

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 28, 1937, at 11:45 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak
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 27, 1937, were approved unanimously.

Letter to Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, stating that the Board approves the changes in the personnel classification plan of the bank, as requested in his letter of July 22, to provide for increases in the maximum salaries for the positions of File Clerk-A from \$1,560 to \$1,620, and for File Clerk-B from \$1,260 to \$1,320 per annum.

Approved unanimously.

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

"The report of examination of the 'G. W. Jones Exchange Bank', Marcellus, Michigan, as of May 29, 1937, shows that the bank is exercising trust powers to the extent of adminis-

7/28/37

-2-

tering one guardianship with total assets of \$6,334.68.

"It appears that the bank, which was admitted to membership March 4, 1918, was granted trust powers by the State of Michigan on November 12, 1927, authorizing it to act as executor, administrator and guardian, but, according to our records, has not previously exercised such powers. The bank is subject to the so-called general condition of membership which requires that except with the approval of the Board there shall be no change in the general character of the assets of or broadening in the functions exercised by the bank at the time of its admission to the System, and the exercise of trust powers without first obtaining the approval of the Board is regarded as a violation of that condition.

"It would appear that the violation is inadvertent, and the Board will raise no objection to the bank's administering the one guardianship it now holds, but if it desires to accept any additional trust accounts it should first make application to the Board for permission, in accordance with the general condition of membership, to exercise the fiduciary powers granted by the State authorities.

"The comments in the report of examination indicate that the bank does not maintain proper records for the guardianship it is now administering. The responsibilities assumed in the acceptance of a fiduciary account require that adequate records be promptly established and properly maintained.

"It is assumed that the Board will be advised in due course of corrections and adjustments effected with regard to the reported violations of Section 5136 U.S.R.S. and of Regulation Q."

Approved unanimously.

Letter to Mr. Sihler, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your correspondence regarding the inquiry presented by The Chicago Stock Exchange as to whether certain transactions constitute bona fide arbitrage transactions within the meaning of section 3(d) of Regulation T. As you know, a reply to your letter has been delayed while certain practical aspects of this problem were being investigated.

"It is understood that the inquiry relates to transactions in two securities of which the first is an issued warrant of a particular corporation which evidences a right

7/28/37

-3-

"to subscribe, by the payment of a specified sum of money, to a security which is definitely to be issued by the corporation. The second security is the security that may be obtained by exercising the warrant, and it may conveniently be referred to as the subject security.

"In order to take advantage of the disparity in the relative market prices of the warrant and the subject security, a customer of a member of a national securities exchange purchases the warrant through the member and simultaneously, or nearly simultaneously, sells short through the member that quantity of the subject security called for by the warrant.

"In one case the subject security is part of an additional issue of outstanding securities of the corporation and is sold short as an issued security. In another case the subject security is part of an issue of which no portion is outstanding, and it is sold short on a 'when issued' basis. In both cases the customer instructs the member to exercise the warrants and to cover the sales with the securities thus acquired, and the member advances the subscription funds for this purpose.

"It is the opinion of the Board that if transactions of the type described are effected as outlined above in good faith and not for the purpose of evading or circumventing the provisions of the regulation, such transactions would constitute bona fide arbitrage transactions in securities within the meaning of section 3(d) of Regulation T and, therefore, might be effected in a special account pursuant to the provisions of that section."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morrie
Secretary.

Approved:

W. S. ...
Chairman.