

A meeting of the Federal Reserve Board was held in Washington on Tuesday, September 25, 1934, at 2:30 p. m.

PRESENT: Mr. Morgenthau, Chairman
Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. James
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Parry, Assistant Director of the
Division of Research and Statistics
Mr. DuBois, Assistant Counsel
Mr. Woodlief Thomas, Research Assistant,
Division of Research and Statistics

ALSO PRESENT: Mr. Black, Governor of the Federal Reserve
Bank of Atlanta
Mr. Joseph P. Kennedy, Chairman of the Securities and Exchange Commission
Mr. Herman Oliphant, General Counsel to the
Secretary of the Treasury
Mr. Edward Greenbaum, Special Assistant to Mr.
Oliphant

The Chairman suggested that the important thing for consideration was the question of when the regulation to be issued by the Board with regard to the extension and maintenance of credit by brokers, dealers and members of national securities exchanges, is to be issued and made effective. In this connection, Mr. Kennedy stated that, while he had not had an opportunity to read the draft of regulation, he felt personally it would be a mistake for the Board to issue a regulation now, to become effective on October 1, 1934, even if it were a regulation which would be readily understood, as such procedure

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would allow persons affected too short a time in which to become acquainted with it, would have an adverse effect on the securities market, and would result in a great deal of criticism of the Board. He said that he felt that the public should be given a reasonable amount of time to consider the regulation before it becomes effective, and that, in his opinion, the criticism and adverse effect would be a great deal less if the regulation were made effective after October 1 than would be the case if it were issued this week to become effective October 1. He added that the Securities and Exchange Commission did not intend to issue by October 1 the regulations which it is called upon to promulgate pursuant to the provisions of the Securities Exchange Act of 1934 which become effective on that date. He also referred, as a further reason why the Board's regulation should not be issued to become effective on October 1, to certain problems which the Securities and Exchange Commission would have to meet in connection with its duties under the Securities Exchange Act if the Board's regulation is made effective on that date.

Vice Governor Thomas stated that he had been concerned as to the possible effect of issuing the regulation within such a short time before being made effective; that he had called Mr. Richard Whitney, President of the New York Stock Exchange, on the telephone and had asked his opinion; and that Mr. Whitney had replied that he thought it would be a very serious matter for the Board to issue the regulation at this time to become effective October 1, and that, if possible, some

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way should be found to postpone the effective date.

Mr. Hamlin suggested, as a means of meeting the problem, that the Securities and Exchange Commission, in concurrence with and at the request of the Board, issue, at the time of the publication of the Board's regulation, a ruling that all securities coming within the provisions of the Board's regulation shall be deemed and held to be within the definition of "exempted securities" as prescribed by the Securities Exchange Act of 1934, from October 1 through October 14, 1934, (or such date as might be determined upon), after which such exemption shall cease; which, he thought, in effect, would suspend the operation of the regulation until the later date.

Mr. Kennedy stated that the above proposal was in accordance with a suggestion which had been submitted by him yesterday to Vice Governor Thomas, at the request of the latter, and that, while he could not speak for the Commission, he believed it would agree with the suggestion.

Upon inquiry by the Chairman, Mr. Wyatt stated that, in his opinion, there is no doubt that the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, has the right to exempt any or all securities from the provisions of the Act, or any regulations issued thereunder, if such action is deemed to be in the public interest, but that such authority does not relieve the Federal Reserve Board of the responsibility of issuing a regulation prior to October 1 to take effect on that date.

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In the ensuing discussion of Mr. Hamlin's proposal, Mr. Szymczak stated that, in his opinion, as soon as the Board's regulation gets in the hands of the public it will improve the tone of the market and will not result in criticism of the Board because of the short time in which it was issued prior to October 1, but that if the Securities and Exchange Commission has an opposite view with regard to its own regulations, he would not want to press the opinion that the Board's regulation should be issued immediately and made effective on October 1.

The Chairman stated that undoubtedly the New York Stock Exchange will have some suggestions regarding the draft of regulation which the Board will want to consider, and Mr. Parry outlined, for Mr. Morgenthau's information, the consideration which had been given by the Board and its staff to the comments and suggestions made by the various principal stock exchanges in connection with the proposed regulation. He also stated that copies of the August 17 and September 5 drafts of the regulation had been submitted to representatives of the principal stock exchanges and their comments in connection therewith given very careful consideration by the members of the Board's staff who had worked on the regulation.

Governor Black stated that, in his opinion, the Federal Reserve Board is required under the law to prescribe the regulation before October 1 to be effective on that date, and that the Board should take action in accordance with the law, but that it may be

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possible to work out something in accordance with the suggestion made by Mr. Hamlin which would meet the objections to having the regulation made effective by the Board on October 1. He also stated that he was unable to agree with Mr. Kennedy that to make the regulation effective on October 1 would create a disturbance. He said that the securities market is very inactive at the present time, that he felt the proposed regulation is so liberal that the market will accept it gladly, and that it would help the market whereas if its effective date were postponed it might have an adverse effect.

Mr. Oliphant stated that, in his opinion, it is clearly the duty of the Board to prescribe a regulation before October 1, but that the question whether the regulation should be made effective on that date was an open one.

The Chairman stated that he thought Mr. Hamlin's suggestion was an excellent one and that he was ready to take the position that the Board is required to issue a regulation prior to October 1.

Mr. Hamlin stated that his suggestion might be considered on the basis of the action of the Securities and Exchange Commission being taken with the concurrence of the Board, rather than with the concurrence and at the request of the Federal Reserve Board, but Mr. Kennedy stated that he did not believe the Commission would be willing to act unless requested to do so by the Board, for the reason that such action ordinarily would not be taken by the Commission in the absence of such a request.

Mr. James suggested that any resolution incorporating Mr. Hamlin's proposal should include a statement in the nature of a preamble to the effect that the Board is required to issue a regulation prior to October

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1; that such a regulation has been prepared; that the Board recognizes that the time available before October 1 is too short to permit the putting of the regulation into actual effect on that date; that to do so might have an adverse effect and would not be fair to those affected by the regulation; and that since the Securities and Exchange Commission has authority to make exemptions of securities from the provisions of the Board's regulation, the Board is requesting that it exempt all securities affected by the regulation until the public has had an opportunity to become reasonably familiar with the provisions of the regulation.

During a discussion of the length of the period during which the proposed exemption of securities should be effective, it was suggested by the Chairman, and concurred in by the other members present that such exemption would not be necessary beyond October 6.

Mr. Hamlin moved that his proposal, amended to incorporate Mr. James' suggestion, be approved in principle, and that counsel be instructed to prepare a resolution in accordance therewith for consideration by the Board.

Carried unanimously.

Mr. Szymczak moved that the members of the Board agree that the Board's regulation on margin requirements shall be issued not later than Thursday, September 27, 1934.

Carried unanimously.

It being agreed that counsel would require some time to prepare the form of resolution referred to above, Mr. Szymczak moved that the meeting adjourn to meet again tomorrow morning at 10:00 a. m. for the purpose of considering the form of the resolution.

Carried unanimously.

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Thereupon the meeting adjourned.

Arrested Moriel
Secretary.

Approved:

J. J. Thomas
Vice Governor.