

FEDERAL RESERVE BOARD

WASHINGTON

X-7406

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 11, 1933.

SUBJECT: Securities' Bill.

Dear Sir:

In its telegram of April 4, 1933, Trans. 1752, the Board quoted, for your information, identical letters addressed to the Chairmen of the Committee on Banking and Currency of the Senate and the Committee on Interstate and Foreign Commerce of the House of Representatives, respectively, with regard to S. 875 and H. R. 4314, to provide for the furnishing of information and the supervision of traffic in investment securities in interstate commerce.

There is inclosed herewith; for your further information, copy of another letter, regarding S. 875, being addressed today to the Chairman of the Committee on Banking and Currency of the Senate. A similar letter, regarding H. R. 4314, is being addressed to the Chairman of the Committee on Interstate and Foreign Commerce of the House of Representatives.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS.

April 11, 1933.

Honorable Duncan U. Fletcher, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C.

My dear Chairman:

Reference is made to the request contained in the letter of April 4, 1933, from the acting Clerk of your Committee for a report of the Federal Reserve Board on the bill, S. 875, to provide for the furnishing of information and the supervision of traffic in investment securities in interstate commerce.

On April 3, 1933, the Board had occasion to write to you making certain suggestions with regard to the possible application of the provisions of this bill to bankers' acceptances and short-time commercial paper. As stated in that letter, it appears that the bill is intended to apply to traffic in stocks, bonds, debentures and other similar securities of the kinds commonly known as investment securities which are issued for the purpose of obtaining capital funds and which are purchased as investments, and that it is not intended to apply to bankers' acceptances or to short-time commercial paper issued for the purpose of obtaining funds for current transactions in commerce, industry or agriculture which are purchased by banks, insurance companies and others as a placement for short-term funds. By subsection (a) of Section 2 (page 1, line 7), however, the term "security" as used throughout the bill is defined as including any "note" or "evidence of indebtedness" as well as any stock, bond, debenture, etc., so that

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the definition appears to be broad enough to include such bankers' acceptances and commercial paper.

In its letter the Board suggested that the bill should be amended by adding at the end of line 9 on page 2 a proviso exempting bankers' acceptances and notes, drafts and bills of exchange growing out of current commercial, agricultural or industrial transactions or the proceeds of which have been or are to be used for current commercial, agricultural or industrial purposes, when such paper has maturities not in excess of nine months. However, there are other similar classes of paper, such as paper issued to finance the breeding of live stock, which may be sold on the open market with maturities exceeding nine months; and it would seem desirable in the circumstances that the Federal Trade Commission be given sufficient discretion to enable it to apply the provisions of the bill in harmony with its true intent and meaning. A form of substitute amendment for this purpose is submitted herewith for the consideration of your Committee.

It appears, further, that the provisions of the bill are manifestly not intended to be applicable to Federal reserve notes, Federal reserve bank notes, and Federal reserve bank stock; but the definition of "security" contained in subsection (a) of Section 2 (page 1, line 7), referred to above, appears to be broad enough to include such notes and stock.

It is noted that the National bank notes and National bank stock are exempted from certain of the provisions of the bill by a

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provision contained in the present subsection (b) of Section 11 (page 20, lines 18 and 19); and the provision following immediately thereafter (page 20, lines 19 to 22) apparently was intended to exempt obligations of institutions such as Federal reserve banks. This subsection, however, contains a proviso requiring all organizations mentioned therein to comply with the provisions of Section 8 of the bill, which provides among other things (page 18, lines 13 to 15) that a statement containing detailed information regarding any security sold shall be delivered to each purchaser together with the security to which it relates. Such a provision appears to be unnecessary with respect to Federal reserve banks in view of existing provisions of law relating to these institutions and the fact that Federal reserve bank stock is not offered for public subscription.

In order to make the provisions of the bill inapplicable to Federal Reserve Banks it is suggested that Section 11 (page 20) be amended by adding a new subsection at the end thereof. A form of amendment for this purpose is submitted herewith for the consideration of your Committee.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

PROPOSED AMENDMENTS TO S. 875

on page 2, line 9, change the period to a colon and insert the following:

"Provided, however, That the term 'security' shall not include any note, draft, bill of exchange or bankers' acceptance which arises out of a commercial, agricultural or industrial transaction or the proceeds of which have been or are to be used for commercial, agricultural or industrial purposes, and which has a maturity at the time of issuance not exceeding nine months, exclusive of days of grace; And provided further, That, it being the intent and purpose of this Act to regulate traffic in investment securities, as distinguished from short-time obligations issued for the purpose of obtaining funds for current commercial, agricultural or industrial purposes and which are purchased by banks, insurance companies and others as a placement for short-term funds, the Commission in its discretion may by regulation or ruling further determine and define from time to time the kinds and maturities of securities which are not included within the said intent and purpose.

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Insert the following additional subsection at the end of Section 11:

"(f) Any security issued by or representing an interest in or a direct obligation of any Federal reserve bank."