

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, November 17, 1938, at 11:30 a. m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, 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:

Memorandum dated November 8, 1938, from Mr. Carpenter, Assistant Secretary, recommending that, for the reason stated in the memorandum, Miss Harriet Palmer Price be employed as a temporary file clerk, with salary at the rate of \$100 per month, for such period, not to exceed six months, as may be necessary to complete the work in connection with the centralization of the Board's files, effective as of the date upon which she enters upon the performance of her duties.

Approved unanimously.

Memorandum dated November 16, 1938, from Mr. Carpenter, Assistant Secretary, recommending that, for the reasons stated in the memorandum, the salary of Mrs. Mary H. Watson, file clerk in the Files Section, be increased to \$2,100 per annum, effective as of December 1, 1938.

Approved unanimously.

Letter to Mr. Rounds, Vice President of the Federal Reserve Bank of New York, reading as follows:

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"Reference is made to your letter of September 23, 1938, enclosing an inquiry with respect to section 4(c) of Regulation T, relating to the 'special cash account'. This is one of the sections of the regulation to which a proposed amendment has been recently prepared, as indicated by the Board's letter of November 4, 1938, and the answer to your letter has been delayed until it should be determined whether the proposed amendment should deal in any way with the inquiry presented in your letter.

"The Board's views with respect to the question which you present have been incorporated in the attached statement for the press on the subject of 'Paying for Purchase in Special Cash Account by Selling Another Security'. You will note, however, that this is not to be released for publication until the time specified on the statement."

Approved unanimously. The ruling contained in the statement for the press referred to in the letter, which was also approved unanimously for publication in the Federal Reserve Bulletin, read as follows:

"Paying for Purchase in Special Cash Account by  
Selling another Security

"Section 4(c) of Regulation T provides in part as follows:

'In a special cash account, a creditor may effect for or with any customer bona fide cash transactions in securities in which the creditor may --

(1) purchase any security for, or sell any security to, any customer, provided \* \* \* the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for such security;

\* \* \* \* \*

'Except as otherwise provided in this section 4(c), in case a customer does not make full cash

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"payment for a security purchased by him in the account \* \* \* within seven days after the date on which the security was purchased or sold, the creditor shall promptly cancel, cover, or otherwise liquidate, the transaction or the unsettled portion thereof.'

"The Board recently had occasion to consider two questions regarding transactions in the special cash account.

"The first question arose from a case in which a customer proposed to purchase a security in the special cash account and then to make the necessary prompt payment by selling in the account another security of sufficient value and using the proceeds of sale for the purpose. The question was whether such a proposal for making payment disqualified the purchase for inclusion in the special cash account.

"The exact answer to this question would depend upon the circumstances of the particular case. In some circumstances, such a combination of transactions might be evidence of an attempt to evade or circumvent the regulation, and if the purchase was part of such an attempt its inclusion in the special cash account would, of course, be forbidden, because section 4(a) of the regulation provides in part that:

'A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation.'

"It is the view of the Board, however, that, while a proposal to effect such a combination of transactions should be carefully scrutinized, the effecting of the proposed purchase in the special cash account would not necessarily be prohibited if the purchase complied in other respects with the requirements of the regulation and there was in fact no attempt to evade or circumvent the regulation. This would require, among other things, that the proposed purchase be in fact a 'bona fide cash transaction' as that term is ordinarily used in the trade and that the proposed sale be one that is to be made and settled promptly.

"The second question arose from a permissible instance of the type described above in which the security to be sold was deposited with the creditor and sold promptly, well within seven days after the date of the purchase, and the creditor was to receive the proceeds of sale promptly in the usual course of business but not until more than

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"seven days after the date of the purchase. This presented the question whether in such circumstances it might be considered that the security purchased by the customer had been paid for by him within seven days after the purchase.

"Assuming that the purchase was one which, as indicated above, could properly be effected in the special cash account, the question whether it might be considered that payment had been made within seven days should be answered in the affirmative. When a customer has sold a security in a special cash account, section 4(c) permits the broker to make the proceeds of the sale of the security available to the customer upon the receipt of the security in the special cash account even though this be prior to the date on which the broker is to receive the proceeds of the sale. Accordingly, in the instant case the creditor could have paid the customer the proceeds of sale within the seven-day period and the customer could in turn have used such proceeds to make full cash payment to the creditor for the security purchased. In the circumstances, such payment could properly be treated as having been made by the customer without the necessity for the mechanical passage of funds from the creditor to the customer and back again to the creditor."

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

"You will recall that with your letter of March 15, 1938, you forwarded to the Board a copy of a reply which you had made to a letter from the California Security Dealers Association.

"Among the questions dealt with in your reply was one regarding a case in which a customer purchased a security in a special cash account and, within the seven-day period, sold another security with instructions to apply the proceeds of the sale to pay for the security purchased. The proceeds of the security sold were equal to the cost of the purchase, but such proceeds would not become available to the broker until after the expiration of the seven-day period.

"Your reply stated that if the security sold was shipped with draft attached so that section 6(f) of the regulation applied, payment might be deemed to be received at the time of such shipment. It took the position,

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"however, that in the absence of such shipment of the security sold payment should not be deemed to have been received for the customer's purchase until the proceeds of the customer's sale became available to the broker. The Board's reply to your letter indicated agreement with this view.

"The Board recently had occasion to reexamine this question and has concluded that it would be proper in certain other circumstances to consider such payment as having been received by the broker prior to his receipt of the proceeds of the sale. You will note that the attached copy of a letter indicates these views and also discusses the question whether such transactions may be considered to be bona fide cash transactions."

Approved unanimously.

Letter to Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Dr. Goldenweiser has referred to me your letter of November 7 enclosing a copy of a letter of November 3 from Mr. Stonier in which he asks you to take over the work in the Graduate School of Banking which had been carried on by Dr. Burgess.

"If this arrangement has the approval of your bank, the Board of Governors has no objection to your undertaking the work."

Approved unanimously.

Letter to Mr. Schaller, Chairman, Leased Wire Committee, reading as follows:

"The draft of Federal Reserve Telegraph Code inclosed with your letter of October 5, 1938, has been reviewed, and the following suggestions are made with respect thereto.

"It is noted that many of the proposed code words are quite long, containing in numerous cases as many as ten letters. In view of the fact that TWX or other timed wire service is being used on most of the circuits of the

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"leased wire system, it is felt that it would be desirable to shorten the code words in the new book by using dictionary words of five or six letters in order to make as great a saving as possible in the time consumed in the transmission of messages. The saving of time in transmission will become even more desirable in the event it is decided to adopt the recent recommendation of the American Telephone and Telegraph Company which contemplates a still broader use of TWX equipment. Sheets showing the code words on pages 1 and 2 of the present draft and words which might be selected in accordance with this suggestion are attached.

"Several of the code words assigned to names on pages 73 to 77 are very similar, there being a difference of only one letter. This apparently has resulted from the application of too narrow a range in the alphabet to the number of definitions in this heading, which can be corrected when new code words are assigned in accordance with the above suggestion.

"There is attached to this letter a memorandum suggesting a number of minor changes in the draft. While some of these are merely typographical changes, it was thought best to call attention to them at this time so that they would not be overlooked in final printing.

"With the changes referred to above, the Board approves the code book for final printing. It is suggested, however, that before the code book is printed the revised draft containing the new code words suggested in this letter be submitted to the members of the Subcommittee of the Leased Wire Committee for approval.

"It is understood that, in accordance with a suggestion that has been made, the book will be printed by the multilith process in the Board's offices. In this connection it is also suggested that when the draft of code book is ready for printing the details of the printing, distribution of the printed book to the Federal reserve banks, and the procedure to be followed in connection with printing revised sheets for the purpose of keeping the code current be worked out by Mr. Dillard and Mr. Carpenter."

Approved unanimously.

Memorandum dated November 15, 1938, from Mr. Vest, Assistant General Counsel, recommending that there be published in the December

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issue of the Federal Reserve Bulletin a statement in the form attached to the memorandum with respect to the recent amendments to Regulation L, Interlocking Bank Directorates under the Clayton Act.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. C. C. C.  
Chairman.