powers which were exploited by a determined official. In short, even the strongest prosecutorial powers might not be effective to control share-pushers unless matched by a consistent determination to use them.

Private influence rather than statutory direction

The final acknowledgement of the need to secure the willing co-operation of the Exchange and its Members came in 1938 when the government realised that it could achieve its policy objectives more successfully by influencing the Exchange privately rather than by taking powers to oversee the Exchange. Throughout the period, the Exchange had proved amenable to government suggestions: not least because from time to time the Exchange needed the government's assistance: as happened towards the end of 1915 when government assistance was needed to enable the trading floor to reopen. Moreover, as time passed, and the volume of trading in gilts grew in significance, the government became an important generator of trading volume and thus commission income for members.

When consideration was first given to implementing the recommendations, it was thought unwise to delegate powers to the Exchange without providing that the Board of Trade should oversee the Exchange's use of its powers: a suggestion that the Exchange strongly resisted. The impasse that resulted was broken when the Treasury advised the Board of Trade to accept the Exchange's position. This change in approach appears to have been justified by a calculation that the government could achieve its objectives by influence, even if there were no statutory power of oversight, and would avoid a long dispute with the Exchange.

[825] Case 6, Appendix Two to Chapter Nine. This was a case brought by a clergyman to recover a loss from associates of Jacob Factor.

In effect, this was an acknowledgement partly of the vulnerability of the Exchange, and partly of the need for market support. In practice, the Exchange could not afford to ignore the government's wishes, but the government needed the market to support its interventions.

The changing character of the market

Whilst the debates about the Exchange's relationship with government continued, the practices of the Exchange were changing to provide a forum for the transmission of securities, which did not itself add to the inherent risks of investment. The new issue process changed. Company promoters disappeared. New issuing houses grew up. Brokers largely withdrew from financing their clients' speculations. None of this happened because a regulator decreed that it should be so, but because the outcome better reflected the preferences of investors and vendors.

Gradually, the Exchange was adjusting its role. Before 1914, the Exchange had not only provided a place where people could speculate on share prices, but its members were prepared to assist by financing clients' speculations. It was a private club where vendors could hope to realise a profit by selling their equity interests. By 1945, the Exchange no longer regarded itself as a private club, but instead acknowledged responsibility to a wider community. It was a market place where vendors could more confidently seek finance based on stable relationships with investors.

Members were largely remunerated by earning commissions rather than by financing clients' speculation or speculating themselves. Accomplishment of this change in part had depended upon maintaining control of the Conduct of Business Rules and control over access to membership. In becoming more reliant on these controls, the Exchange risked becoming less open to new influences that might lead to innovation such as Hatry's challenge to market control of local authority loan issues. Concentration on the provision of a share transmission service created a risk that members would find themselves competing on price and that the members who were financially weakest would suffer.

In preserving the rules' constraints on competition the Exchange had benefited from good fortune in two ways. By its manner, the collapse of Hatry's companies crystallised among members recognition of the existential threat to the Exchange. That recognition united members in support of dealing with the threat: a unity that had not been evident during the

1920s and without which action would have been impossible. By itself, the opportunity was not enough. Seizing it required vision to see how it could be exploited and leadership to ensure that it was. Both vision and leadership were provided not by the Exchange but by the Governor of the Bank of England, Montagu Norman, by using the authority and network of influence that had grown with his many years in office. The effectiveness of the reforms implemented by the Exchange under Norman's stage-management demonstrated that self-regulation could be effective.

Of course, the potency of Norman's leadership also demonstrated to politicians seeking to extend their influence over the City that achieving statutory oversight of the Exchange was less important than gaining control of the Bank of England.

What became of Clarence Hatry?

In the years after his imprisonment, unease grew about the severity of Hatry's punishment. As further abuses were exposed, it became clearer that he did not bear responsibility for all of the City's shortcomings. Widely supported campaigns eventually led to his early release in 1939. Hatry was by then a sadly diminished figure compared with the ebullient, self-confident operator of the 1920s. He was welcomed by friends such as Sir Francis Towle who arranged that he should live at Grosvenor House,[826] but the Home Secretary advised against friends holding a celebratory dinner at the House of Commons as was originally proposed. During the war, with his wife's financial support, Hatry bought a controlling interest in Hatchards, a bookshop in Piccadilly situated very close to Hatry's former office at 180 Piccadilly. He completed this purchase by a ruse typical of his days as a company promoter. Finding that the bookshop was financially embarrassed by customers who failed to pay their bills, he wrote to all debtors promising that lists of their names and the amount that they owed would shortly be displayed in the bookshop's windows as the shop was so proud of its connections. Threat of exposure led most customers to pay their outstanding bills instantly. Hatry used the cash to pay the final instalments of the consideration for his purchase of the shop.

After the end of the war, supported by old friends and associates such as Arthur Collins, Hatry built a group of companies around Hatchards including a publisher, a printer and a printing

[826] The newly built hotel was close to Stanhope Gate, where Hatry had lived before imprisonment. Hatry appears to have continued in residence for some time. The Grosvenor House was built with capacious basements that were used as a favoured bomb shelter during the 1939–1945 war.

machine manufacturer in an ill-fated expectation of increasing profits through vertical integration. Although he was never able to register as a dealer in shares, he raised money by selling shares privately under agreements that the shares would be re-purchased at prices fixed to produce profits equal to the amount of interest that would have been paid had the arrangement taken the form of a loan. For people paying the highest rates of Income Tax, such arrangements were attractive: they avoided Income Tax as the profits were regarded as capital gains that were not taxable. Although the scheme was initially successful in raising money, it ran into difficulty. In the early 1950s, the group collapsed amid a series of dazzling financial schemes engineered by Hatry in a vain attempt to prevent the collapse. The Board of Trade appointed an Inspector to investigate the collapse who in a series of reports failed to unravel the effect and purpose of the schemes Hatry had devised.[827] No further action was taken and the matter faded from public attention: not least because his investors feared that their interest in tax avoidance would be exposed.

On recuperation, Hatry returned to his former activities, continually looking for opportunities to acquire and dispose of companies. At root, however, he was a schemer and dealer, not a manager. He remained under suspicion and was monitored by the Metropolitan Police whose files record his associates and their joint transactions.[828]

On a personal level, Hatry's life was touched with sadness. He had not been able to return to the style of business to which he had been accustomed during the 1920s and does not seem ever to have recovered his former joie de vivre. Instead he is recorded as a chronic insomniac, frequenting the 24-hour Savoy Turkish baths of Jermyn Street near the Cavendish Hotel at all hours.[829] Although his wife, Dolly, stayed with him, his daughter Diana left the country for West Africa. His son, Cecil, who had led the campaign for Hatry's release from prison, emigrated to Southern Rhodesia. On the collapse of Hatchards, Hatry sought permission to emigrate to Southern Rhodesia to join his son but was refused on the advice of the Metropolitan Police. Cecil eventually returned to London and worked with his father.

---

827 The Inspector was Stanley Duncan of Price Waterhouse & Company who had acted as Sir Gilbert Garnsey's manager. Hatry shares with Captain Robert Maxwell the distinction of twice being the subject of Board of Trade Inspections.

828 National Archives.

829 *Sunday Times*; 1 January 1967; pages 10–11.

Clarence Hatry died in 1965. At the time of his death, he was still looking for investment opportunities.

Hatry was well suited to the financial roles he played. He was a superlative networker: forming good relationships even with the most unlikely associates and maintaining those relationships over many decades. He was loyal to his associates and they were loyal to him. He was brilliant when seeking solutions for a client's problem. Yet he also displayed weaknesses. He was not a good manager. It seems to have bored him to manage a business over a period: he preferred the challenge of finding solutions to a client's problem. Possibly as a result, he depended too often on people who let him down, in part because he was a bad judge of character. He did not know when to give up, pursuing schemes beyond the point at which failure had become inevitable or the scheme had become uncommercial. Perhaps he trusted too much his ability to find a solution to any problem.

Whatever adversity he had to surmount, he rose again repeatedly, rekindling his optimism and communicating a sense of excitement about his latest project. Above all, he was a survivor.

BIBLIOGRAPHY

PRIMARY WORKS – UNPUBLISHED DOCUMENTS

Archive	*Papers consulted*
Archives municipales, Sarreguemines, France	Census records.
Bank of England Archive.	Bank of England papers.
Buckinghamshire County Records Centre, Aylesbury.	Fremantle papers.
City of Westminster Libraries.	Census records.
Dundee University Archives.	Jute Industries papers Cox Brothers Limited papers. Gilroy and Sons Limited papers. Dundee Stock Exchange papers.
Guildhall Library, London.	Stock Exchange archive. Foster & Braithwaite papers. Post Office Street Directories, London & Suburban.
HSBC Archive, London.	Midland Bank papers.
Lloyds Bank Archive, London.	Lloyds Bank Limited papers. M Samuel papers.
London Metropolitan Archives.	Kleinwort & Sons papers.
National Archives.	Board of Trade papers. Crown Agents papers. DPP papers. HM Treasury papers. Home Office papers. Ministry of Health papers. Ministry of Munitions papers. Ministry of Reconstruction papers. Prisons Commission papers. Registrar of Companies papers.
National Library of Australia.	Connolly papers.
Royal Bank of Scotland Archive, Edinburgh.	National Provincial Bank papers. Westminster Bank papers.
St. Andrews University Special Collections.	Tullis Russell papers.

PRIMARY WORKS – NEWSPAPERS AND PERIODICALS

Banker's Magazine.
Blackwood's Edinburgh Magazine.
Continental Daily Mail.
Daily Mail.
Evening News.
Financial News.
Financial Times.
Forbes.
Hatter's Gazette.
Insurance Guardian.
Insurance Journal.
Issuing Houses Yearbook.
London Express Newspaper.
Manchester Guardian.
Money Market Review.
New Statesman.
New York Review of Books.
Omnibus Magazine.
Sperling's Journal.
Sunday Express.
The Accountant.
The Economist.
The Listener.
The Observer.
The Spectator.
Sunday Express.
Sunday Times.
The Times.
Truth.

PRIMARY WORKS - GOVERNMENT AND PARLIAMENTARY REPORTS

Formal title	*Abbreviated reference used in the text*
Report from the Select Committee on Loans to Foreign States (1875). (HC 1875/367).	
Report from the Select Committee on the Companies Acts, 1862 and 1867 (1877). (HC 1877/365).	
London Stock Exchange Commission. Report of the Commissioners (1878). (C 2157).	The London Stock Exchange Commission report.
Final Report of the Committee on Commercial and Industrial Policy after the War; (1918); (Cd 9035).	The commercial and industrial policy report.
Reports of the Committee Appointed by the Attorney General to consider the Legal Interpretation of the Term 'Period of the War'; (1918); (Cd 9100).	The Atkin report.
Report of the Company Law Amendment Committee; (1918); (Cd 9138).	The Wrenbury report.
Report of the Committee on Financial Facilities; (1918); (Cd 9227).	The Vassar-Smith report.
Third Report of the Committee on National Expenditure. (1922), (Cmd 1589).	
Report of the Company Law Amendment Committee; (1926); (Cmd 2657).	The Greene report.
Minutes of Evidence of the Company Law Amendment Committee (1926).	
Committee on Industry and Trade: Factors in Industrial and Commercial Efficiency (1927).	
Committee on Industry and Trade: Further Factors in Industrial and Commercial Efficiency (1928).	
Committee on Industry and Trade: Survey of Textile Industries, Cotton, Wool, Artificial Silk (1928).	
Final Report of the Committee on Industry and Trade (1929). (Cmd 3282).	The Balfour report.
Report of the Committee on Finance and Industry (1931). (Cmd 3897).	The Macmillan report.

Formal title	*Abbreviated reference used in the text*
Fixed Trusts. Report of the Departmental Committee appointed by the Board of Trade. (1936). (Cmd 5259).	The Anderson report.
Share-Pushing. Report of the Departmental committee appointed by the Board of Trade 1936–1937. (1937). (Cmd 5539).	The Bodkin report.
Board of Trade. Report of the Committee on Company Law Amendment (1945). (Cmd 6659).	The Cohen report.
HM Treasury, Bank of England, Financial Conduct Authority; Fair and Effective Markets Review: Final report (2015).	Fair and Effective Markets Review.

Annual reports

Annual Abstract of Statistics.
Board of Inland Revenue.
Board of Trade: Annual Report under section 29 of the Companies (Winding Up) Act 1890.
Criminal Statistics.
Ministry of Health.

PRIMARY WORKS – CONTEMPORARY BOOKS AND ARTICLES

Accounting Research Association (1940a), Report of a questionnaire relating to methods of calculating depreciation on assets. (Gee & Company, London).

Accounting Research Association (1940b), Report of a questionnaire relating to methods of valuing work in progress and finished stock for balance sheet purposes. (Gee & Company, London).

Anonymous (1931), The Royal Mail Steam Packet Company Case. Canadian Chartered Accountant; November 1931. Reprinted in: Stamp, E, Dean, GW and Wolnizer, PW (1980); *Notable Financial Causes Célèbres.* (Arno Press, New York).

Anonymous (1931), 'The Results of the 1928 New Issue Boom', *The Economic Journal*, volume 41, number 164, December 1931, pages 577–583.

Anonymous (1932), 'Rex v Kylsant: a new golden rule for prospectuses', *Harvard Law Review*, volume 45, number 6, pages 1075–1083.

Anonymous (1937), *The Hatry Case: eight current misconceptions.* (although not attributed to an author, the pamphlet is believed to have been written by Sir John Crisp and Cecil Hatry). (Privately published, London).

Arnold, M (1869), *Culture and Anarchy: an essay in political and social criticism*. (Smith & Elder, London).

Beecham, T (1944), *A Mingled Chime: leaves from an autobiography.* (Hutchinson, London).

Bell, EA (1939), *These Meddlesome Attorneys.* (Richards Press, London).

Boothby, R, Macmillan, H, Loder, J and Stanley, O (1927), *Industry and the State: a conservative view*. (Macmillan, London).

Bottomley, H (1892), *Horatio Bottomley: Hys Boke.* (Odhams, London).

Bowley, AL, and Stamp, J (1924), *The National Income.* (Clarendon Press, Oxford).

Brandeis, L (1913), *Other People's Money*. (Frederick A Stokes Company, Connecticut).

Brooks, C (1933), *The Royal Mail Case: Rex v Lord Kylsant, and Another.* (Wm Hodges & Company, Edinburgh).

Buckley, HB (1891), *The Law and Practice under the Companies Acts 1862 to 1890 and the Life Assurance Companies Acts 1870 to 1872,* 6th edition. (Stevens & Haynes, London)

Carr-Saunders, AM, and Wilson, PA (1933), *The Professions*. (Clarendon Press, Oxford).

Chadwyck Healey, CEH, Wheeler, PF and Burney, C (1894), *A Treatise on the Law and Practice Relating to Joint Stock Companies under the Acts of 1862–1890.* (Sweet & Maxwell, London).

Cole, GDH (1935), *Studies in Capital & Investment: being a volume of New Fabian Research Bureau studies in socialist problems.* (Victor Gollancz, London).

Collier, FH (1925), *A State Trading Adventure*. (Oxford University Press, Oxford).

Cutforth, AE (1930), *Public Companies and the Investor.* (Gee & Company, London).

Cutforth, AE (1934), 'The New Accountancy Requirements of the Companies Act 1929: in the light of experience.' *The Accountant*, 7 July 1934, pages 13–23.

Daniels, GW and Jewkes, J (1928), 'The Post-War Depression in the Lancashire Cotton Industry', *Journal of the Royal Statistical Society*, volume 91, number 2, pages 153–206.

Dawson, Sir Douglas (1927), *A Soldier Diplomat*. (John Murray, London).

Dickens, C (1857), *Little Dorrit.* (Chapman & Hall, London).

Duguid, C (1901), *The Story of the Stock Exchange: its history and position*. (Grant Richards, London).

Duguid, C (1904), *How to Read the Money Article*. (Effingham Wilson, London).

Eliot, TS (1922), *The Waste Land*. Reprinted in Eliot, TS (1962), *Collected Poems 1909–1962.*

(Faber and Faber, London).

Ellinger, B (1940), *The City: the London financial markets. (*PS King & Staples, Westminster).

Evans, DM (1859), Facts, Failures and Frauds: revelations, financial, mercantile, criminal. (Groombridge & Company, London).

Finnie, D (1931), *Capital Underwriting*. (Sir Isaac Pitman & Sons, London).

Garnsey, G (1928), *Holding Companies and Their Accounts*. (Gee & Company, London).

Gibson, AH and Kirkaldy, AW (1921), *British Finance During and After the Great War*. (Sir Isaac Pitman & Sons, London).

Grant, ATK (1937), *A Study of the Capital Market in Post-War Britain*. (Macmillan, London).

Green, TH (1881), *Liberal Legislation and Freedom of Contract*. Reprinted in Green, TH (1986), *Lectures in the Principles of Political Obligation and Other Writings.* (Cambridge University Press, Cambridge).

Harris, RA (1933), 'A Re-Analysis of the 1928 New Issue Boom', *The Economic Journal*, volume 43, number 171, September 1933, pages 453–459.

Head, FD (1912) (Second edition), *Transfer of Stocks, Shares, and Other Marketable Securities.* (Sir Isaac Pitman & Sons, London).

Hicks Beach, Lady Victoria (1932), *Life of Sir Michael Hicks Beach* (two volumes). (Macmillan, London).

Hill, H (1896), *Guilty Gold: a romance of financial fraud and City crime.* (C Arthur Pearson, London).

Hirst, FW (1911), *The Stock Exchange*. (Oxford University Press, Oxford).

Hobson, JA (1902), Imperialism: a study. (Unwin Hyman, London).

Independent Labour Party (1926), *Socialism in Our Time*. (Privately published, London).

Japhet, S (1931), *Recollections from My Business Life.* (Privately published, London).

Jenkinson, MW (1928), *The Value of a Balance Sheet*. (Gee & Company, London).

Johnston, T (1934), *The Financiers and the Nation.* (Methuen, London).

Keynes, JM (1914a), 'War and the Financial System August 1914', *Economic Journal*, volume 24 (September 1914), pages 460–486.

Keynes, JM (1914b), 'The City of London and the Bank of England August 1914', *Quarterly Journal of Economics*, volume 29, number 1 (November 1914), pages 48–71.

Keynes, JM (1924), *'The End of Laissez-Faire'*, the Sidney Ball lecture published separately as a pamphlet in 1926. Reprinted in Keynes, JM (1965), *Essays in Persuasion.* (WW Norton Company, New York).

Kiddy, JG (n.d.), *The Country Banker's Handbook.* (Sir Isaac Pitman & Sons, London).

Kirkaldy, AW (1921), *British Finance During and After the War 1914–1921*. (Sir Isaac Pitman & Sons, London).

Labour Party (1918), *Labour and the New Social Order.* (Labour Party, London).

Labour Party (1928), *Labour and the Nation.* (Labour Party, London).

Laski, H (1925), *The Grammar of Politics.* (George Allen & Unwin, London).

Lawson, WR (1915), *British War Finance 1914–1915*. (Constable & Company, London).

Lewcock, FJ (1931), *The Securities Clerk in a Branch Bank.* (Sir Isaac Pitman & Sons, London).

Liberal Party (1928), *Britain's Industrial Future: being the report of the Liberal Industrial Inquiry.* (Ernest Benn, London).

Liberty and Democratic Leadership (1935), *The Next Five Years.* (Macmillan, London).

Lindley, N (1888), *A Treatise on the Law of Partnership*, (5th edition). (Banks & Brothers, London).

Lloyd George, D (1933), *War Memoirs*. (Odhams, London).

Magnus, SW and Estrin, M (1947), *The Companies Act 1947.* (Butterworth, London).

McConnell, TC (1943), *Luck and Witless Virtue vs Guile: in which an English clergyman proves the nemesis of John ('Jake the Barber') Factor, alias J Wise, alias H Guest.* (Chicago Literary Club, Chicago).

Meredith, H (1931), *The Drama of Money Making: tragedy and comedy of the London Stock Exchange*. (Sampson Low, London).

Mill, JS (1848), *Principles of Political Economy with Some of Their Applications to Social Philosophy*. (Parker, London).

O'Hagan, HO (1929), *Leaves from My Life* (two volumes). (John Lane, London).

Osborn, ASJ (1929), *The Stock Exchange: its method and practice*. (Broad Street Press, London).

Parkinson, H (1925), The ABC of Stocks and Shares. (Longmans, Green & Company. London).

Poley, AP and Carruthers Gould, FH (1913), *The History, Law and Practice of the Stock Exchange*. (Sir Isaac Pitman & Sons, London).

Powell, ET (1919), 'The Democratisation of Investment', *Financial Review of Reviews*, 19, pages 243–258.

Raynes, HE (1928), 'The Place of Ordinary Stocks and Shares (as distinct from fixed interest bearing securities) in the Investment of Life Assurance Funds', *Journal of the Institute of Actuaries*, volume 59, number 1, pages 21–50.

Robertson, JM (1912), *The Meaning of Liberalism*. (Methuen, London).

Rollaston, JFL (1905), *How to Protect Capital Invested in Stocks and Shares.* (Privately published, London).

Rollaston, JFL (1912), *Investment Risks and How to Avoid Them*. (Privately published, London).

Sackville West, V (1929), 'New Novels', *The Listener*, 19 June 1929, page 871.

Samuel, H (1902), *Liberalism: an attempt to state the principles and proposals of contemporary liberalism in England*. (Grant Richards, London).

Samuel, H (1919), 'The Taxation of the Various Classes of the People', *Journal of the Royal Statistical Society,* Volume 82, Number 2; pages 143–182.

Samuel, HB (1933), *Shareholders' Money*. (Heinemann, London).

Schwabe, WGS (1905), *A Treatise on the Laws of the Stock Exchange.* (Stevens & Sons, London).

Shannon, HA (1933), 'The Limited Companies of 1822–1883', *Economic History Review*, 4, pages 290–316.

Shute N (1938), *Ruined City.* (Heinemann, London).

Simon, JA (1897), 'Liberals and Labour', in *Six Oxford Men: essays on liberalism*. (Cassell, London).

Smith, EL (1924), *Common Stocks as Long Term Investments*. (Macmillan, New York).

Smith, LJM (1940), *The Prevention of Fraud (Investments) Act 1939.* (Jordan & Sosn, London).

Sonne, HC (1915), *The City, Its Finance; July 1914 to July 1915 and Future*. (Effingham Wilson, London).

Spafford, CH (1921), *The Law of Misrepresentation in Prospectus.* (Butterworth, London).

Stamp, J (1932), *Taxation During the War.* (Oxford University Press, London).

Stock Exchange (1930a), *The Hatry Crisis*. (Privately published, London).

Stock Exchange (1930b), *Report of the Special Sub-Committee on New Issues and Official Quotations of the 21st July 1930*. (Privately published, London).

Tawney, RH (1921), *The Acquisitive Society.* (G Bell & Sons, London).

Tawney, RH (1932), 'The Choice Before the Labour Party', *Political Quarterly*, (1932) 3, pages 323–345.

Tawney, RH (1943), 'The Abolition of Economic Controls 1918–1921', *Economic History Review*, volume 13, pages 1–30.

Trollope, A (1875), *The Way We Live Now*. (Chapman, London).

Webb, S (1934), Preface. In Johnston, T (1934), *The Financiers and the Nation.* (Methuen, London).

Webb S and Webb, B (1923), *The Decay of Capitalist Civilisation*. (Fabian Society, London).

Wells, HG (1908), *Tono-Bungay.* (Macmillan, London).

Whyte, WH (1924), *The Stock Exchange: its constitution and the effects of the Great War*. (London).

Wilkinson, E (1939), *The Town That Was Murdered.* (Victor Gollancz, London).

Willoughby, W (1934), *The Capital Issues Committee and War Finance Corporation.* (Johns Hopkins Press, Baltimore).

Winchester, Marquess of (1934), *Statesmen, Financiers and Felons.* (Privately published, London).

Winter, K (1927a), 'State Regulation of Corporations by Policing Sales of Securities'. *Annals of the American Academy of Political and Social Science*, volume 129, January 1927, pages 149–155.

Winter, K (1927b), 'Parasites of Finance', *The North American Review*, volume 224, number 837, November 1927, pages 516–521.

Withers, H (1915), *War and Lombard Street*. (EP Dutton & Company, New York).

SECONDARY WORKS

Acheson, CG, Turner, JD and Ye, Q (2012), 'The Character and Denomination of Shares in the Victorian Equity Market', *Economic History Review* 65(3), pages 862–886.

Akerloff, GA (1970), 'The Market for Lemons: quality uncertainty and the market mechanism', *Quarterly Journal of Economics,* 84(3), pages 488–500.

Anderson, BL and Cottrell, PL (1975), 'Another Victorian Capital Market: a study of banking and bank investors in Merseyside.' *Economic History Review*; Volume 28(4), pages 598–615.

Andrews, PWS and Brunner, E (1955), *The Life of Lord Nuffield: a study in enterprise and benevolence.* (Blackwell, Oxford).

Anon (1963), *de Zoete & Gorton: a history.* (Privately published, London).

Armstrong, C (1997), *Blue Skies and Boiler Rooms: buying and selling securities in Canada, 1870–1940*. (University of Toronto Press, Toronto).

Armstrong, J (1986), 'Hooley and the Bovril Company', *Business History*, volume 28 (1).

Armstrong, J (1997), 'The Rise and Fall of the Company Promoter and the Financing of British Industry', in Van Helten, JJ and Cassis, Y (eds), *Capitalism in a Mature Economy: financial institutions, capital exports and British industry, 1870–1939.* (Edward Elgar, Aldershot).

Arnold, AJ (1991), *Secret Reserves or Special Credits? A reappraisal of the reserve and provision accounting policies of the Royal Mail Steam Packet Company 1915–1927.* Accounting and Business Research, volume 21, issue 83, pages 203-214.

Ashton, RK (1986), The Royal Mail Case: a legal analysis. *Abacus*; volume 22, pages 3–19.

Attard, B (2004), 'Moral Suasion: empire borrowers and the new issues market during the 1920s', in Michie, RC and Williamson, P (editors), *The British Government and the City of London in the Twentieth Century*. (Cambridge University Press, Cambridge).

Avrahampour, Y (2015), 'Cult of Equity': actuaries and the transformation of pension fund investing 1948–1960. *Business History Review*, Volume 89, pages 281–304.

Bassett, R (1958), *1931: political crisis.* (Macmillan, London).

Batzel, VM (1987), 'The General Scope of the Act: a study of law, moralism and administration in England, 1844–1910', *Canadian Journal of History/Annales Canadiennes d'Histoire,* volume 22, December 1987, pages 349–365

Baynes, TAH (1966), *Share Valuations.* (Heinemann, London).

Bellringer, RC, and Michie, RC, (2014), 'Big Bang in the City of London: an intentional revolution or an accident?' *Financial History Review*, volume 21 (2), pages 111–137.

Billings, M and Oats, L (2014), 'Innovation and Pragmatism in Tax Design: excess profits duty in the UK during the First World War', *Accounting History Review*, volume 24, numbers 2–3, pages 83–101.

Bircher, P (1989), 'From the Companies Act of 1929 to the Companies Act of 1948: a study of the change in the law and practice of accounting.' Unpublished PhD thesis, London School of Economics.

Blair, MM (2003), 'Locking in Capital: what corporate law achieved for business organizers in the nineteenth century', *UCLA Law Review,* volume 51, pages 387–453.

Bowra, CM (1949), *The Creative Experiment*. (Macmillan, London).

Braggion, F and Moore, L (2013a), 'How Insiders Traded Before Rules', *Business History*, Volume 55 (4), pages 562–581.

Braggion, F and Moore, L (2013b), 'The Economic Benefits of Political Connections in Late Victorian Britain', *Journal of Economic History*, 73, pages 142–176.

Broadbridge, SA (1968), 'The Sources of Railways Share Capital', in Reed, MC (editor), *Railways in the Victorian Economy: studies in finance and economic growth*, pages 184–211. (David & Charles, Newton Abbot).

Burhop, C (2011), 'The Under-pricing of Initial Public Offerings at the Berlin Stock Exchange 1870–1896', *German Economic Review,* 12(1), pages 11–32.

Burhop, C, Chambers, D and Cheffins, BR (2012), 'Regulating IPOs: evidence from going public in London and Berlin', *Legal Studies Research Paper Series*, University of Cambridge Faculty of Law, paper 2/2012.

Cain, PJ (1996), 'Gentlemanly Imperialism At Work: the Bank of England, Canada and the Sterling Area 1932–1936', *Economic History Review*, Volume 49.

Cairncross, A (1953), *Home and Foreign Investment 1870–1913*: *studies in capital accumulation.* (Cambridge University Press, Cambridge).

Campbell, G and Turner, JD (2011), 'Substitutes for Legal Protection: corporate governance and dividends in Victorian Britain', *Economic History Review*, volume 64(2), pages 571–597.

Campbell, G and Turner, JD (2012), 'Dispelling the Myth of the Naïve Investor during the British Railway Mania, 1845–1846', *Business History Review*, (86), pages 3–41.

Carosso, V (1970), 'Washington and Wall Street: the New Deal and investment bankers, 1933–1940', *Business History Review*, volume 44, number 4, pages 425–445.

Cassis, Y (1990), 'The Emergence of a New Financial Institution: investment trusts in Britain 1870–1939', in van Helten, JJ and Cassis, Y (editors), *Capitalism in a Mature Economy: financial institutions, capital exports and British industry, 1870–1939*. (Edward Elgar, Aldershot).

Cassis, Y (2010), *Capitals of Capital: the rise and fall of international financial centres 1780–2009,* second edition. (Cambridge University Press, Cambridge).

Chambers, D (2009), 'IPO Underpricing Over the Very Long Run', *The Journal of Finance*, Volume 64, Number 3, pages 1407–1443.

Chambers, D (2010) 'Going Public in Interwar Britain', *Financial History Review*, volume 17(1), pages 51–71.

Cheffins, BR (2006), 'Dividends as a Substitute for Corporate Law: the separation of ownership and control in the United Kingdom', *Washington and Lee Law Review*, 63(4), pages 1273–1338.

Cheffins, BR (2008), *Corporate Ownership and Control: British business transformed*. (Oxford University Press, Oxford).

Cheffins, BR and Blank, SA (2007), Corporate Ownership and Control in the UK: the tax dimension. *Modern Law Review*, volume 70(5), pages 778–811.

Cheffins, BR, Koustas, DK and Chambers, D (2013), 'Ownership Dispersion and the London Stock Exchange's "Two-thirds" Rule: an empirical test', *Business History*, volume 55(4), pages 667–690.

Clapham, Sir John (1946), 'Sir John Clapham's Account of the Financial Crisis in August 1914', Reprinted in RS Sayers (1976), *The Bank of England 1891–1944*, as Appendix 3. (Cambridge University Press, Cambridge).

Clift, B (1999), 'The Labour Movement and Company Law Reform 1918–1945', *Political Economy Research Centre, University of Sheffield*, Working Paper 1.

Cochrane, S (2009), 'Explaining London's Dominance in International Financial Services, 1870–1914'. *Oxford University Department of Economics Discussion Paper*, number 455.

Coffee, JC (2006), *Gatekeepers: the professions and corporate governance.* (Oxford University Press, Oxford).

Corina, M (1978), *Fine Silks and Oak Counters: Debenhams 1778–1978*. (Hutchinson Benham, London).

Cottrell, PL (1980), *Industrial Finance 1830–1914: the finance and organisation of English manufacturing industry*. (Methuen, London).

Croall, H (2003), 'Combating Financial Crime: regulatory versus crime control approaches', *Journal of Financial Crime, volume 11, number 1,* pages 45–55.

Currie, R (1979), *Industrial Politics*. (Oxford University Press, Oxford).

Cuthbert, J and Smith, K (2004), *Palmers of Jarrow.* (Tyne Bridge, Newcastle).

Daunton, MJ (2002), *Just Taxes: the politics of taxation in Britain 1914–1979.* (Cambridge University Press, Cambridge).

Davies, PN (1981), 'Business Success and the Role of Chance: the extraordinary Phillips brothers', *Business History* (1981), pages 208–232.

Davies, PN and Bourn, AM (1972), 'Lord Kylsant and the Royal Mail', *Business History* (1972), pages 103–132.

Davis, L and Neal, L (1998), 'Micro Rules and Macro Outcomes: the impact of the structure of organizational rules on the efficiency of security exchanges, London, New York and Paris 1800–1914', *American Economic Review*, 88(2), pages 40–45.

Davis, L, Neal, L and White EN (2003), 'How It All Began: the rise of listing requirements on the London, Berlin, Paris and New York stock exchanges', *International Journal of Accounting*, volume 38, pages 117–143.

Deeson, AFL (1971), *Great Swindlers.* (W Foulsham & Company, London).

De Long, JB (1990), 'Did JP Morgan's Men Add Value? A historical perspective on financial capitalism', *National Bureau of Economic Research paper* 3426.

Dennett, L (1979), *The Charterhouse Group 1925–1979: a history*. (Centry Books, London).

Diaper, S (1990), 'The Sperling Combine and the Shipbuilding Industry, Merchant Banking and Industrial Finance in the 1920s', in van Helten, JJ and Cassis, Y (editors) (1990), *Capitalism in a Mature Economy: financial institutions, capital exports and British industry, 1870–1939*. (Edward Elgar, Aldershot).

Dimson, E, Marsh, P and Staunton, M (2002), *Triumph of the Optimists: 101 years of global investment returns*. (Princeton University Press, Princeton, New Jersey).

Dimson, E, Marsh, P and Staunton, M (2014), *Credit Suisse Global Investment Returns Sourcebook 2014*. (Credit Suisse AG, Zurich, Switzerland).

Dougan, D (1968), *The History of North East Shipbuilding.* (George Allen & Unwin, London).

Easson, A (2000), 'The High Victorian Period (1850–1900): the worship of Mammon', in Pollard, A (editor), *The Representation of Business in English Literature*. (Institute of Economic Affairs, London).

Edwards, JR (1976), 'The Accounting Profession and Disclosure in Published reports, 1925–1935', *Accounting and Business Research,* volume 6, number 24, pages 289–303.

Edwards, JR, Anderson, M and Chandler, R (2005), 'How Not to Mount a Professional Project: the formation of the ICAEW in 1880', *Accounting and Business Research*, volume 35, number 3, pages 229–248.

Edwards, RD (1993), *The Pursuit of Reason, The Economist 1843–1993*. (Hamish Hamilton, London).

Eisner, MA (2000), *Regulatory Politics in Transition*. (Second edition, Johns Hopkins University Press, Baltimore).

Emden, PH (1951), 'Baron Paul Julius de Reuter', *Transactions, The Jewish Historical Society of England*, volume 17 (1951–52), pages 215–223.

Fanning, D (1984), 'Clarence Hatry', *Dictionary of Business Biography.* (Butterworths, London).

Foreman-Peck, J (1984), 'Industry and Industrial Organisation in the Inter-War Years', in Floud, R and McCloskey, D (editors) (1984), *The Economic History of Britain since 1700*, volume 2. (Second edition, Cambridge University Press, Cambridge).

Foreman-Peck, J and Hannah, L (2012). 'Extreme Divorce: the managerial revolution in UK companies before 1914', *Economic History Review*, 65(4), pages 1217–38.

Foreman-Peck, L and Hannah, L (2013), 'Some Consequences of the Early Twentieth Century British Divorce of Ownership from Control', *Business History*, volume 55(4), pages 667–690.

Foreman-Peck, J and Hannah, L (2015), 'Corporate Law and Corporate Governance Before 1914: a re-interpretation', *EHES Working Papers in Economic History*, number 72.

Franks, J, Mayer, C and Rossi, S (2008), 'Ownership: evolution and regulation', *Review of Financial Studies*, pages 4009–4056.

French, D (1982), 'The Rise and Fall of "Business as Usual"', in Burk, K (editor) (1982), *War and the State: the transformation of British Government, 1914–1919*. (George Allen & Unwin, London).

Gilbert, M (1986), *Fraudsters; six against the law.* (Constable, London).

Gleeson, A (1981), *People and Their Money: 50 years of private investment.* (Privately published, London).

Green and Moss, M (1982), *A Business of National Importance.* (Methuen, London).

Greenleaf, WH (1983), *The British Political Tradition: Volume Two: The Ideological Heritage*. (Routledge, London).

Grimond, J (1979), *Memoirs*. (Heinemann, London).

Haines (2011); *The Paradox of Regulation: what regulation can achieve and what it cannot.* (Edward Elgar, Cheltenham).

Hannah, L (1976), *The Rise of the Corporate Economy*. (Methuen, London).

Hannah, L. (2007a), 'What Did Morgan's Men Really Do?', CIRJE Discussion Paper. Downloaded from http://www.cirje.e.u-tokyo.ac.jp/research/03research02dp.html

Hannah, L (2007b), 'The "Divorce" of Ownership from Control from 1900 onwards: re-calibrating imagined global trends', *Business History*, 49, pages 404–438.

Hannah. L (2007c), 'Pioneering Modern Corporate Governance: a view from London in 1900', *Enterprise and Society*, 8, pages 642–686.

Hannah, L (2015), Rethinking Corporate Finance Fables: did the US lag Europe before 1914? CIRJE Discussion Paper. Downloaded from http://www.cirje.e.u-tokyo.ac.jp/research/03research02dp.html

Harrison, AE (1969), 'The Competitiveness of the British Cycle Industry 1890–1914', *Economic History Review*, volume XXII (2).

Harrison, AE (1981), 'Joint Stock Company Flotation in the Cycle Motor Vehicle and Related Industries 1882–1914', *Business History,* volume XXIII, number 2.

Harrison, AE (1982), 'F Hopper and Co. – The Problems of Capital Supply in the Cycle Manufacturing Industry, 1891-1914', *Business History*, volume 24(1), pages 3–23.

Hart, PE (1965), *Studies in Profit, Business Saving and Investment in the United Kingdom 1920–1962.* (George Allen & Unwin, London).

Hart, PE and Prais, SJ (1956), 'The Analysis of Business Concentration: a statistical approach', *Journal of the Royal Statistical Society*, volume 119.

Hart, M, Jonker, J and Van Zanden, JL (1997), *A Financial History of the Netherlands*. (Cambridge University Press, Cambridge).

Hastings, Sir Patrick (1949), *The Case of the Royal Mail*. Reprinted in Baxter, WT and Davidson, S (1977), *Studies in Accounting*, pages 339–346. (Institute of Chartered Accountants in England and Wales, London).

Higgins, D and Toms, S (2003), 'Financial Distress, Corporate Borrowing, and Industrial Decline: the Lancashire cotton spinning industry, 1918–38', *Accounting, Business & Financial History*, volume 13, number 2, pages 207–232.

Higgins, D, Toms, S and Filatotchev, I (2015), 'Ownership, Financial Strategy and Performance: the Lancashire cotton industry 1918–1938', *Business History*, volume 57, number 1, pages 96–120.

Holcombe, L (1983), *Wives and Property: reform of the married woman's property law in nineteenth century England*. (Martin Robertson, Oxford).

Hollow, M (2015), *Rogue Banking: a history of financial fraud in interwar Britain.* (Palgrave Macmillan, Basingstoke).

Huertas, TF and Silverman, JL (1986), 'Charles E Mitchell: scapegoat of the crash?' *Business History Review*, volume 60, number 1, pages 81–103.

Hull, IV (2014), *A Scrap of Paper: breaking and making international law during the Great War*. (Cornell University Press, Ithaca, New York).

Hutchinson, J (2015), Postscript, in Grant, T (2015), *Jeremy Hutchinson's Case Histories*. (John Murray, London).

Inge, WR (1949?), *Diary of a Dean: St Paul's, 1911–1934.* (Hutchinson, London).

Jay, E and Jay, R (1986), *Critics of Capitalism: Victorian reactions to 'political economy'*. (Cambridge University Press, Cambridge).

Jeffery, T and McClelland, K (1987), 'A World Fit to Live In: the *Daily Mail* and the middle classes 1918–1939' in Curran, J, Smith, A and Wingate, P (editors); *Impacts and Influences: essays on media power in the twentieth century.* (Methuen, London).

Jefferys, JB (1938), 'Trends in Business Organisation in Great Britain since 1856', unpublished PhD Thesis, University of London.

Jefferys, JB (1946), 'The Denomination and Character of Shares, 1855–1885', *Economic History Review*, 16, pages 45–55.

Johnson, J and Murphy, GW. (1957), 'The Growth of Life Assurance in the UK since 1880', *Manchester School of Economic and Social Studies*, volume 25.

Johnson, PA (2000), 'Civilising Mammon: laws, morals and the City in 19th century England', in Burke, P, Harrison, BH and Slack, P (editors), *Civil Histories: essays presented to Sir Keith Thomas*. (Oxford University Press, Oxford).

Johnson, PA (2010), *Making the Market: Victorian origins of corporate capitalism*. (Cambridge University Press, Cambridge).

Johnson, PB (1968), *Land Fit For Heroes: the planning of British reconstruction 1916–1919*. (University of Chicago Press, Chicago).

Jones, E (1981), *Accountancy and the British Economy 1840–1980: the evolution of Ernst & Whinney*. (Batsford, London).

Jones, E (1995), *True and Fair: a history of Price Waterhouse.* (Hamish Hamilton, London).

Keyworth, JM (1985), 'Sir Arthur Wheeler', *Dictionary of Business Biography*. (Butterworths, London).

Kinross, J (1982), *Fifty Years in the City: financing small business*. (John Murray, London).

Klaus, I (2014), *Forging Capitalism: rogues, swindlers, frauds and the rise of modern finance*. (Yale University Press, New Haven).

Kynaston, D (1983), *The Financial Times: a centenary history*. (Viking, London).

Kynaston, D (1991), *Cazenove & Co: a history*. (Batsford, London).

Kynaston, D (1999), *The City of London: illusions of gold 1914–1945*, volume 3. (Chatto & Windus, London).

Kynaston, D (2001), *The City of London: a club no more 1945–2000,* volume 4. (Chatto & Windus, London).

La Porta, R, Lopez de Silanes, F, Shleifer, A and Vishny, R (1998), 'Law and Finance', *Journal of Political Economy,* 106, pages 1133–1155.

Lewchuk, W (1985), 'The Return to Capital in the British Motor Vehicle Industry 1896–1939, *Business History,* volume 27(10), pages 3–25.

Lobban, M (1996), 'Nineteenth-Century Frauds in Company Formation: *Derry v Peek*, in context', *Law Quarterly Review, 1996, page 112 et seq.*

Loss, L and Cowett, EM (1958), *Blue Sky Law.* (Little Brown & Company, Boston).

Macey, JR and O'Hara, M (2005–2006), 'From Markets to Venues: regulation in an evolving world', *Stanford Law Review*, Volume 58, pages 563–599.

Macey, JR and Novogrod, C (2011–2012), 'Enforcing Self-Regulatory Organizations' Penalties and the Nature of Self-Regulation', *Hofstra Law Review*, volume 40, pages 963–1003.

Mahoney, PG (1997), 'The Exchange as Regulator', *Virginia Law Review,* volume 83, number 7, pages 1453–1500.

Mahoney, PG (2003), 'The Origins of the Blue-Sky Laws: a test of competing hypotheses', *Journal of Law and Economics,* Volume 46, Number 1, pages 229–251.

Maltby, J (2007), 'Was the Companies Act 1947 a Response to a National Crisis?' *Accounting History*, Volume 5, Number 2, pages 31–60.

Manley, PS (1976), 'Clarence Hatry', *Abacus*, volume 12, number 1.

Marwick, A (2006), *The Deluge.* (Second edition, Palgrave Macmillan, Basingstoke).

McDermot, BHD (1976), *Panmure Gordon 1876–1976: a century of stockbroking*. (Privately published, London).

McKie, D (2004), *Jabez: the rise and fall of a Victorian rogue*. (Atlantic Books, London).

Michie, RC (1987), *The London and New York Stock Exchanges 1850–1914.* (Allen & Unwin, London).

Michie, RC (1988), 'Different in Name Only? The London Stock Exchange and foreign bourses c1850–1914', *Business History*, 30, pages 46–68.

Michie, RC (1997), 'The Stock Exchange and the British Economy 1870–1939', in Van Helten, JJ & Cassis, Y (editors), *Capitalism in a Mature Economy: financial institutions, capital exports and British industry, 1870–1939*. (Edward Elgar, Aldershot).

Michie, RC (1998), 'The Invisible Stabiliser: asset arbitrage and the international monetary system since 1700', *Financial History Review*, volume 5 (1), pages 5–26.

Michie, RC (1999), *The London Stock Exchange: a history*. (Oxford University Press, Oxford).

Michie, RC (*20(09*), *Guilty Money: the City of London in Victorian and Edwardian culture: 1815–1914.* (Pickering & Chatto, London).

Michie, RC (2011) 'Gamblers, Fools, Victims or Wizards? The British investor in the public mind 1850–1930', in Green, DR, Owens, A, Maltby, J and Rutterford, JO (editors), *Men, Women and Money: perspectives in gender, wealth and investment 1830–1920*, pages 156–183. (Oxford University Press, Oxford).

Middlemass, K (1979), *Politics in Industrial Society: the experience of the British system since*

1911. (André Deutsch, London).

Middlemass, K and Barnes, J (1969), *Baldwin: a biography.* (Weidenfeld & Nicolson, London).

Morgan, EV (1952), *Studies in British Financial Policy, 1914–1925*. (Macmillan, London).

Morgan, EV and Thomas, WA (1961), *The Stock Exchange: its history and functions*. (Elek Books, London).

Moss, M (2000), *The Building of Europe's Largest Mutual Life Company: Standard Life, 1825–2000.* (Mainstream Publishing, Edinburgh).

Musacchio, A (2010), 'Law and Finance c1900', *NBER Working Paper,* 16216. [downloaded January 2015].

Neal, L (2006), 'The London Stock Exchange in the 19th Century: ownership structures, growth and performance', *Oesterreichische Nationalbank Working Papers 01/2007*.

Neal, L and Davis, L (2006), 'The Evolution of the Structure and Performance of the London Stock Exchange in the First Global Financial Market 1812–1914', *European Review of Economic History,* 3, pages 279–300.

Newman, K (1984), *Financial Marketing and Communications*. (Holt, Rinehart & Winston, Eastbourne).

Newton, S and Porter, D (1979), *Modernization Frustrated: the politics of industrial decline in Britain since 1900.* (Unwin Hyman, London).

Nye, JGD (2012), 'The Company Promoter in London 1877–1914'. Unpublished PhD thesis, University of London.

Orbell, J (1985), *Baring Brothers & Company Limited: a history to 1939.* (Privately published, London).

Orbell, J, and Turton A (2001), *British Banking: a guide to historical records.* (Ashgate, Aldershot).

O'Sullivan, MA (2015), 'Yankee Doodle Went to London: Anglo-American breweries and the

London securities market, 1888–1892', *Economic History Review*, Volume 68, Number 4, pages 1365–1387.

Ott, JC (2009), '"The Free and Open People's Market": political ideology and retail brokerage at the New York Stock Exchange, 1913–1933', *The Journal of American History*, volume 96, number 1, June 2009, pages 44–71.

Patmore, D (1968), Introduction to Patmore, B (1968), *My Friends When Young*. (Heinemann, London).

Paukert, F (1961), 'The Value of Stock Exchange Transactions in Non-Governmental Securities, 1911–1959', *Economica*, volume 28, number 111, August 1961, pages 303–309.

Paxman, J (2013), *Great Britain's Great War*. (Viking, London).

Pearson, M (1961), *The Millionaire Mentality*. (Secker & Warburg, London).

Peden, GC (2000), *The Treasury and British Public Policy, 1906–1959*. (Oxford University Press, Oxford).

Peden, GC (2004), 'The Treasury and the City' in Michie, RC Williamson, P (editors) *The British Government and the City of London in the Twentieth Century.* (Cambridge Universityt Press, Cambridge).

Perkins, EJ (2003), 'Growth Stocks for Middle-Class Investors: Merrill Lynch & Co., 1914–1941' in M Kasuya (editor) (2003), *Coping with Crisis: international financial institutions in the interwar period.* (Oxford University Press, Oxford).

Porter, D (1986), 'A Trusted Guide of the Investing Public: Harry Marks and the Financial News 1884–1916', *Business History*, 28(1), pages 1–17.

Porter, D (1988), 'City Editors and the Modern Investing Public: establishing the integrity of the new financial journalism in late nineteenth century London.' *Media History*, Volume 4(1), pages 49–60.

Porter, D (2000), '"Where There's a Tip There's a Tap": the popular press and the investing public, c1900–1960' in Catterall, P, Seymour-Ure, C and Smith, A (editors), *Northcliffe's Legacy: aspects of the British popular press, 1896–1996*. (Palgrave Macmillan, Basingstoke).

Porter, D (2006), ‘Speciousness is the Bucketeer’s Watchword and Outrageous Effrontery His Capital: financial bucket shops in the City of London c1880–1939’ in Benson, J and Ugiolini, L (eds) (2006), *Cultures of Selling: perspectives on consumption and society since 1700*, pages 103–125.

Rajan, RG and Zingales, L (2003), ‘The Great Reversals: the politics of financial development in the twentieth century’, *Journal of Financial Economics*, (69), pages 5–50.

Reader, WJ (1979), *A House in the City: a study of the City and of the Stock Exchange based on the records of Foster & Braithwaite, 1825–1975*. (Batsford, London).

Reader, WJ and Kynaston, D (1998), *Phillips & Drew: professionals in the City*. (Robert Hale, London).

Reed, MC (1975), *A History of James Capel & Co*. (Privately published, London).

Richardson, K and Richardson, M (1985), ‘Ernest Terah Hooley’, *Dictionary of Business Biography*.

Robb, G (1992), *White-Collar Crime in Modern England: financial fraud and business morality, 1845–1929*. (Cambridge University Press, Cambridge).

Roberts, R (1992), *Schroders: merchants and bankers*. (Macmillan, London).

Roberts, R (1993), ‘What’s in a Name? Merchants, Merchant Bankers, Accepting Houses, Issuing Houses, Industrial Bankers and Investment Bankers’, *Business History*, Volume 35, number 3, pages 22–38.

Roberts, R (2013), *Saving the City: the great financial crisis of 1914*. (Oxford University Press, Oxford).

Roseveare, H (1969), *The Treasury: the evolution of a British institution*. (Allen Lane the Penguin Press, London).

Rubner A (1996), *The Ensnared Shareholder.* (Macmillan, London).

Rutterford, J (2004), 'From Dividend Yield to Discounted Cash Flow: a history of UK and US equity valuation techniques', *Accounting and Financial History*, volume 14, number 2, pages 115–149.

Rutterford, J (2010), 'The Company Prospectus: marketing shares in the London Stock Exchange 1855–1940' in McWatters, CS and Zimnovitch, H (2010), *Histoire des Entreprises du Transport: evolutions comptables et managériales*. (L'Harmattan, Paris).

Rutterford, J (2011), '"Propositions put forward by quite honest men": company prospectuses and their contents, 1856 to 1940', *Business History*, volume 53, number 6, pages 866–899.

Rutterford, J, Green, DR, Maltby, J and Owens, A (2011), 'Who comprised the nation of shareholders? Gender and investment in Great Britain, 1870–1935', *Economic History Review*, 64(1), pages 157–187.

Sayers, RS (1956), *Financial Policy 1939–1945.* (HMSO and Longmans Green & Company, London).

Sayers, RS (1976), *The Bank of England 1891–1944.* (Cambridge University Press, Cambridge).

Scott, P (2002), 'Towards the "Cult of the Equity"? Insurance companies and the interwar capital market', *Economic History Review*, volume 55, number 1, pages 78–104.

Seligman J (1983), 'The Historical Need for a Mandatory Corporate Disclosure System,' *Journal of Corporation Law*, volume 9, number 1, pages 1–61.

Simon, CJ (1989), 'The Effect of the 1933 Securities Act on Investor Information and the Performance of New Issues', *American Economic Review*, volume 79, number 3, pages 295–318.

Sisman, A (2015), *John Le Carré*. (Bloomsbury, London).

Skidelsky, R (2014), *Britain Since 1900: a success story?* (Vintage Books, London).

Smith T (1979), *The Politics of the Corporate Economy.* (Martin Robertson & Company, London).

Stewart, IC (1991), 'The Ethics of Disclosure in Company Financial Reporting in the United Kingdom 1925–1970', *Accounting Historians Journal*, Volume 18, Number 1, pages 35–54.

Taylor, AJP (1965), *English History 1914–1945.* (Oxford University Press, Oxford).

Taylor, AJP (1976), *Essays in English History*. (Hamish Hamilton in Penquin Books, London).

Taylor, J (2012), 'Watchdogs or Apologists? Financial journalism and company fraud in early Victorian Britain', *Historical Research*, volume 85 (230), pages 633–650.

Taylor, J (2013a), 'Privacy, Publicity, and Reputation: how the press regulated the market in nineteenth century England', *Business History Review*, 87, pages 679–701.

Taylor, J (2013b), *Boardroom Scandal: the criminalization of company fraud in nineteenth century Britain*. (Oxford University Press, Oxford).

Thomas, WA (1973), *The Provincial Stock Exchanges*. (Frank Cass, London).

Thomas, WA (1978), The Finance of British Industry 18=918-1976. (Methuen, London).

Tickell, A (1996), 'Making a Melodrama Out of a Crisis: reinterpreting the collapse of Barings Bank', *Environment and Planning D: Society and Space,* 1996, volume 14, pages 5–33.

Toms, S (2015), 'Fraud and Financial Scandals: a historical analysis of opportunity and impediment', MPRA paper number 68255. Downloaded 31 January 2016 from https://mpra.ub.uni-muenchen.de/687255

Trebilcock, C (1998), *Phoenix Assurance and the Development of British Insurance*: *volume 2: the end of the insurance giants 1870–1984*. (Cambridge University Press, Cambridge).

Tripp, BH (1951), *Grand Alliance*. (Chantry Publications, London).

Tuohy, JW (2001), *When Capone's Mob Murdered Roger Tuohy: the strange case of Tuohy, Jake the Barber, and the kidnapping that never happened.* (Barricade Books, Fort Lee, New Jersey).

Turner, G (1971), *The Leyland Papers*. (Eyre & Spottiswoode, London).

Turner, JD (2009), '"The Last Acre and Sixpence": views on bank liability regimes in nineteenth century Britain', *Financial History Review*, volume 16, pages 111–127.

Vallance, A (1955), *Very Private Enterprise: an anatomy of fraud and high finance.* (Thames & Hudson, London).

Vander Weyer, M (2011), *Fortune's Spear: the story of the blue-blooded rogue behind the most notorious City scandal of the 1920s*. (Elliott & Thompson, London).

Wagner, TS (2008), 'Speculators at Home in the Victorian Novel: making stock-market villains and new paper fictions', *Victorian Literature and Culture*, 36, pages 21–40.

Walker, RG (1977), 'The Hatry Affair', *Abacus*, volume 13, number 1.

Walker, WM (1979), *Juteopolis: Dundee and its textile workers 1885–1923*. (Scottish Academic Press, Edinburgh).

Wilson, S (2014), *The Origins of Modern Financial Crime: historical foundations and current problems in Britain.* (Routledge, London).

Wincott, H (1946), *The Stock Exchange.* (Sampson Low Marston & Company, London).

Wood, M and Wood, A (1954), *Silver Spoon: being extracts from the random reminiscences of Lord Grantley*. (Hutchinson, London).

Wormell, J (2000), *The Management of the National Debt of the United Kingdom, 1900–1932*. (Routledge, London).

Worswick, GDN and Tipping, DG (1967), *Profits in the British Economy 1909–1938*. (Basil Blackwell, Oxford).

Zahra, T (2016), *The Great Departure.* (WW Norton & Company, New York).

Zeff, S (1971), *Forging Accounting Principles in Five Countries.* (Skipes Publishing Company, Illinois).

Zeff, S (2009), *Principles Before Standards: the ICAEW's 'N' series of recommendations on accounting principles 1942–1969.* (Institute of Chartered Accountants in England and Wales, London).