

September 15, 1938

Mr. William R. Bacon  
President, San Francisco  
Stock Exchange  
155 Sansome Street  
San Francisco, California

Dear Mr. Bacon:

Your letter of September 2, 1938 addressed to the Chairman has, in his absence, been referred to me.

I appreciate your keeping the Commission informed upon the development of the proposal to permit the incorporation of your member firms. You ask for the views of the Commission upon the advantages and disadvantages of permissive incorporation of brokerage firms. I may say that, from my own point of view, there seems nothing inherently inimical to the public interest in permitting the corporate form of doing business.

This expression, however, must be carefully delimited by the qualification that the rights of customers must, in all events, be given protection fully commensurate to that which now exists in the case of partnerships. For instance, in order to compensate for the absence of unlimited personal liability, it seems to me that the capital requirements applicable to member corporations might well be more stringent than those applicable to member partnerships. The minimum capital should, I think, be fairly high and the ratio of aggregate indebtedness to net capital, conversely, should be kept fairly low.

It will, of course, also be necessary for your Exchange to retain a direct control over officers, directors, and probably common stockholders of member corporations comparable to that which now exists in respect of partners of member firms. I should also like to point out that because of the definition of the term "member" contained in Section 3(a) (3) of the Securities Exchange Act of 1934, it will probably be necessary for your Exchange to accord to officers, directors, and common stockholders of member corporations one or the other of several privileges referred to it that subsection of the Act in order that they may legally fall within the definition.

It was most interesting to note that your Exchange has appointed a special committee to confer with a committee of the California Security Dealers

Association relative to the rate of commissions, as well as the establishment by members of the Exchange and also by over-the-counter dealers.

Upon his return, I will call to the attention of the Chairman your further request for any ideas or comments which the Commission may care to make at this time relative to the establishment and functions of a central securities depository.

Yours faithfully,

George C. Mathews  
Acting Chairman