

via messenger

DECLASSIFIED
 Authority *WNO 10501*
 By *SP* NARA Date: *2/12/07*

BOARD OF GOVERNORS
 OF THE
 FEDERAL RESERVE SYSTEM
 WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE
 TO THE BOARD



October 28, 1936.

By Messenger

Hon. James M. Landis, Chairman
 Securities and Exchange Commission
 Washington, D. C.

Dear Mr. Landis:

We have prepared for the files a memorandum dealing with comparative costs of trading in New York and in London. It relates to trading by an American in American stocks. I enclose a copy for your information. You will note that it is marked "confidential".

I am venturing to send copies also to Dr. Gourrich and Mr. Saperstein with the request that they be kind enough to inform me as to any corrections that seem to them to be necessary.

Very truly yours,

Carl E. Parry

Carl E. Parry
 Chief, Division of Security Loans

Enclosure

*Chairman's Files
 Box 16
 NARA*

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By SP-NARA Date 2/12/07

October 27, 1936

CEP

Memorandum for the Files -- Re "Comparative costs"

How does the cost to an American of trading on margin in American stocks on the London Stock Exchange through a London broker compare with the cost to an American of trading on margin in the same stocks on the New York Stock Exchange through a New York broker?

The best basis for the desired comparison would be the experience of some American trader who has been doing his trading through some London broker. We have been hunting for some such American trader for a long time, but have not yet been able to find any, which indicates that there are probably few such traders. If such is the case, as many brokers affirm, this is at least partly due to difficulties encountered by an American in opening an account in London and getting credit there, to the cost and infrequency of quotations of prices in London, slow executions or slow reports, and the fact that the market is far away and hard to follow.

In any event, we are obliged for the present to make the desired comparison on the basis of estimates. Items entering into the comparison include commissions, taxes, cable charges, and either interest charges or their equivalent. The interest charge imposed by a New York broker on the customer's debit balance has its counterpart in London either in an outright interest charge or in the so-called continuation charge, or "contango rate", imposed by the London broker.

Rates of commission both in New York and in London are on a sliding scale, with the higher rates applying to the higher-priced stocks, but the scales are such that on stocks of certain prices the New York rate is higher and on stocks of other prices the London rate is higher. Other factors affecting the comparison of commission charges are certain differences in commission practice between New York and London. Thus the New York broker invariably charges the customer a commission both on the purchase and on the sale, regardless of the interval between the two operations, whereas the London broker follows this practice only in case the purchase and sale do not fall within the same fortnightly settlement period. If the two operations are effected within two successive settlement periods, some London brokers charge a selling commission and some do not. Another difference is that the New York broker does not vary his commission charge with the size of the given purchase or sale, whereas the London broker follows this

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practice only on transactions which do not exceed a certain amount, which is now £2,500. On transactions beyond that amount the London broker charges commission at a lower rate. There are cases also, such as those requiring resort to the New York market, in which the London broker charges both the London and the New York commission.

The taxes which the London broker would pass on to the American customer are certain taxes for "contract stamps", which apply to every transaction. Certain other taxes, called "stamp and fee" taxes, are for technical reasons not ordinarily applicable to dealings in American shares. It should be noted in this connection that on trading profits made in London the American trader would be subject to American taxes, either in the form of income taxes or capital gains taxes, just as if he had made these profits in New York, and would have to pay such taxes unless he makes false returns to the American authorities in reporting his income.

Cable charges would naturally vary according to the amount of cabling that would be necessary and possibly according to the extent to which, in the case of a good customer, the London broker would himself absorb such charges.

The rates of interest charged by New York brokers on customers' debit balances are not uniform as between different customers, since larger customers having better bargaining power are able to obtain the better rates. The continuation charge of the London broker is understood to be fairly uniform as between different customers but may differ as between one stock and another at the same time and as between different times for the same stock.

It will be apparent from the foregoing that in preparing the attached statements of comparative costs it has been necessary to make a number of assumptions, some of them quite arbitrary. The statements relate, of course, to hypothetical cases, which have been so selected as to exhibit--

- (1) An instance in which the stock purchased and sold is a familiar one -- U. S. Steel common.
- (2) An instance illustrating the type of case that is "most favorable to London" -- The Radio instance.
- (3) An instance illustrating the type of case that is "most favorable to New York" -- the Chesapeake & Ohio instance.

The principal point brought out by these illustrations is that for certain types of American traders, interested in certain types of operations, the advantage in respect to costs of operation

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em to be very greatly in favor of his trading through London. If to this advantage there be added certain others, such as ability to carry more stock in London with a given amount of margin and freedom there from anti-manipulation rules, the apparent advantage to a certain type of customer of trading through London would seem to present a considerable temptation. This is what certain American brokers have been asserting for some time, both to newspaper men and to representatives of the Board, and what London brokers have been saying to prospective American customers. It is denied, however, by some American brokers. Very little evidence, moreover, has yet been presented to us, or unearthed by us, to show that American traders have in fact transferred their trading to London. Authentic information collected for us recently in London, moreover, by a good friend of ours who has excellent connections in London but is not himself a broker, is to the effect that London brokers have made great efforts recently to get American customers but have had so little success that they are "quite disgusted".

3 Attachments.
CEP FCOH

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(1) U. S. Steel instance

Buy and sell 1,000 shares U. S. Steel common (\$100 par) at \$60 -- Transactions 30 days apart:

	<u>New York</u>	<u>London</u>
Commission -- one-way:		
N. Y., at \$17.50 per 100 shares	\$175	
London: 250 shares (£3,000) at 1s. per share		£12 1/2
750 shares (£9,000) at 6d. per share		£18 3/4
		£31 1/4
		(= \$153)
Commission -- Round-turn (twice foregoing figures)	\$350	\$306
N. Y. -- Transfer tax at 9¢ per share	90	
London -- Contract stamps for purchase and sale		6
Cable charges		*6
Expenses, financing excluded	\$440	\$318
N. Y. -- Interest at 2% on \$33,000 margin	55	
Interest at 3% on \$27,000 dr. bal.	68	
London -- 2 continuations at *5%		*231
Contract stamps for 2 continuations		.6
Interest at 2% on *\$15,000 margin		*25
Total expenses, financing included	\$563	\$580

*Estimated figures.

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Authority WNO 10501By SP NARA Date 2/12/07 instance -- "Most favorable to London"

Buy and sell 1,000 shares Radio common (no par) at \$12 within a 4-day period, comprised within a single "settlement period":

	<u>New York</u>	<u>London</u>
Commission -- one-way:		
N. Y., at \$12.50 per 100 shares	\$125	
London, at 6d. per share		£25 (= \$122)
Commission -- Round-turn, N.Y: one-way, London		
N. Y. -- Transfer tax at 7¢ per share	70	
London -- Contract stamps for purchase and sale		2
Cable charges		*6
Expenses, financing excluded	\$320	\$130
N. Y. -- Interest at 2% on \$6,600 margin		
Interest at 3% on \$5,400 dr. bal.	1	
	2	
London -- Interest at 2% on \$(none) margin		
Total expenses, financing included	\$323	\$130

*Estimated figure.

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pease & Ohio instance. -- "Most favorable to New York!"

Buy and sell 200 shares Chesapeake & Ohio (\$25 par) at \$70 within 30 days:

	<u>New York</u>	<u>London</u>
Commission -- one-way:		
N. Y., at \$17.50 per 100 shares	\$35	
London, at 1s. per share		£10 (= \$49)
Commission -- Round-turn (twice foregoing figures)	\$70	\$98
N. Y. -- Transfer tax at 5 1/4¢ per share	11	
London -- Contract stamps for purchase and sale		3
Cable charges		*6
Expenses, financing excluded	\$81	\$107
N. Y. -- Interest at 3% on \$7,700 margin	13	
Interest at 3% on \$6,300 dr. bal.	16	
London -- 2 continuations at *5%		*54
Contract stamps for 2 continuations		3
Interest at 2% on *\$3,500 margin		*6
Total expenses, financing included	\$110	\$170

*Estimated figures.