

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 18, 1936, at 4:00 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Bradley, Assistant Chief of the Division of Security Loans
Mr. Solomon, Assistant Counsel

There was presented a memorandum dated November 18, 1936, from Mr. Parry submitting, in accordance with the action taken by the Board on November 12, 1936, a draft of telegram to the presidents of all Federal reserve banks reading as follows:

"There is transmitted herewith a statement by the Board for the press regarding a proposed amendment to Regulation T which deals with the time when margin must be obtained and related matters. This statement, to which is attached a tentative draft of the proposed amendment, will be given to the press here after 3 P. M. Thursday, November 19, for release in morning newspapers of Friday, November 20.

"You are requested to submit copies of statement and attachment not earlier than Friday, November 20, to representatives of securities exchanges in your District and to such other persons as you may select as

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"being qualified to offer useful criticisms and suggestions. Please forward as soon as received the criticisms and suggestions from such persons, with your comment thereon, and furnish to the Board not later than December 7 any criticisms and suggestions of your own."

The statement for the press referred to in the above telegram read as follows:

"AMENDMENT OF REGULATION T

"The Board of Governors of the Federal Reserve System today submitted to the twelve Federal reserve banks for their consideration and suggestions the attached tentative draft of an amendment to Regulation T. After consulting with persons who would be affected by the amendment, including representatives of securities exchanges, the reserve banks are requested to return their replies to the Board not later than December 7, 1936. The Board will thereupon give consideration to the advisability of adopting such an amendment.

"Regulation T at present, as a matter of convenience both for customers and brokers, allows a certain number of days within which the required margin may be furnished after a purchase is made. A practice has developed, however, which was not intended under this provision whereby purchasers of securities on margin sell within a period of three or four days, and by this means avoid having to furnish the required margin. This practice, when repeated by what is commonly known as 'in-and-out' trading, permits a continuous avoidance of the furnishing of the amount of margin prescribed by the Board under the law. The development of this practice has emphasized a weakness in the regulation which it is believed should be remedied in the public interest. The proposed amendment would cause the broker to require that any customer who purchases securities on margin shall provide the required margin in advance of the purchase — or in any event, except in the case of purchases and sales made on the same day, not later than the end of the day on which the purchase is made."

"Amendment No. of Regulation T - Effective 1936.

"Regulation T, as amended, is hereby further amended in the following respects:

"1. Subsections (i) and (j) of section 2 of said regulation are amended to read as follows:

'(i) The term "unrestricted account" means an

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"account in which the adjusted debit balance equals or is less than the maximum loan value of the securities in the account.

'(j) The term "restricted account" means an account in which the adjusted debit balance exceeds the maximum loan value of the securities in the account.'

"2. The last paragraph of subsection (b) of section 3 of said regulation is amended by striking out the words 'and together with demands for additional margin in connection therewith'.

"3. Subsection (f) of section 3 of said regulation is amended by striking out clause (8); by substituting a period for the semicolon and the word 'and' at the end of clause (7); and by adding the word 'and' at the end of clause (6) after the semicolon.

"4. Subsections (c), (d), and (e) of section 4 of said regulation are amended to read as follows:

'(c) Transactions in unrestricted accounts. - A creditor shall not permit any customer to make in an unrestricted account any transaction or combination of transactions which would cause such account to become a restricted account.

'(d) Transactions in restricted accounts. - A creditor shall not permit a customer to make in a restricted account any transaction which, in combination with any other transactions made on the same day, results in any increase of the excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, or results in any net withdrawal of cash and/or securities: Provided, however, That a creditor may permit a customer to make any transaction or combination of transactions which causes the account to become an unrestricted account.

'(e) Combination of transactions. - For the purposes of subsections (c) and (d) of this section all the transactions in a given account on a given day may be considered a single transaction; and any substitution of securities consisting of a sale of securities in the account followed by the purchase of other securities on the next succeeding business day may be considered a substitution occurring entirely on the day on which the purchase occurs.'

"5. Section 6 of said regulation is amended by changing the period at the end of said section to a colon and

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"adding thereafter the following:

'Provided, That the special cash account provided for in this section may be used, to any extent not forbidden by other provisions of law, to receive and hold for any customer cash or securities, including cash or securities withdrawn from another account without violation of this regulation.'

The memorandum and telegram had been placed in circulation among the members of the Board for approval and Mr. Broderick had suggested that the matter be discussed by the Board before the telegram was sent. Mr. Broderick stated that his reason for asking that the matter be discussed at a meeting was that he felt the purposes of the amendment should be thoroughly understood by the members of the Board.

Mr. Parry elaborated on the statements contained in his memorandum with respect to the circumstances giving rise to the suggested amendment and what the effects of the amendment would be, and various aspects of the matter were discussed.

At the conclusion of the discussion the proposed telegram to the Federal reserve banks was approved unanimously with the understanding that it would be sent immediately and that the press statement set forth above would be given to the press tomorrow afternoon after 3:00 p.m.

At this point Messrs. Thurston, Wyatt, Parry, Dreibelbis, Bradley and Solomon left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on November 17, 1936, were approved unanimously.

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 17, 1936, were approved unanimously.

Telegrams to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Telegram to Mr. Sonne, Chief Examiner for the Federal Reserve Bank of San Francisco, referring to the application of the "Bank of Haines", Haines, Oregon, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw, and that, accordingly, upon surrender of the Federal reserve bank stock issued to the Bank of Haines, the Federal Reserve Bank of San Francisco is authorized to cancel such stock and make appropriate refund thereon. The telegram also stated that in this connection, however, the Federal Deposit Insurance Corporation advised on November 14 that an application had been received from the Bank of Haines for acceptance by the Corporation as an insured non-member bank; that action on the application would be taken as promptly as practicable; and that the Board had given the necessary legal authority for the Federal Deposit Insurance Corporation to

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examine the bank. The telegram stated further that the Bank of Haines would remain a member bank until its stock in the Federal Reserve Bank of San Francisco was canceled; that it was understood that the bank made application for immediate withdrawal from membership without giving consideration to the fact that unless arrangements had been made with the Federal Deposit Insurance Corporation for the continuation of insurance, termination of its membership would likewise terminate its status as an insured bank, but that, as indicated by its application to the Federal Deposit Insurance Corporation, the bank desired the continuation of insurance. The telegram suggested that, therefore, cancelation of the Federal reserve bank stock under the authority contained therein be deferred temporarily until the Federal Deposit Insurance Corporation could complete its investigation and act upon the bank's application for continuation of insurance without interruption; and stated that if such arrangement could not be completed within a month, the case would be reviewed in the light of circumstances then existing.

Approved unanimously.

Letter to Mr. H. S. Johnson, President, The Point Pleasant National Bank, Point Pleasant, West Virginia, reading as follows:

"This refers to your letter to the Chairman of the Board of November 14, 1936, requesting an extension of the time within which you may communicate further with the Board regarding the matter under consideration at the hearing you attended at the Board's offices on Tuesday, November 10, 1936.

"As you were advised in the Board's letter to you of

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"November 16, 1936, with which there were inclosed a copy of the transcript of the stenographer's record of the hearing and copies of all the documents which have been submitted subsequently by the office of the Comptroller of the Currency in connection with the matter under consideration at that hearing, such time has been extended until twelve o'clock noon on Monday, November 23, 1936.

"After calling attention to the fact that you had not received the information that was to be filed with the Board by Mr. Chorpening and Mr. Starr, you stated in your letter that, 'I would like for you to hold this open until such time as Mr. Chorpening and Mr. Starr can be questioned by me at a later date with reference to the matter referred to by them'.

"It is not clear to the Board whether you intended this as a definite request for an opportunity to question Messrs. Chorpening and Starr, regardless of what might be contained in the additional documents filed by them, or whether you only intended to reserve the right to question those gentlemen if you considered it necessary after examining the documents which they filed.

"Since you now have been afforded an opportunity to examine the stenographic record of the hearing held here on November 10th and all additional evidence filed since that date by representatives of the Comptroller of the Currency, please advise the Board definitely before twelve o'clock noon on Monday, November 23, 1936 whether or not you desire to question Messrs. Chorpening and Starr personally. If you do not desire to question them personally, you should file with the Board any additional evidence or statement which you desire to file or should make any additional request which you desire to make before twelve o'clock noon, on Monday, November 23, 1936, in order that the record may be closed."

Approved unanimously.

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Referring your November 14 letter, Board will interpose no objection to your bank's entering into contract, at cost not to exceed \$35,000, for installation of an air conditioning system in the Federal Reserve bank building at Minneapolis."

Approved unanimously.

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The meeting adjourned in order that the Board might meet with the Presidents of the Federal reserve banks who had been in conference today and had finished their program and who had invited the Board to meet with them before the adjournment of their conference.

Chester Monroe
Secretary.

Approved:

W. C. C. C.
Chairman.