

## INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal reserve banks)

April 13, 1934.

Mr. Isaac B. Newton,  
Federal Reserve Agent,  
Federal Reserve Bank of San Francisco,  
San Francisco, California.

Dear Mr. Newton:

A portion of Mr. Sargent's letter of February 21, 1934, was answered by the Board's telegram of March 17, 1934, to Mr. Sargent, calling his attention to the Board's letter of March 12, 1934 (X-7820), as well as to its letter of December 22, 1933 (X-7739). This letter has reference to the remainder of Mr. Sargent's letter of February 21, 1934, which inquired as to the applicability of Section 32 of the Banking Act of 1933 to the service of a director of a national bank as a director of \_\_\_\_\_ Brokerage, Inc., \_\_\_\_\_, \_\_\_\_\_. In his letter Mr. Sargent quoted the following statement regarding that corporation:

" \_\_\_\_\_ Brokerage Inc. is an Associate Member of the \_\_\_\_\_ Stock and Curb Exchanges. The company does not carry a position in securities or a portfolio of any kind whatsoever, neither does it permit margin accounts. The company acts exclusively as broker on orders received from clients for the purchase of securities for cash on the Stock Exchange. Its duties therefore are those of an agent acting in accordance with Stock Exchange requirements and the company cannot be regarded as 'a dealer in securities'."

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It appears that it is the purpose of Section 32 to restrict relationships between member banks and organizations which are directly interested in issues of securities through underwriting, distributing, or dealing in such issues, because of the possible undesirable effect of such relationships upon the member bank's credit or investment policies or its policies in dealing with its customers. A broker, however, who merely executes orders for the purchase and sale of securities on behalf of others in the open market and who is not engaged in underwriting, distributing, or dealing in securities would not be within the class referred to. Moreover, the words "purchasing" and "selling" are words which connote the passing of ownership to or from the person making the purchases or sale.

Accordingly, Section 32 is not deemed to be applicable to a broker who merely executes, in the open market, orders received from others for the purchase and sale of securities belonging to others and who is not engaged in underwriting, distributing, or dealing in securities. As you know, the Board has decided that the carrying of margin accounts ordinarily involves the making of loans secured by stock or bond collateral within the meaning of Section 8A of the Clayton Act. See the Board's letter of March 27, 1934 (X-7837). However, it appears from the statement quoted above that the company in question does not carry margin accounts.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.