A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, October 27, 1937, at 3:30 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Parry, Chief of the Division of Security Loans
Mr. Solomon, Assistant Counsel

Mr. McKee moved the adoption of the following resolutions:

"Amendment No. 10 of Regulation T - Effective November 1, 1937"

"BE IT RESOLVED, That, effective November 1, 1937, Regulation T, as amended, is further amended in the following respects:

1. Section 2(d) of said regulation is amended to read as follows:

   ' (d) The term "combined account" means the combination of all accounts (except "special accounts") between any creditor and any customer, or any group of customers acting jointly.'

2. Section 2(m) of said regulation is amended to read as follows:

   ' (m) The term "customer" means any person (including any partner of a creditor firm in his relations with the firm) to or for whom, or any group of persons to or for whose joint account, a creditor is carrying any short position in securities or extending or maintaining any credit; Provided, however, That a partner shall not be deemed to be a customer of his firm within the meaning of this regulation with reference to his financial relations to the firm as reflected in his capital and ordinary drawing accounts.'
3. Clause (2) of section 3(b) of said regulation is amended to read as follows:

'(2) in such account transactions are permitted and credit is extended or maintained solely for the purpose of enabling such member, broker, or dealer to carry accounts for his customers other than his partners, and'

4. Clause (3) of section 3(f) of said regulation is amended to read as follows:

'(3) The current market value of any securities sold short in the account (other than unissued securities) plus, for each such security (other than an unissued or exempted security), such amount as the Board shall prescribe from time to time in the supplement to this regulation as the amount to be included as the margin required for such short sales, except that such amount so prescribed need not be included when there are held in the account securities exchangeable or convertible into such securities sold short;

5. The first sentence of the last paragraph of section 3(f) of said regulation is amended to read as follows:

'For the purposes of this regulation, the adjusted debit balance of every account in which any short position in securities (other than unissued or exempted securities) is carried or any credit is extended or maintained for the purpose of purchasing or carrying securities shall be computed in accordance with the above rules, regardless of whether it be a combined account or a special account.'

"BE IT RESOLVED, That, effective November 1, 1937, the supplement to Regulation T is amended to read as follows:

'BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

'SUPPLEMENT TO REGULATION T

'Effective November 1, 1937

'Maximum Loan Values. - Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 3 of its Regulation T, as amended, the Board of Gov-
"errors of the Federal Reserve System hereby prescribes the
following maximum loan values of registered securities (other
than exempted securities) for the purposes of Regulation T:

(1) General rule. - Except as provided in paragraphs
(2) and (3) of this supplement, the maximum loan value of a
registered security (other than an exempted security) shall
be 60 per cent of the current market value of the security.

(2) Extension of credit to other members, brokers and
dealers. - The maximum loan value of a registered security
(other than an exempted security) in a special account with
another member, broker or dealer, which special account com-
plies with subsection (b) of section 3 of Regulation T, as
amended, shall be 75 per cent of the current market value
of the security.

(3) Extension of credit to distributors, syndicates,
etc. - The maximum loan value of a registered security (other
than an exempted security) in a special account with a dis-
tributor, syndicate, etc., which special account complies
with subsection (c) of section 3 of Regulation T, as amended,
shall be 80 per cent of the current market value of the se-
curity.

'Margin Required on Short Sales. - Pursuant to the
provisions of section 7 of the Securities Exchange Act of
1934 and section 3 of Regulation T, as amended, the Board
of Governors of the Federal Reserve System hereby prescribes
that the amount to be included in the adjusted debit balance
of an account, pursuant to section 3(f)(3) of Regulation T,
as amended, as margin required on short sales of securities
(other than unissued or exempted securities) shall be 50
per cent of the current market value of each such security
except that in the case of a special account with another
member, broker or dealer, which special account complies
with subsection (b) of section 3 of Regulation T, as amended,
such amount shall be 35 per cent of such current market
value."

"BE IT RESOLVED, That, effective November 1, 1937, the
supplement to Regulation U is amended by changing the max-
imum loan value figure '45 per cent' in the first paragraph
of said supplement to '60 per cent', and by changing the
maximum loan value figure '60 per cent' in the second para-
graph of said supplement to '75 per cent', so that as thus
amended the supplement will read as follows:
"SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Effective November 1, 1937

For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 60 per cent of its current market value, as determined by any reasonable method.

Loans to brokers and dealers. Notwithstanding the foregoing, a stock, if registered on a national securities exchange shall have a special maximum loan value of 75 per cent of its current market value, as determined by any reasonable method, in the case of a loan to a broker or dealer from whom the bank accepts in good faith a signed statement to the effect (1) that he is subject to the provisions of Regulation T (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto), and (2) that the securities hypothecated to secure the loan are securities carried for the account of his customers other than his partners."

For some time the members of the Board had been studying the operation of the existing margin requirements prescribed in the supplements to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and had been considering the advisability of changes in such requirements and of the adoption of margin requirements in connection with short sales. The Board's staff had made various studies the results of which had been examined by the members of the Board, and current developments in market and credit conditions had been under constant observation.

The studies and discussions that preceded the adoption of the
resolution had been prolonged by the consideration of a general revision of Regulation T, including careful analysis of suggestions and comments received from the Reserve banks and others. There had also been under study various suggested formulae by which margins would be adjusted automatically without the necessity of formal Board action from time to time, since such action, it was recognized, might be regarded in some quarters as reflecting a desire on the part of the Board to influence the trend of securities prices. By this time it had become apparent that considerably more time and study would be required before a satisfactory rule or formula could be developed and that the desirability of any such automatic formula was open to question.

Throughout consideration of the subject the members had been in agreement that the margin requirements theretofore in effect had not been an important factor in the decline in prices of securities, but nevertheless they felt that it would be preferable that any action to change margin requirements be taken during a quiet period when the market had leveled off. When that period seemed to have been reached, and as a result of their consideration of the problems involved the members of the Board present agreed that it would be desirable to reduce the margin requirements prescribed in the supplements to Regulations T and U, to impose margin requirements in connection with short sales, and to make certain incidental changes in Regulation T. This decision was based substantially upon the following considerations:

It was apparent that the progress of economic recovery was suffering an interruption. Security offerings in the third quarter of 1937 were the smallest since the revival of activity in the capital
markets in the early part of 1935. The total of corporate offerings
was about $400,000,000 as compared with $760,000,000 in the preceding
quarter and $970,000,000, in the first quarter of the year. Prices
of both securities and commodities had declined sharply. Productive
activity following a year of output at the highest levels since 1929
dropped in September and October to about the level of a year ago.
The construction industry had experienced a disappointing year.

Since September 1 there had been a decline in the loans of
reporting member banks to brokers and dealers of $440,000,000, the
largest decline since 1931, and such loans had reached the lowest
level in two years. Credit extended by brokers to their customers
had declined over 20%, from $1,560,000,000 in April to $1,200,000,000,
a point approximately $100,000,000 below the level at the time the
present margin requirements were established when, contrary to the
present trend, brokers loans were increasing.

The provisions of the Securities Exchange Act of 1934 under
which margin requirements had been established expressly authorized
the Board to reduce margin requirements when it deems it appropriate
to do so for the accommodation of commerce and industry, having due
regard to the credit situation of the country. The members of the
Board present viewed the proposed action as a step in the direction
of moderating credit conditions in accord with the intent of the Se-
curities Exchange Act.
Consideration was also given to the fact that the provisions of the Securities Exchange Act of 1934, which provided for the establishment of margin requirements in connection with such loans, authorized the establishment of margin requirements in connection with short sales, which had not heretofore been prescribed. The Board had informally agreed, in previous discussions, that margins on short sales should be prescribed and announced in connection with the revised Regulation T then in preparation or the next change in margin requirements whichever was first. It was felt that traders on the short side of the market should not be in a position, with a given amount of funds, to exert a greater influence on the market than they could with the same amount of funds if they were trading on the long side. In this connection it was noted that to establish margin requirements of less than 50 per cent on short sales would result, for considerably more than one-half the total number of stocks listed on the New York Stock Exchange, in the establishment of a requirement which would be on a lower level than the existing requirements of the Exchange.

In taking action to reduce the margin requirements on loans of brokers and banks, it was agreed that no change should be made in the spread between the margin requirements for omnibus accounts and those for loans to customers and, therefore, the reduction in the requirement for omnibus accounts continued the same spread that had been in effect previously.

Various changes effected by the amendment to Regulation T were necessary as an incident to the establishment of margin requirements
on short sales.

Mr. McKee's motion was adopted by unanimous vote, with the understanding that copies of the resolutions would be released to the press not earlier than 6:00 p.m. today for publication in the morning papers of Thursday, October 28, 1937, and also that copies of the resolutions would be transmitted by wire to the Federal reserve banks with the request that they print the amendment and supplements as promptly as possible and distribute copies to interested persons.

Thereupon the meeting adjourned.

Approved: 

Chairman.

Secretary.