

SECURITIES AND EXCHANGE COMMISSION
Philadelphia 3, Pa.

December 29, 1945

Honorable Marriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Mr. Eccles:

In the course of its recent studies of the state of the securities markets, the Commission has been giving increasing attention to the obvious need for additional measures to accomplish the statutory purposes of the Securities Exchange Act of 1934. In that connection, the Commission wishes to renew its suggestion which I have stated from time to time before the Economic Stabilization Board and which I last discussed with you in my letter of August 4, 1944, that the elimination of margin trading would be extremely desirable. At the same time, it might be desirable to require, in line with the existing provisions of Regulation T, that the proceeds of any sales in a margin account be used to raise existing margins to 100 per cent.

We have no illusions that any measures of this sort can alone prevent the ill-considered speculation and irrational valuation on the part of public buyers, which is becoming increasingly evident. But we think the effects of such measures can easily be underestimated. The effects of the Board's action last July increasing margin requirements to 75 per cent afford a yardstick as to consequences which additional margin increases may have. Our records show that round-lot trading by the public in margin accounts, which before July 1945 had represented 40 to 50 per cent of all the public's round-lot trading, dropped immediately to about 25 per cent and has since remained at that level. Equally important is the fact that the almost uninterrupted round-lot net buying which had been recorded in margin accounts before July 1945 was arrested and, until early November, there was no additional net buying of any consequence in these accounts; it has only been during the past month or so that such net buying has been resumed in heavy volume.

Another indication of the restraining effects of your action of last July appears in the figures on customers' debit balances and on brokers' borrowings; both series showed a significant decline between June 30 and October 31, 1945, although the decline now seems to have been arrested. On the basis of these data, we are convinced that the rather spectacular price rise of recent months occurred despite your revision of margin requirements and might have begun earlier and been more extensive in the absence of that revision.

We have considered some of the arguments which may be made in opposition to an early move of the character we recommend. Perhaps the most impressive one is the contention that the public will be on notice, after this action has been taken by the Board, that there are no additional credit restraints which can be imposed in this area. Thus, if the market should absorb this step without perceptible effect, an overhanging restraint against bullishness, which it could be contended now exists, would vanish.

But the argument does not seem to us to have much validity. It is doubtful, in our opinion, that public bullishness is currently being restrained in any perceptible measure because of the overhanging possibility of the abolition of margin trading or that it would perceptibly increase if the power to abolish such trading no longer existed.

We would be very much pleased to have the Board's reaction to our suggestions.

Sincerely yours,

(Signed) Ganson Purcell.

Ganson Purcell,
Chairman.