A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 19, 1937, at 12:15 p. m.

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

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:

Telegrams to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, and Mr. Young, Secretary of the Federal Reserve Bank of Chicago, stating that the Board approves the establishment without change by the New York bank on November 18, 1937, and by the Philadelphia, Atlanta and Chicago banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Young, Deputy Chairman of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of November 10, 1937, advising the Board of the results of the consideration given by the auditing committee of your board of directors and by President Harrison to the report of a survey of the Auditing Department of your bank trans-

"mitted to you with the Board's letter of June 30, 1937.

"The Board appreciates the completeness of your review of the matters contained in this report of survey and has noted with considerable interest the steps taken by your bank for the further improvement of your Auditing Department."

Approved unanimously.

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

"Reference is made to your letter of October 27 in regard to the waiving of penalties for deficiencies in reserves of member banks.

"The Board appreciates that there may be exceptional circumstances when it would be desirable to disregard the reserve computation period in which a bank becomes a member of the System insofar as the assessment of a penalty for a deficiency in reserves is concerned and also to waive the assessment of a penalty for the first deficiency in reserves occurring subsequent to such reserve computation period, and accordingly modifies paragraph (b) of its letter X-7411 of April 14, 1933, to read as follows:

'(b) When a member bank is deficient in its reserves during the reserve computation period within which it became a member, a penalty for such deficiency may be assessed or not, in the discretion of the Federal Reserve bank. When, for the first time subsequent to the reserve computation period within which a bank became a member, there is a deficiency in its reserves, which is subject to a penalty, such penalty may be assessed or not as the Federal Reserve bank may determine upon consideration of the circumstances of the case.'"

Approved unanimously.

Letter to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

"There is attached a copy of a letter regarding the Board's margin requirements which the Securities and Ex-

"change Commission has forwarded to the Board from Mr. Carl M. Dubinsky, Dubinsky & Duggan, St. Louis, Missouri, and also a copy of the Board's reply.

"It appears that a client of Mr. Dubinsky's is interested in a proposed plan by which the client would purchase securities for certain persons through a broker, and would put up with the broker the margin required by Regulation T but would permit the ultimate purchasers to deposit lower margins with him. Mr. Dubinsky wishes to know whether the proposed plan would conflict with the Board's regulations under the Securities Exchange Act of 1934, and it will be appreciated if you will advise him with respect to the matter.

"Regulation T, as you know, applies to members of a national securities exchange and brokers or dealers who transact a business in securities through the medium of any such member. An exact answer to the question which Mr. Dubinsky presents would, of course, depend upon all the facts involved in the particular case. It seems likely, however, that if his client engaged in the proposed activities the client would be a broker or dealer who transacts a business in securities through the medium of a member, and thus would be subject to the usual requirements of Regulation T which would require him to obtain the same margins as other persons subject to the regulation.

"In addition, although at present Regulation T applies only to members, brokers and dealers, as mentioned above, and Regulation U applies only to banks, it may be noted that if the circumstances should make additional regulations seem advisable, section 7(d) of the Securities Exchange Act authorizes the Board to prescribe similar regulations for any other persons."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: MS Eccles
Chairman.