

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, October 5, 1938, at 11:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 30, 1938, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 3, 1938, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated October 1, 1938, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reasons stated in the memorandum, the temporary appointment of Miss Agnes Roman as a junior economist in the Division be extended for a period of one month from October 13, 1938, with no change in her present salary at the rate of \$200 per month.

Approved unanimously.

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Letter to the board of directors of "The Oberlin Savings Bank Company", Oberlin, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses aggregating \$7,314.22, as shown in the report of examination of such bank as of September 3, 1938, made by an examiner for the Federal Reserve Bank of Cleveland."

Approved unanimously for transmission through the Federal Reserve Bank of Cleveland.

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

"Reference is made to your letter of September 17, 1938, which raises some questions under Regulation T with relation to a withdrawal of cash or securities from a general account when such a withdrawal, which would itself have the effect of reducing the amount of margin in the account, is considered in connection with later transactions effected in the account on the same day. The questions involve the interpretation of the second paragraph of section 3(b) of the regulation, which imposes certain restrictions on such withdrawals and reads in part as follows:

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"A transaction consisting of a withdrawal of cash or registered or exempted securities from a general account shall be permissible only on condition that * * * the transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess.'

"The principal effect of the rule quoted is to prevent the broker from permitting the customer to draw down required margin and then to take three days to put it back again -- and possibly to repeat the operation indefinitely. The advisability of some rule to accomplish this purpose appears to be generally recognized by brokers, and we understand that no problem is presented by the rule provided the broker makes it a practice, as many do, to permit no withdrawals until the end of the day, after he is sure that there will be on that day no further transactions in the account such as would create an excess of the adjusted debit balance over the maximum loan value, or increase any such excess. It is also understood that some of the brokers who follow this practice depart from it -- and permit a withdrawal -- only when they are altogether assured, at the particular time of day that the withdrawal is made, that the customer will make no additional commitments in the account later in the day -- either on account of the placing of new orders or the execution of 'open' orders or otherwise. For these reasons, it is believed that a prudent broker need not allow himself to get into the embarrassing position described in your inquiry.

"Your specific questions relate to a situation in which the broker has not taken the precaution described above, but has in fact permitted a withdrawal that has in fact been followed by transactions which he did not anticipate and which, taken in combination with the withdrawal and not accompanied by an appropriate deposit, appear to result in a set of transactions for the day as a whole that is not in accord with the prescribed restrictions.

"It is understood that two different cases are presented. For simplicity of exposition, it may be assumed that these cases are alike in that at the beginning of the day the adjusted debit balance of the account exactly

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"equalled the maximum loan value of the securities in the account, and that early in the day \$2500 of registered nonexempted securities were sold. Under present loan values of 60 percent, this released margin in the complementary percentage of 40 percent, i.e., \$1000. The creditor permitted the customer to withdraw this \$1000 in cash.

"Later in the day other securities were purchased in the account.

"In one case \$2000 of registered nonexempted securities were purchased, requiring \$800 of margin, i.e., \$200 less than the \$1000 withdrawn.

"In the other case \$4000 of such securities were purchased, requiring \$1600 of margin, i.e., \$600 more than the amount withdrawn.

"The question in each case relates to the time within which the required margin must be obtained from the customer.

"The provisions of section 3(b) quoted above clearly forbid a withdrawal of cash or securities if the withdrawal, in combination with the other transactions on the same day, would create or increase an excess of the adjusted debit balance of the account. Accordingly, in the case of the subsequent transactions requiring \$800 margin it would be necessary for the creditor to obtain the full amount of such margin before the end of the day on which the withdrawal took place.

"In the other case, in which the subsequent transaction required \$1600 margin or \$600 more than that originally withdrawn, it would be necessary to obtain, on the date of the transactions in question, the \$1000 which had been withdrawn. The remaining \$600 required could be obtained, as provided for ordinary transactions by the first paragraph of section 3(b), 'as promptly as possible and in any event before the expiration of three full business days following the date of such transaction.'

"You inquire whether, in such a situation as that described, the provisions of section 6(k) of the regulation relating to innocent mistakes may be applicable. The Board does not think that these provisions would be applicable, except in very unusual circumstances, since the meaning of the specified restriction on withdrawals is quite obvious, and the creditor's actions in the given situation do not seem to the Board to involve any mistakes on his part of the kind contemplated by section 6(k)."

Approved unanimously.

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Telegram to the Presidents of all Federal reserve banks, reading as follows:

"Due to conflict with schedule of activities of the Board, it now appears advisable that examiners' conference called for October 17 be postponed to October 31. Please advise by wire whether it will be possible for representatives of your bank to attend at that time."

Approved unanimously.

Thereupon the meeting adjourned.

Cheser Morrie
Secretary.

Approved:

W. S. ...
Chairman.