

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, July 19, 1937, at 11:30 a. 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

Consideration was 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 held on July 16, 1937, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 17, 1937, were approved and the actions recorded therein were ratified unanimously.

Letter to Mr. Sawyer, Division of Security Loans, Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your correspondence regarding the inquiry of Draper, Williams & Co., as to whether certain transactions involving the clearance of securities may be effected in a special cash account pursuant to section 6 of Regulation T. A reply to your letter has been delayed in order that the questions presented might be considered in connection with certain similar questions which have arisen in connection with Regulation U.

"Three different cases are presented, each involving a

2/19/37

-2-

"transaction in which a broker or dealer subject to the regulation clears certain security transactions for another dealer. These cases may be briefly described as follows:

1. The broker or dealer subject to the regulation buys a security for the other dealer and handles the transaction as any cash transaction for any customer would be handled.

2. The broker or dealer subject to the regulation takes up for the other dealer, from another house or customer, securities that the other dealer has purchased and has already sold to other persons for prompt delivery against full cash payment. The broker or dealer subject to the regulation promptly delivers the securities to the persons to whom they have been sold, obtaining full cash payment against such delivery.

3. The broker or dealer subject to the regulation takes up from another dealer securities which the other dealer has already sold to other persons for prompt delivery against full cash payment, and in taking up the securities from the other dealer, the broker or dealer subject to the regulation makes him an advance against funds to be received when the securities are delivered. The broker or dealer subject to the regulation promptly delivers the securities to the persons to whom they have been sold, obtaining full cash payment against such delivery.

"It is the opinion of the Board that each of the transactions described is permissible, subject to the conditions specified in section 6 of Regulation T, in a special cash account established pursuant to that section. Under ruling No. 34 interpreting Regulation T, any transactions in registered securities that are permissible in such a special cash account are, in general, permissible in unregistered securities and, therefore, such transactions would be permissible whether they involve registered securities or unregistered securities. As indicated in the proposed reply to Draper, Williams & Co. that you forwarded with your letter, the fact that the broker or dealer subject to the regulation may require the other dealer to keep on deposit collateral for the first broker's or dealer's protection while clearing the securities, or the fact that he may make a service charge, does not affect the status of bona fide cash transactions.

"It should be noted, of course, that in cases numbered 2 and 3 above it is assumed that the sale has been made by the other dealer before the broker or dealer subject to the regulation clears the transaction. These appear to be the situations presented in the inquiry, and your proposed reply

7/19/37

-3-

"apparently is also based on this assumption. However, it might be advisable to alter the proposed reply to make this fact clearer.

"Since the point referred to in the next to the last paragraph of your proposed reply is not specifically mentioned in the inquiry, it is suggested that the point be omitted and instead a general statement be included to the effect that all such transactions must comply with the requirements of section 6.

"In the last paragraph of your proposed reply reference is made to the fact that if a bona fide sale is cancelled, it would be permissible in certain circumstances for the broker or dealer subject to the regulation to return the securities to the dealer for whom the clearance is being effected, receiving repayment from that dealer. It is suggested that it be pointed out in this connection that such reversals of transactions are, of course, supposed to occur only as unusual and unanticipated cases and without pre-arrangement."

Approved unanimously.

Letter to Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to your letter of July 12, 1937, transmitting in behalf of a member of the Philadelphia Stock Exchange certain inquiries concerning the status after January 1, 1938, under Regulation T, of accounts containing unregistered non-exempted securities.

"Inquiry is made as to whether it is the intention of the Board (1) to require that after that date such securities must be eliminated from any accounts in which they are being carried, and (2) to require that such accounts must thereafter meet the margin requirements of the Board.

"The Board recognized, at the time when the date of January 1, 1938 was determined, that questions such as those included in your letter would arise a considerable time prior to that date, and that the Board should in the meantime give consideration to the available alternatives, such as extending by amendment the time during which accounts of the designated description may continue to be carried by the broker or providing by interpretation of the existing regulation what the broker shall be required to do with respect to such accounts. The various alternatives available are accordingly under consideration, but the Board has not as yet made any choice among them. It is anticipated, however, that the matter will be determined in time to give the banks adequate notice, and that the necessary interpretations or amendments will be forwarded to the Federal Reserve banks

7/19/37

-4-

"well in advance of the end of the year."

Approved unanimously.

Telegram to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Retel July 17. Time within which Rawlins Securities Company, Salt Lake City, Utah, may execute agreement accompanying Board's letter of May 22, 1937, is hereby extended to August 20, 1937."

Approved unanimously.

Letter to Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"This refers to your letter of July 8, 1937, inquiring whether the term 'records' in the request made in the Board's letter of March 15, 1937, X-9842-a, that no records of the bank examination departments of the Federal reserve banks be destroyed without the advance approval of the Board of Governors, should be construed to include examiners' working papers which are compiled during the course of field examinations.

"It was not intended that the term 'records' as used in the Board's letter X-9842-a should apply to examiners' working papers, and accordingly the determination of the period of time during which such papers are retained and the disposition thereof are matters which are left to the discretion of the respective Federal reserve banks."

Approved unanimously, with the understanding that a copy of the letter would be sent to the Presidents of all Federal reserve banks.

Mr. Morrill submitted a recommendation, which had been approved by the Personnel Committee, that the Board authorize the purchase of janitors' supplies for use in the Board's new building, as listed in purchase orders Nos. 1783, 1784, 1785, 1786, 1787, 1788, 1789, 1790, 1792, 1793, 1794, 1795 and 1796, at a total cost of \$991.05.

Approved unanimously.

7/19/37

Thereupon the meeting adjourned.

Cheser Morrie  
Secretary.

Approved: W. S. ...  
Chairman.