

X-7828

The staff of the Federal Reserve Board conferred for a week with representatives of the Treasury and with Mr. Pecora, Mr. Corcoran and Mr. Cohen, Attorneys, in reference to the provisions of the National Securities Exchange Act of 1934. Governor Black participated in some of these conferences, was in close touch with all of them, and kept the members of the Board fully advised. During these conferences the attitude of the Board was requested and the following expression of this attitude was given:

"The Board is in thorough accord with the following purposes of the bill:

- (1) To regulate National Securities Exchanges to the end that they may operate under fair practices only.
- (2) That speculation be properly curbed and dishonest speculation be eliminated.
- (3) That exchange credit be properly restrained and the undue use of credit in speculation be prevented.
- (4) That necessary penalties be enacted to guarantee the accomplishment of these purposes.

The Board is not primarily concerned with the features of the bill with regard to the policing or regulating of the exchange, but feels that these features should be fair and in accord with established American business principles.

If it is desired the Board will be glad to undertake the responsibilities of the bill regarding the fixation of marginal requirements upon loans based upon exchange equities, whether the loans are made by brokers or banks, provided power is vested in

- 2 -

the Board to handle this subject in the public interest and to the protection of the investor. This function would usefully supplement the considerable powers vested in the Board under the Banking Act of 1933 to prevent the undue use of credit for speculative purposes and would in the judgment of the Board furnish effective protection against the economic evils of speculation."

During these conferences very many changes in the original bill were recommended by the Federal Reserve staff. These recommendations were followed in substance and changes were made in the bill, and the bill was greatly improved in order to properly effectuate its purposes.

The bill known as H. R. 8720 introduced in the House by Mr. Rayburn embraces these recommended changes. It is the feeling of the Reserve Board that the revised bill H. R. 8720 is workable, is right in principle, and will accomplish the purpose of regulating National Securities Exchanges under fair practices and that undue and excessive speculation will be properly curbed, and that exchange credit will be properly restrained and the undue use of credit in speculation be prevented. The Board is therefore prepared to approve the bill as revised.

The Board requests the privilege of making such further constructive suggestions as to the bill as may appear necessary or desirable as the result of the further study of the bill, and this request applies especially to questions affecting technical operations of the exchanges covered by the bill.