

June 22, 1944

Chairman Eccles

Report on qualification of brokers

L. M. Piser

and dealers

I should like to call to your attention the following points made in Mr. Sproul's letter of May 31, 1944, regarding the qualifications of brokers and dealers:

1. The dealer banks generally signed the terms on the understanding that the requirement for the submission of certified statements of condition would not be applicable to them, presumably on the grounds that the System can examine member banks at any time. One dealer bank substituted the words "buy and sell" for "make markets", since the latter term has a connotation of pegging the market, and deleted the words "both long and short", since a bank cannot legally go short. Two of the brokers signed on the understanding that the requirements pertaining to dealers were not applicable to them. These exceptions appeared reasonable to the New York Bank, and they appear reasonable to me.

2. Mr. Sproul met with the press and apparently handled the situation extremely well.

3. Five dealers failed to qualify because of the relatively small volume and restricted scope of their business and the limited amount of their capital. One dealer failed to qualify because its portfolio consistently has been too large in relation to its capital and it failed to report promptly a large contingent liability. From conversation with Mr. Rouse, I gather that this particular dealer would not rate very high on the integrity qualification.

4. Mr. Sproul enclosed with his letter information concerning the qualified dealers that seems to me to be sufficiently comprehensive. More information would be desirable, however, concerning the dealers who failed to qualify.

I am enclosing a memorandum dated June 7, 1944, that may have escaped your notice.

Enclosure