A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, April 30, 1936, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak (latter part of meeting)
Mr. McKee

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Parry, Chief of the Division of Security Loans
Mr. Bradley, Assistant Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Benedict, Assistant Counsel
Mr. Gardner, Research Assistant, Division of Research and Statistics
Mr. Dembitz, Research Assistant, Division of Security Loans

ALSO PRESENT: Mr. Charles R. Gay, President of the New York Stock Exchange
Mr. Roland L. Redmond ) of the firm of Carter,
Mr. William H. Jackson ) Ledyard & Milburn, Counsel for the New York Stock Exchange
Mr. Frank Altschul ) Members of the Governing
Mr. Gayer G. Dominick ) Committee of the New York Stock Exchange

Chairman Eccles stated that this meeting had been called in order to afford the representatives of the New York Stock Exchange present an opportunity to discuss certain matters which they wished to bring to the Board's attention.

Mr. Gay stated that it had always been regarded as the primary function of the New York Stock Exchange to maintain a liquid market for the securities listed on the exchange; that there were certain factors, such as the tax on capital gains and the restrictions imposed by the Securities Exchange Act of 1934, which were tending to restrict the operation of the securities market of the New York Stock Exchange and to prevent the freedom of trading on the exchange that is necessary for a liquid market; and that the restrictions imposed by Regulation "T", Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and to be imposed by Regulation "U", Loans by Banks for the Purpose of Purchasing or carrying Stocks Registered on a National Securities Exchange, which would become effective on May 1, 1936, would tend to aggravate this situation. He said that in these circumstances it had been felt desirable to seek an opportunity to present the matter to the Board for its consideration and advice. He added that recently the number of restricted accounts held by his firm had increased rapidly and that he felt this condition was apt to result in some cases in the selling of securities to remove the restriction and, in many cases, in removing buying power from the market, resulting in undue pressure on the market.

Mr. Altschul expressed the opinion that the present margin requirements prescribed in Regulations "T" and "U", when taken into consideration with other factors influencing the market, may act as a deflationary force in the securities markets which the Board, in the discharge of its responsibilities of safeguarding the public interest, would not want to bring about.

Mr. Dominick presented certain figures to support the figures presented by Mr. Gay with regard to the recent increase in number of restricted accounts held by brokers and stated as his feeling that Regulations "T" and "U" might create a situation in the operation of the market which would result in rigidity to such an extent that the market would no longer be readily responsive to usual and normal market influences.

Chairman Eccles outlined briefly the extended consideration which had been given to Regulation "U" prior to its adoption and stated that the Board had felt at the time of its adoption that, while it might be found desirable to amend the regulation on the basis of experience, it was believed that amendments to the regulation before it had gone into effect would not be justified. Chairman Eccles also expressed the opinion that the margins now prescribed in Regulations "T" and "U" were not excessive.

During Chairman Eccles' statement Mr. Szymczak joined the meeting.

The possible effects of Regulation "U" were discussed generally and Mr. Altschul stated that he felt one of the effects of Regulations "T" and "U" would be to force a considerable amount of trading in American securities into foreign markets and that such a movement was already under way.

Following a statement by Mr. Dominick that it was desirable that there should not be created a situation which would result in an unjustified deflation of security prices, which situation might result from the operation of Regulations "T" and "U", Mr. Broderick inquired as to what suggestion the representatives of the New York Stock Exchange had to make to meet the situation.

Mr. Dominick suggested that the effective date of Regulation "U" be postponed for thirty or sixty days and a committee appointed, to meet with representatives of the New York Stock Exchange and the Federal Reserve Bank of New York, with a view to changing certain provisions of the regulation to remove therefrom the possibility of their operation resulting in impairment of the securities markets.

Upon inquiry by Mr. McKee as to whether it was believed Regulation "U" should be made more liberal, Mr. Dominick replied that he believed a liberalization of the limitation in the regulation of the amount that may be loaned by a bank to a broker for the purpose of carrying stocks for customers was desirable.

During a discussion of this suggestion, Mr. Jackson expressed the opinion that under Regulation "U" in its present form there was danger that brokers, being unable to borrow from banks more than sixty percent of the market value of securities held for customers, will require customers to maintain a margin of at least forty percent and that the requirement of the regulation, therefore, will amount in such cases to a maintenance margin and will create a situation under which firms with strong capital positions will be able to carry customers with restricted accounts for a longer period and on smaller margins resulting in competitive advantages in their favor as against the brokers with smaller capital resources. Mr. Jackson also stated that, as loans by brokers are adequately restricted by Regulation "T", there was no need for a provision in Regulation "U" restricting loans to brokers for the purpose of carrying customers' securities, and he recommended that, as a means of meeting this situation, the Board exempt from the provisions of Regulation "U" loans by a bank to a broker for the purpose of carrying securities of customers upon certification by the broker that the proceeds of such loans are not to be used to finance the broker's own commitments.

Mr. Parry stated that this suggestion had been made very early in the consideration of Regulation "U" and that it had not been adopted for reasons which he outlined. Mr. Parry also stated that it had not been demonstrated, and, in his opinion, it was unlikely, that the limitation of sixty percent on the loan value of customers' securities pledged as collateral by brokers for loans by banks would result in the establishment of maintenance margins of forty percent by brokers for their customers, particularly so long as existing loans to brokers remain exempt, and expressed the opinion that the question of any competitive advantage resulting to brokers with strong capital resources over brokers in less favorable capital positions was a matter for regulation by the securities exchanges rather than by the Board.

Chairman Eccles pointed out that it had been the feeling of the Board that the present was an advantageous time to put Regulation "U" into effect when there were relatively few loans being made by banks for the purpose of purchasing or carrying securities and he stressed the point that the regulation had been adopted by the Board after careful consideration with the thought in mind that it may be necessary to amend it in certain respects as experience demonstrates the necessity for such amendments.

Mr. Goldenweiser pointed out that, while the Board has authority to do so, it has not prescribed maintenance margins in Regulations "T" and "U" and that, therefore, the restriction on the amount that brokers may borrow from banks on rehypothecated securities, instead of being unduly restrictive as contended, is in fact liberal and that, should the limitation on loans by brokers under discussion result in the establishment of maintenance margins by such brokers, such an effect would be in complete accordance with the fundamental conception of margins. He also stated, as an additional reason for limiting the loan value of securities of customers rehypothecated by brokers, that the Board has a primary responsibility in connection with the lending activities of banks and only a limited responsibility in connection with the activities of brokers and that the limitation of the amount that may be loaned by banks for the purpose of purchasing or carrying securities is a logical one for the reason that the machinery already exists for the enforcement of such a limitation.

At the conclusion of the discussion, Chairman Eccles pointed out that the margin requirements prescribed in Regulation "U" were under constant review by the Board and would be changed by the Board at any time that conditions justified such action, but that the Board did not feel that there was any necessity for a change at the present time. He also stated that the Board would continue to watch the situation closely and would be prepared to take such action as might be required on the basis of changed conditions.

Mr. Gay stated that the representatives of the New York Stock Exchange would like to have the privilege of filing with the Board a written memorandum setting forth their position with regard to the matters discussed at this meeting and he was advised that the Board would be glad to receive such a memorandum.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.