

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

June 28, 1938

Marriner H. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

My dear Mr. Chairman:

Persistent rumors have it that you now conclude that certain provisions of the Securities Act of 1933 operate to discourage or prevent new capital financing.

I was inclined not to believe them until recently, in view of our previous discussions. If that is now your view, I am naturally very much interested to know what fact or facts have persuaded you.

Yours faithfully,

Wm O Douglas

William O. Douglas
Chairman

July 7, 1938

Honorable William O. Douglas, Chairman
Securities and Exchange Commission
Washington, D. C.

Dear Mr. Douglas:

I have your letter of June 28 in which you advise that rumors have come to you that it is my view that certain provisions of the Securities Act of 1933 operate to discourage or prevent new capital financing and asking what facts have persuaded me to this view.

First of all, please be assured that I do not consider myself or my associates experts in the field covered by the Securities Act of 1933 and would therefore hesitate to come to any conclusions respecting the effect of that Act without conferring with yourself and your associates. The fact is that I have no definite opinions as to the various provisions of the Act in question and the only consideration that has been given here to the Act and the regulations of the Commission pursuant thereto was incidental to our careful and extended consideration of the problem of bank credit for business. I do, however, have an opinion with respect to the general situation respecting the capital market which it must be admitted has not been such as to facilitate the supply of capital to business in adequate manner, especially to small and medium-sized business units. Leaving aside the acknowledged benefit from the point of view of the reforms involved, it seems to me that the divorce of commercial banking from the distribution of securities through affiliates, the prohibition against underwriting by banks and the revision of the Comptroller's Regulation on Investment Securities issued in 1936, plus the entire field of legislation administered by the Securities and Exchange Commission have all combined to interpose important barriers between the supply of investment funds on the one hand and the requirements of business for capital on the other hand. In the process of accomplishing the reforms, no alternative mechanism was provided to keep up the ready flow of investment funds into the capital market with the result that, up

Honorable William G. Douglas - 2

to the present, business generally has not enjoyed a satisfactory capital market except in the case of large and very high grade issues.

For the past several months I have been devoting a great deal of my time to the problem of ameliorating the barriers referred to insofar as they relate to the banking system. As you know, these efforts have resulted in the recent change in the policies of the bank supervisory authorities respecting bank examinations and a revision of the Comptroller's regulation governing the purchase of investment securities by all member banks. I think it fair to say that these changes represent a fundamental liberalization in the approach to the problem of bank loans and investments without in any way challenging the existing restrictions upon the issue of securities for public distribution as embodied in the Securities Act of 1933. Whether, in order to improve the capital market, changes should be made in the legislation or regulations administered by the Commission is a matter which you and your associates could best judge. That this problem is receiving your careful and continuing attention was indicated in the statement of the Commission issued under date of April 22, 1938, announcing the liberalization of certain requirements respecting some classes of exempted issues. I should like to add that if at any time any members of the Board of Governors or its staff could be of assistance in the further consideration of this problem by you and your associates, we would be very glad to cooperate in every way.

I believe you and I will find ourselves in close agreement on all essential matters connected with the control of security issues for public distribution. I have the greatest respect for the benefit conferred by the functioning of the Securities and Exchange Commission in protecting the investing public against frauds and abuses. At the same time, I have a deep concern for the capital and credit requirements of business, particularly of small and medium-sized business units and am especially anxious that the banking system fulfill its normal function of meeting a substantial part of these requirements, since the smaller business units do not generally have adequate access to the capital market.

Yours sincerely,

M. S. Eccles
Chairman

LC/fgr

