

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date April 15, 1939To Chairman EcclesSubject: Emergency control of StockFrom Mr. ParryExchange.

I have just received by telephone from Mr. Norman Davis of the Federal Reserve Bank of New York some information which I think should be passed on to you relative to the method of control which the Exchange might put into effect in case war should break out in Europe.

Contrary to my previous understanding, the control would not involve the fixing of minimum prices (as was done when the Exchange reopened in 1914) but the limiting of daily fluctuations. No stock would be allowed to advance or decline by, say, more than 10 per cent of its closing price on the preceding day -- except that this would be translated into dollars: "No stock selling between 80 and 90 may advance or decline by more than \$8 in one day."

I am also informed that there is some doubt as to whether the Exchange is technically prepared to establish even this measure of control "instantly". On this point I cannot be sure before Monday, but my present information is that they would wish to "wait and see".

A rule limiting fluctuations to 10 percent in either direction might be a good rule for ordinary times but it is not in my opinion satisfactory for coping with an emergency. What an emergency control requires is the fixing of minima at or close to the latest closing prices, coupled with slow and gradual readjustment of these minima.

The method outlined above is reported to me to be the one which Mr. Bartlett presented at Washington the other day. Before I knew exactly what it is, I told Mr. Goldenweiser that I felt that it was "satisfactory in principle". That statement I wish now to withdraw.

I have reported on this matter to Mr. Draper and expect, with his approval, to obtain fuller information Monday.

cc: Mr. Goldenweiser

GEP