

SECURITIES AND EXCHANGE COMMISSION

~~WASHINGTON~~

OFFICE OF THE CHAIRMAN

Philadelphia

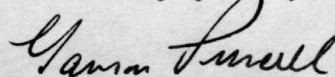
July 8, 1942

Hon. Marriner S. Eccles, Chairman,  
Board of Governors of the  
Federal Reserve System,  
Federal Reserve Building,  
Washington, D. C.

Dear Mr. Eccles:

I am attaching hereto brief memoranda relating to the activities of building and loan associations and the capital controls exercised at the present time in other United Nations which you may wish to review prior to the next meeting of the informal capital control committee.

Sincerely yours,



Ganson Purcell  
Chairman

Enc.

Received in  
Chairman's Office  
JUL 9 1942  
Board of Governors  
Federal Reserve System

7/9/42

## Capital Control in Other United Nations

### England

Effect of English regulation is to require consent for all public and private offers for capital purposes.

The Treasurer is permitted to make exemptions and transactions which, together with all previous transactions within the scope of the regulation, involve less than £10,000 are exempted. Certain exemptions are made including certain local building societies.

The Capital Issues Committee approves applications only if it finds the transactions involved are "advisable in the national interest". Obtainable information indicates that the control is succeeding in aiding Government in competing against private non-war financing. From best obtainable information there is little doubt that no new issue of investment trust certificates or building societies shares are permitted to be made. Although building societies are probably allowed to accept deposits, there is little likelihood that they receive substantial sums because destruction by bombing and priority restrictions on buildings makes them less attractive. It is believed that the sale of industrial insurance is permitted but the extent of such sale is not known.

### Australia

Regulations require consent of Treasurer for registration of any company organized for profit, for increases in nominal capital, for issues of authorized capital, for calls upon shares, and for the receipt of any payment on account of authorized capital or calls. Except for short-term or demand loans from banks, individuals may not issue securities or mortgage without consent. Building societies may not, without consent, raise interest rates on deposits.

Australian financial controls, significantly, are supplementary to direct controls over industrial expansion which have been increased until most expansion has to be sponsored by central ordinance authority.

7/7/42

## Activities of Building and Loan Associations

Approximately 92 per cent of capital obtained from the public is represented by capital shares and capital accounts. The balance is in the form of investment certificates and deposits.

There are two general classes of paid-in capital - "Full Paid Shares" and "Share Accounts". Share accounts are purchased by periodic payments.

Federally chartered associations are prohibited from charging any "membership, admission, repurchase, withdrawal, or any other fee or sum of money for the privilege of becoming, remaining, or ceasing to be a member of the association". However, investors are induced to maintain regular payments by promising them a bonus over and above amounts received on fully paid shares of  $1/2$  to  $1$  per cent per annum if they maintain all payments over a 100 or 200 payment period.

Federally chartered institutions are not permitted to sell either investment certificates or to accept deposits although other associations which do so may become members of the Federal Home Loan Bank System. The number of associations issuing investment certificates has decreased materially but many are still engaged in this practice. The provisions of the investment certificates are not standardized but indications are that some associations are still selling contracts in appreciable amounts of the type distributed by Investors Syndicate of America.

In 1941 Federal associations, which represent 53.3 per cent in number and 79.3 per cent in total assets of all associations, showed a net increase in outstanding capital shares of \$347,124,000. All associations showed total assets of \$6,064,202,000 as of December 31, 1941, as compared with \$5,681,583,000 as of December 31, 1940.

Total new investments in insured associations in 1941 amounted to \$873,163,000 and withdrawals totaled \$543,680,000 leaving a total net increase by the public of \$329,483,000. In the first 4 months of 1942 new investments in insured associations amounted to \$274,135,000 and withdrawals equaled \$253,424,000.



MEMORANDUM

Re: Activities of Building and Loan  
Associations

By: Securities and Exchange Commission

Approximately 92% of the capital obtained by building and loan associations from the public is represented by capital shares and capital accounts and the balance is in the form of investment certificates and deposits. There are two general classes of paid-in capital, "full paid shares" and "share accounts". Full paid shares are paid for in full at their face amount by the investor at the outset. Share accounts are opened by investors who are unable to purchase full paid shares. In this case the investor makes periodic payments on his account. At the present time it is becoming general practice for the share accounts and the fully paid shares to receive the same dividend (pro rata) and the holder of an account is not penalized in any way for failing to maintain regular payments. As a matter of fact all federally chartered associations are prohibited from charging "any membership, admission, repurchase, withdrawal, or any other fee or sum of money for the privilege of becoming, remaining, or ceasing to be a member of the association". An investor is induced to maintain regular payments, however, by promising him a bonus over and above the amount received on fully paid shares if he maintains an unbroken record of payments over the life of his contract. That is, he is given a bonus of  $\frac{1}{2}\%$  to 1% per annum if he maintains all payments over a 100 or 200 payment period.

Federally chartered building and loan associations are not permitted to sell either investment certificates or to accept deposits, although associations which sell such certificates and accept deposits may become members of the Federal Home Loan Bank System. Although the number of associations

issuing investment certificates has decreased materially, many are still engaged in this practice. The provisions of the investment certificates are not standardized. Many different types are sold and no statistics are available as to the aggregate amount of each type sold or redeemed annually. Indications are that some associations are still selling contracts of the type distributed by Investors Syndicate of America in appreciable amounts.

As of December 31, 1941, there were 7,078 operating savings and loan associations in the United States having total assets of \$6,064,202,000. This compares with 7,189 associations having total assets of \$5,681,583,000 as of December 31, 1940. While there are no recent statistics relating to the composition of the assets and capital of all building and loan associations, the Federal Home Loan Bank Administration has prepared certain figures on member associations. These associations represent 53.3% by number and 79.3% of total assets of all savings and loan associations. Gross figures on sales and retirements of capital shares and withdrawal of deposits are not available, however, the comparative statement of assets, liabilities and capital of member associations attached hereto shows that there was a net increase in outstanding share capital of member associations in the amount of \$347,124,000 in 1941. In the same year deposits and investment certificates outstanding increased \$25,127,000. In view of the fact that total assets of all savings and loan associations increased only \$382,619,000 in 1941, it can be concluded that new investments in non-member associations were offset by the withdrawals and losses which they suffered.

Information is available showing gross new investments and withdrawals made by the public in savings and loan associations whose deposits and capital are insured by the Federal Savings and Loan

Insurance Corporation. <sup>1/</sup> As of December 31, 1941, these institutions numbered 2343 and had total assets of \$3,361,792,000, or 55% of total savings and loan assets. During 1941 total new investment in insured savings and loan associations amounted to \$873,163,000 and withdrawals totaled \$543,680,000, leaving a total net increase in investment by the public of \$329,483,000. In the first four months of 1942 new investments in insured associations amounted to \$274,135,000 and withdrawals equaled \$253,424,000.

Edw. T. McCormick

July 7, 1942

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- <sup>1/</sup> All members of the Federal Home Loan Bank System are not insured by the Federal Savings and Loan Insurance Corporation. The Federal Home Loan Bank System, with capital contributed by the U. S. Government and member institutions, provides a credit reservoir which is used to make both short and long-term advances to members. The Federal Savings and Loan Insurance Corporation insures the deposits and capital contributions of each individual investor in any association affiliated with the F S L I C up to an amount of \$5,000.



**Comparative Statement of Condition  
For All Savings and Loan Members  
1941-1940**

<b>Assets*</b>	<b>1941</b>	<b>1940</b>
First Mortgage Loans (Inc. Int.)	\$ 3,918,967	\$ 3,495,884
Jr. Mortgage Liens (Inc. Int.)	2,985	3,840
Other Loans (Inc. Share Loans)	29,577	29,844
Real Estate Sold on Contract	173,598	167,169
Real Estate Owned	189,429	299,838
<b>Investments:</b>		
F.H.L.B. Stock	47,553	43,547
U.S. Gov't Obligations (Inc. HOLC Bonds)	75,244	45,760
Other Investments (Inc. Accrued Int.)	21,039	22,782
Cash on Hand and in Banks	278,696	242,391
Office Building (Net)	47,229	46,414
Furniture-Fixtures and Equipment (Net)	5,293	4,530
Other Assets	8,148	8,964
<b>Total Assets</b>	<b>\$ 4,797,758</b>	<b>\$ 4,410,963</b>
<b>Liabilities &amp; Capital*</b>		
U.S. Gov't Investments (Shares & Deposits)	\$ 195,692	\$ 220,477
Private Repurchasable Shares	3,416,075	3,068,951
Mortgage Pledged Shares	130,777	145,971
Deposits & Investment Certificates	331,926	306,799
Advances From F.H.L.B.	217,881	200,105
Other Borrowed Money	21,345	16,755
Loans in Process	66,786	62,833
Advance Payments by Borrowers	17,620	13,707
Other Liabilities	20,826	19,319
Permanent Reserve or Guaranty Stock	26,519	25,799
Deferred Credit to Future Operations	16,044	16,604
Specific Reserves	8,050	9,613
General Reserves	211,337	198,169
Bonus on Shares	623	559
Undivided Profits	116,257	105,302
<b>Total Equities</b>	<b>\$ 4,797,758</b>	<b>\$ 4,410,963</b>
<b>Number of Associations</b>	<b>3,771</b>	<b>3,818</b>

\* In thousands of dollars.

Prepared by: Division of Research &  
Statistics, Federal Home Loan  
Bank Administration,  
Washington, D. C.  
June 29, 1942

## MEMORANDUM

Re: Present Capital Control in Other  
United Nations.

By: Securities and Exchange Commission

### England

Pursuant to Regulation 6 of the Defense (Finance) Regulations Order, 1939, it is unlawful, without the consent of the British Treasury, to "make an issue of capital in the United Kingdom, to make in the United Kingdom any public offer of securities for sale, or to renew or postpone the date of maturity of any security maturing for repayment in the United Kingdom." The issuance of securities whether for cash or otherwise is deemed a capital issue, as is the receipt of any money by loan in the expectation that repayment will be made, in whole or in part, by the issuance of securities. Thus, the effect of the regulation is to require consent for all public offers and for all private offers for capital purposes. The Regulation includes also the creation of mortgages or increase in amounts secured thereby. The Treasury is permitted to make exemptions.

### Exemptions

Transactions which, together with all previous transactions within the scope of regulation, involve less than \$10,000 are exempted. Tax anticipation borrowings by local authorities, for limited purposes and in limited amounts, certain local building society transactions, changes in the nature of securities not involving the subscription of new money, certain promoters' transactions, private company sales of securities to members in small amounts, issues in consolidations, etc., not involving new money, the issuance of securities to banks to make them whole for advances or overdrafts, where the issue was not originally contemplated in the loan, repayments of certain obligations



incurred prior to the regulations, government issues, and personal mortgage transactions are also exempted. No exemption is available for an issue of securities made wholly or partly for the purpose of "capitalizing profits or reserves."

#### Administration

The Capital Issues Committee passes on applications and approves them only if it finds that the transactions involved are "advisable in the national interest."

Obtainable information as to the history of capital control in Great Britain indicates that that control is succeeding in aiding the competition of government with private non-war financing. New capital issues in the year 1940 reached the total of £1088.7 million, of which £1070.8 million were for the British Government. Local authorities and public boards raised no new capital whatever, and United Kingdom companies only £16.6 million as against £66.2 million in 1939 and practically £200 million in 1937. Foreign issues were completely eliminated, and Empire borrowers raised only £1.3 million in 1940 as against £25.5 million in 1939 and £63.4 million in 1937, by capital issue. (See Table on next page).

Definite information regarding the actual effect of the administration of capital control on the sale of investment company certificates, industrial insurance policies, and building society shares in England and the Dominions is not readily available in this country. However, the best obtainable information is that there is little doubt that no new issues of investment trust certificates or building society shares are permitted to be made. Although building societies are probably allowed to accept deposits, there is little likelihood that they receive any substantial sums as such mode of investment is not attractive at this time because of destruction by bombings and priority restrictions on building. It is believed that the sale of industrial insurance is permitted but the extent of such sales is not known.

United Kingdom: Capital Issues<sup>1/</sup>  
1937 - 1941

(£ million)

Years	B R I T I S H				Empire:	Foreign:	Total
	Govern- ment	Home 2/ porations	Cor- Others:	Total: Home :			Issues
1937	143.1	45.3	199.1	387.5	63.4	7.1	458.0
1938	75.9	27.7	110.1	213.7	53.7	5.7	273.1
1939	36.8	12.1	66.2	115.1	25.5	2.2	142.8
1940	1070.8	nil	16.6	1087.4	1.3	nil	1088.7
1941 (Jan.-Sept.)	1114.1	nil	2.9	1117.0	3.5	0.1	1120.6

1/ Total new borrowing, including Stock Exchange "permission to deal" - refunding excluded.

2/ Including County and Public Board loans.

Source: The Economist, March 15, 1941, p. 6, April 5, 1941, p. 454, and October 4, 1941, p. 418. A breakdown of these issues by classes of industrial and other borrowers is presented in the Economist from time to time, including those pages cited above. The breakdowns show nothing of significance, since the amounts of non-governmental securities were very small and were distributed widely over a number of industrial classifications. By far the largest amounts of non-governmental issues are included under the omnibus category "Manufacturing and Miscellaneous."

### Australia

The Australian system of capital control is effected pursuant to regulations under the National Security Act, 1939-1940, known as National Security Regulations. These Regulations require the consent of the Treasurer of the Commonwealth for the registration of any company organized for profit, for increases in nominal capital, for issues of authorized capital, for calls upon shares, and for the receipt of any payment on account of authorized capital or calls. Except for short-term or demand loans from banks, individuals may not issue securities or mortgage or charge the whole of their property or assets without consent. <sup>1/</sup> With certain exceptions, mortgages cannot be traded at more than 5% discount, without consent. Among other provisions, limitations are set on rates of interest payable on deposits (with others than banks); and banks and land companies are regulated with respect to interest chargeable on loans. Building societies may not without consent raise interest rates on deposits with respect to demand or short-term deposits.

With respect to all transactions requiring consent, the Treasurer may "in his absolute discretion, grant the consent, either unconditionally or subject to such conditions as he thinks fit, or refuse to grant the consent." The Treasurer may, by order, "exempt from the application of the whole or of any provisions of these Regulations, any person, company, society, club, association or body, or class of persons, companies, societies, clubs, associations or bodies, or any security, mortgage, charge or other transaction or class of securities, mortgages, charges or other transactions."

Significantly, Australian financial controls are supplementary to direct controls over industrial expansion--which, I am informed, have been increased until

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<sup>1/</sup> Consent is required to pay or charge interest higher than the specified rate in the mortgage or to evade the interest limitation by repayments in excess of the amount of the mortgage.



most expansion has to be sponsored by central ordinance authority. Controls have extended to restrictions on speculative trading and control over banking. The latter controls extend to the requirement that banks deposit with the Central Bank any surpluses over their needs as an anti-inflationary measure.

A conference with Mr. Brigden at the Australian Legation was had respecting the operation of Australian controls. It was revealed that at the outset of the war Australia set up a Board consisting of business men and bankers to review new issues. Recently, however, it was found necessary to stiffen the administration of capital controls and to substitute for this industry board a wholly governmental body--on which the government bank was represented. On February 19, 1942, cable information indicated:

"There will be a prohibition of the sale or investment of capital except by permission of the Government or for obvious war purposes such as investment in public loans or in capital issues sanctioned by the Capital Issues Advisory Committee. This will eliminate any forms of speculation and concentrate capital transfers on immediate war needs."

More recently the press and Official Australian Short-wave have indicated some relaxation of policy with due regard to the prevention of speculation. Cable information received in New York early in April of this year indicates:

"The sale of stock, shares and debentures of a company is permitted without consent if the seller has been registered as owner for at least five months. Stock Exchanges, after consultations with the Treasurer, have fixed the maximum and minimum prices at which shares may be sold. Should shares officially listed on Exchange not be sold through a member of the Stock Exchange, the Treasurer must be supplied with details of the sale within seven days of the transaction".

July 6, 1942