

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 9, 1939, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. McKee  
Mr. Davis

Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Parry, Chief of the Division of Security Loans  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the Division of Examinations  
Mr. Bradley, Assistant Chief of the Division of Security Loans  
Mr. Williams, Assistant Counsel  
Mr. Solomon, Assistant Counsel  
Mr. Dembitz, Special Assistant in the Division of Security Loans

Before this meeting there had been circulated among the members of the Board a memorandum dated April 21, 1939, from Mr. Parry submitting and recommending adoption of an amendment to the Board's Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which had been revised in the light of the comments received from the Federal Reserve banks in response to the Board's letter of November 4, 1938 (R-337). The

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memorandum, which also submitted a draft of statement for the press with respect to the amendment, stated that the amendment would clarify and liberalize, with appropriate safeguards, a number of technical provisions of the regulation which relate to cash transactions and to loans made by one member of an exchange to another for the purpose of enabling the borrower to make a contribution of capital to his firm.

Mr. Parry stated that the proposed amendment had been discussed with Mr. Draper prior to his leaving the city and that he favored its adoption.

At the request of the Board, Mr. Parry then discussed the proposed amendment and the reasons why in his opinion its adoption was desirable. He also said that the amendment had been discussed with representatives of the Securities and Exchange Commission who were not in agreement with some of the changes which it would make in Regulation T and that it did not seem possible to reconcile these differences of opinion.

Mr. Wyatt stated that the amendment had been approved by the Legal Division.

After a discussion of the amendment, Mr. McKee moved that the following resolution be adopted:

RESOLVED, That effective May 22, 1939, Regulation T, Extension and Maintenance of Credit by Brokers, Dealers,

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and Members of National Securities Exchanges, be amended in the following respects:

1. Section 4(c) of Regulation T is amended to read as follows:

"(c) Special cash account. - (1) 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 --

(A) purchase any security for, or sell any security to, any customer, provided funds sufficient for the purpose are already held in the account or 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 the security and that the customer does not contemplate selling the security prior to making such payment; or

(B) sell any security for, or purchase any security from, any customer, provided the security is held in the account or the creditor is informed that the customer or his principal owns the security and the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the security is to be promptly deposited in the account.

(2) In case a customer purchases a security (other than an exempted security) in the special cash account and does not make full cash payment for the security within 7 days after the date on which the security is so purchased, the creditor shall, except as provided in the succeeding subdivisions of this section 4(c), promptly cancel or otherwise liquidate the transaction or the unsettled portion thereof.

(3) If the security when so purchased is an unissued security, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be 7 days after the date on which the security is made available by the issuer for

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"delivery to purchasers.

(4) If any shipment of securities is incidental to the consummation of the transaction, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be deemed to be extended by the number of days required for all such shipments, but not by more than 7 days.

(5) If the creditor, acting in good faith in accordance with subdivision (1) of this section 4(c), purchases a security for a customer, or sells a security to a customer, with the understanding that he is to deliver the security promptly to the customer, and the full cash payment to be made promptly by the customer is to be made against such delivery, the creditor may at his option treat the transaction as one to which the period applicable under subdivision (2) of this section 4(c) is not the 7 days therein specified but 35 days after the date of such purchase or sale: Provided, however, That the creditor shall not so treat any purchase by a given customer if any security has been purchased by such customer at any time during the preceding 90 days in a special cash account with the creditor, and then, for any reason whatever, without having been previously paid for in full by the customer, the security has been sold in the account or delivered out to any broker or dealer: Provided, That an appropriate committee of a national securities exchange, on application of the creditor, may authorize the creditor to disregard for the purposes of the preceding proviso any given instance of the type therein described if the committee is satisfied that both creditor and customer are acting in good faith and that circumstances warrant such authorization.

(6) If an appropriate committee of a national securities exchange is satisfied that the creditor is acting in good faith in making the application, that the application relates to a bona fide cash transaction, and that exceptional circumstances warrant such action, such committee,

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"on application of the creditor, may (A) extend any period specified in subdivision (2), (3), (4) or (5) of this section 4(c) for one or more limited periods commensurate with the circumstances, or (B), in case a security purchased by the customer in the special cash account is a registered or exempted security, authorize transfer of the transaction to a general account or special omnibus account and completion of the transaction pursuant to the provisions of this regulation relating to such an account.

(7) The days specified in this section 4(c) are calendar days, but if the last day of any period specified herein is a Saturday, Sunday, or holiday, such period shall be considered to end on the next full business day. For the purposes of this section 4(c), a creditor may, at his option, disregard any sum due by the customer not exceeding \$50."

2. Section 4(f) of Regulation T is amended by inserting the following subdivisions after subdivision (1) of said section and renumbering the succeeding subdivisions accordingly:

"(2) Make loans, and may maintain loans, to or for any partner of a firm which is a member of a national securities exchange to enable such partner to make a contribution of capital to such firm provided (A) the lender as well as the borrower is a partner in such firm, or (B) the lender as well as the borrower is a member of such exchange, the loan has the approval of an appropriate committee of the exchange, and the committee, in addition to being satisfied that the loan is not in contravention of any rule of the exchange, is satisfied that the loan is outside the ordinary course of the lender's business, and that, if the borrower's firm does any dealing in securities for its own account, the loan is not for the purpose of enabling the firm to increase the amount of such dealing;

(3) Purchase any security from any customer who is a broker or dealer, or sell any security to any such customer, provided the creditor acting in good faith purchases or sells the security

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"for delivery, against full payment of the purchase price, as promptly as practicable in accordance with the ordinary usage of the trade;"

Mr. McKee's motion was put by the chair and carried unanimously with the understanding that the amendment and the press statement hereafter set forth would be sent to the Federal Reserve banks immediately with the request that the banks send copies of the amendment and press release to interested persons in the respective Federal Reserve districts to reach such persons on May 15, 1939, the date on which the statement will be released to the press, or as soon thereafter as possible:

"The Board of Governors of the Federal Reserve System has amended its Regulation T, entitled 'Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges', for the purpose of clarifying and liberalizing, with appropriate safeguards, provisions that relate to bona fide cash transactions in securities and to certain other classes of transactions that are not effected in margin accounts. The amendment, in tentative form, was submitted to securities exchanges and other organizations for comment last November. It becomes effective May 22, 1939, in the form attached.

"The principal changes made by the amendment may be summarized as follows:

"Cash sales for customers. - When a broker sells a security for a customer in a special cash account, without first having obtained the security from the customer, the broker will no longer be required by the regulation to get the security within a period of 7 days, or within any other specified period. Such a sale cannot be a short sale, since the making of a short sale by a customer in a special cash account is forbidden.

"Cash purchases for customers on C.O.D. basis. - When a broker buys a security for a customer in a special cash account and the transaction is of the type in which the customer arranges to have the security delivered to him promptly against payment, the broker will no longer be required by the regulation to obtain payment (and consequently

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"to make delivery) within a period of 7 days. The time limit is not altogether removed, but is fixed at 35 days. The broker is not permitted, however, without the permission of an appropriate committee of a national securities exchange, to give the customer more than 7 days if the customer, for any reason whatever, has failed to settle with him promptly in full on any cash transaction during the preceding three months.

"Cash transactions between brokers or dealers. - Cash transactions between one broker or dealer and another, as distinguished from transactions and relations with the general public, are relieved from the 7-day limitation, or any similar limitation, provided the transactions are in good faith for prompt settlement in accordance with the ordinary usage of the trade.

"Loans by one member of an exchange to another. - A new provision has been added to the regulation to facilitate the making of a loan by one member of a national securities exchange to another member for the purpose of enabling the borrower, in his capacity as a partner in a member firm, to make a contribution of capital to his firm. Unless the loan is by one partner in a firm to another partner in the same firm, however, it must be approved, in accordance with conditions specified in the amendment, by an appropriate committee of the exchange, and one of these conditions is that if the firm is one that does any dealing in securities for its own account, the loan must not be for the purpose of enabling the firm to increase the amount of such dealing."

During the discussion of the above matter Mr. Goldenweiser, Director of the Division of Research and Statistics, joined the meeting and at the conclusion of the discussion Messrs. Parry, Bradley, Dembitz and Solomon left the room.

Consideration was given to a draft of reply to a letter dated April 19, 1939, from Senator Wagner, Chairman of the Senate Committee on Banking and Currency, requesting the opinion of the Board of Governors as to the merits of bill S. 2150 which would amend Section 8

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of the Clayton Act to extend until February 1, 1944, the time during which interlocking directorates involving member banks which were lawfully in existence on August 23, 1935, could continue.

The draft of letter had been circulated among the members of the Board and Mr. Draper had attached a memorandum to the file stating that he wished to be recorded as voting "no" on the letter for the reasons that the amendment would permit continuation of certain interlocking relationships which he considered undesirable in the public interest and that the enactment of the bill might tend to defer consideration by Congress of the problem presented in the Board's statement of November 7, 1938, and in its Annual Report for the year 1938 with respect to discrimination against member banks.

The proposed letter was discussed in the light of the position taken by the Board that discrimination against member banks in this and other respects should be removed and the letter was revised to read as follows:

"This is in response to your letter of April 19, 1939, requesting the opinion of the Board of Governors as to the merits of the bill, S. 2150, to amend section 8 of the Clayton Act.

"As you know, the present statute provides that all interlocking relationships which were lawfully existing on the date of the Banking Act of 1935 could continue until February 1, 1939. However, on November 7, 1938, the Board of Governors, acting pursuant to authority granted by the statute, amended its regulation so as to extend this period to August 1, 1939 as to relationships involving not more than two banks. In connection with this action, the Board made the following statement:

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"The Board believes that the principles of Section 8 of the Clayton Act, which relate to interlocking bank directorates, are in the public interest and should be applied to all classes of banks. The law is now discriminatory in that it applies only to cases involving member banks of the Federal Reserve System or private banks. The Board does not believe that there should be discrimination in any respect among classes of banks subject to Federal authority.

'In view of the fact that less than a month will elapse between the convening of the new Congress and February 1, 1939, on which date certain existing relationships would terminate, the Board has exercised its discretion under the law, as to such relationships involving not more than two banks, to extend this time to August 1, 1939. This action was taken for the purpose of calling the matter to the attention of Congress when it convenes, with a recommendation that the existing discrimination between member banks and non-member banking institutions be removed so that the provisions of the law will apply alike to all banks under Federal authority.'

"The proposed bill would make no change in the existing law except to extend for an additional period of five years the time during which interlocking directorates which were lawfully existing on the date of the Banking Act of 1935 may continue. It would not permit the creation of any new interlocking relationships of the kinds prohibited by the other provisions of the statute but, by postponing further the time when certain existing relationships would have to be terminated, it would make the accomplishment of the objectives of the statute a more gradual process and avoid the necessity for wholesale resignations, and corresponding replacements, among the directors and officers of banks. While it would not remove the discriminatory features of the existing law, reference to which was made in the above statement as well as in the Board's Annual Report for 1938, nevertheless, in the aforesaid circumstances, the Board has no objection to its enactment."

At the conclusion of the discussion the revised letter was approved with the understanding that, upon their return to

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Washington, Messrs. Draper and Szymczak would be free to record their votes on the letter should they desire to do so.

Reference was also made to a draft of reply to a request received under date of April 4, 1939, from Senator Wagner, Chairman of the Senate Committee on Banking and Currency, for the views of the Board of Governors with respect to the merits of S. 2035, a bill to authorize the establishment of certain branch offices in communities which have no banking facilities. Copies of the draft and of Mr. Wyatt's memorandum of May 3, 1939, which accompanied the draft, had been sent to the members of the Board prior to this meeting.

It was agreed unanimously that the letter should be revised along the lines suggested during a discussion and that, after approval by Mr. Ransom, the revised letter should be sent to Senator Wagner.

Mr. Ransom referred to the bill (S. 2098) introduced in the Senate by Senator Wagner, Chairman of the Senate Committee on Banking and Currency, under date of April 6, 1939, to amend the Federal Home Loan Bank Act, Home Owners Loan Act of 1933, Title IV of the National Housing Act, and for other purposes, and inquired what, if any, action the Board felt should be taken with respect to the bill. He stated that Counsel's office had reviewed the bill and that it was in substantially the same form as the draft of bill which was transmitted to the Board by the Acting Director of the Budget under date of March 11, 1939, and on which the Board commented in its reply dated March 17, 1939.

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It was agreed unanimously that since the position of the Board with respect to the bill was stated in its letter of March 17, 1939, to the Acting Director of the Budget, there appeared to be no reason why the Board should make a further report on the bill at this time.

Mr. Ransom also referred to the request received from Senator Wagner, Chairman of the Senate Committee on Banking and Currency, under date of February 18, 1939, for a report on S. 1482, a bill introduced by Senator Mead to provide for the insurance by the Reconstruction Finance Corporation of loans made by banks to business enterprises for the purpose of enabling such enterprises to increase their productions, extend their operations, and modernize their plants. In connection with this matter, Mr. Wyatt stated that a new bill (S. 2343) to take the place of S. 1482 was introduced by Senator Mead yesterday, and Mr. Williams said that the new bill incorporates certain features contained in various bills which had been introduced in the Senate on this subject and that it was believed that if any action were taken in the Senate on this legislation it would be on the new bill.

In connection with a discussion of the bill Mr. McKee referred to the article which appeared in the June 1922 issue of the Federal Reserve Bulletin and which presented facts relating to the use of credit insurance in the United States and the methods by which it was written by private concerns, and he raised the question whether the results sought by the Mead bill could be accomplished in this manner rather than by the insurance by a Government agency of credits granted by banks.

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It was agreed unanimously that no report should be made on the bill at this time.

Mr. Williams withdrew from the meeting at this point.

Mr. Ransom then called attention to a letter addressed to him under date of April 17, 1939, by the Secretary of the Tennessee Bankers Association in which he requested that a representative of the Board attend the bankers' conference to be held at the University of Tennessee on August 14-18, 1939, for the purpose of discussing at the conference regulations that affect members of the Federal Reserve System. Mr. Ransom stated that he had discussed the request with Mr. Goldenweiser and that it was his (Mr. Ransom's) suggestion that Mr. Thomas, Assistant Director of the Division of Research and Statistics, attend the conference as a representative of the Board.

Mr. Ransom's suggestion was approved unanimously.

Mr. Davis called attention to the suggestion made at the time of the meeting of the Chairmen of Federal Reserve Banks in Washington on January 30, 1939, that another meeting of the Chairmen be held in Washington some time during the spring months, and stated that if the meeting was to be held this spring it was believed that arrangements could be made at that time for the Chairmen to issue a call for a conference of auditors of the Federal Reserve banks which Mr. Paulger felt should be held early this fall, possibly in September or October.

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It was agreed unanimously that the proposed meeting of the Chairmen should be deferred until fall, but that Mr. Paulger should proceed, in collaboration with the auditors of Federal Reserve banks, to prepare agenda for an auditors' conference with the understanding that the conference would be held on a date during the fall months to be fixed at some subsequent time.

Mr. Wyatt stated that he would like to proceed along similar lines with respect to a conference of counsel some time this summer or early fall and he was requested to proceed with the preparation of agenda for such a conference.

Reference was made to letters which had been received from the Federal Reserve banks following the informal meeting of the Presidents of Federal Reserve banks with the members of the Board on April 18, 1939, when it was agreed that in the event of armed conflict abroad resulting in serious disturbances to the markets in this country the Federal Reserve banks during the emergency should follow a policy of making advances to member and nonmember banks on the security of direct obligations of the United States at par at the discount rate. It was stated that advice had been received from all of the Federal Reserve banks except San Francisco that the suggested policy had been considered by the directors of the respective Federal Reserve banks and that all of them had agreed to the essentials of the program with the exception of the board of directors of the Federal Reserve Bank of Chicago which had voted to establish, if and when the Board of Governors requested

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a review of rates due to disturbed political conditions abroad, a rate of 4% per annum to nonmember banks on advances secured by direct obligations of the United States and to require in connection with such advances a margin of not to exceed 10% of the par value of such collateral.

It was requested that a draft of letter to the President of the Federal Reserve Bank of Chicago be prepared, for consideration by the Board, calling attention to the fact that the action of the board of directors was not in accordance with the suggested policy and requesting that the matter be given further consideration.

Mr. Ransom reviewed the discussions which had taken place at the meeting of the executive council of the American Bankers Association at Hot Springs, Virginia, during the week of April 24, 1939, relating to the absorption of exchange and collection charges by member banks.

At this point Messrs. Thurston, Wyatt, Paulger, Dreibelbis, Vest, Leonard and Goldenweiser left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 3, 1939, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 5, 1939, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated May 9, 1939, from Mr. Carpenter, Assistant

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Secretary, submitting the resignation of Miss Ruth McCrary as a file clerk in the Secretary's Office to be effective as of the close of business on July 29, 1939, and recommending that the resignation be accepted as of that date.

Approved unanimously.

Memorandum dated May 8, 1939, from Mr. Spurney, Building Manager, submitting the resignation of Matthew R. Jones as garage attendant, effective as of the close of business on May 15, 1939, and recommending, with the concurrence of Mr. Noell, Assistant Secretary, that the resignation be accepted as of that date.

Approved unanimously.

Letter dated May 6, 1939, to Mr. W. McC. Martin, President, Federal Reserve Bank of St. Louis, reading as follows:

"There is attached a copy of a letter received from J. J. B. Hilliard & Son, Louisville, Kentucky, asking whether various stocks listed on Canadian exchanges may be carried for a customer on margin.

"The letter indicates that the Securities and Exchange Commission expressed the opinion that this could not be done but referred the firm to the Board for an official ruling.

"Assuming that the stocks in question are not also registered on a national securities exchange in this country, the opinion expressed by the Securities and Exchange Commission is clearly correct since section 3(c) of Regulation T, incorporating the statutory restrictions of section 7(c)(2) of the Securities Exchange Act of 1934, provides that: 'No collateral other than registered securities or exempted securities shall have any loan value in a general account.'

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"It may be noted, of course, that under section 7(b) of the regulation unregistered securities may be held in the account if they are taken merely for the broker's own protection and not allowed loan value for the purposes of the regulation.

"It will be appreciated if you will make an appropriate reply to the inquiry. The firm is being advised of this reference."

Approved unanimously.

Letter dated May 8, 1939, to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of April 27, 1939, with respect to the practice on the part of a member bank of using Brink's, Inc., as an agency to solicit and pick up deposits and to deliver payrolls for a depositor of such bank. It is understood that one of your member banks has requested you to obtain a ruling from the Board of Governors as to whether the absorption by a competitor bank, if that bank is a member of the Federal Reserve System, of the cost of rendering such a service constitutes an indirect payment of interest within the meaning of section 19 of the Federal Reserve Act.

"In the Board's letter of March 18, 1937 (X-9846), the Board stated that for the present it will not attempt to issue detailed interpretations or rulings with reference to questions as to whether the absorption of certain expenses constitutes a payment of interest, but will rely upon the cooperation and good faith of the member banks in adapting their practices to conform to the spirit and purpose of the statutory provisions prohibiting the direct or indirect payment of interest on demand deposits. It was pointed out that the determination of such questions involves a due recognition of the spirit and intent of the law and the exercise of judgment on the part of the bank in the light of the provisions of the Board's regulation and of all the circumstances of the case. The Board stated that if, after considering such a question in this light, there appears to be any serious problem with respect to the matter, it is believed that it can best be handled

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"in due course upon a review of all the facts shown by the records of the bank and the examiner's reports, if the necessity arises.

"While there have been two cases during the last two years in which the Board has taken the position that certain practices did not constitute an indirect payment of interest, these instances were exceptional in that they merely affirmed opinions previously expressed, and in each case the proper conclusion appeared to be fairly clear. Although a number of questions on this subject have arisen, the Board has not otherwise departed from the policy announced in its letter of March 18, 1937. The Board feels that it is desirable to continue to follow this policy for the present and that it should not undertake to make an exception in the instant case.

"It will be appreciated, therefore, if you will advise the member bank from which the present inquiry was received of the Board's views with respect to this matter as above set forth."

Approved unanimously.

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

"Reference is made to your letter of April 26 with respect to the destruction of certain records accumulated by the Federal Reserve Agents in the performance of their nonstatutory duties prior to the transfer of such duties to the Federal Reserve banks. Since it is thought advisable to obtain Congressional approval for the destruction of such records, it has been our thought that we should wait for a reasonable period after the transfer of the nonstatutory duties of the Federal Reserve Agents to the Federal Reserve banks before requesting authority to destroy the records, particularly as we should not like to ask for such permission more than once. Accordingly, it is proposed to request such permission some time next year.

"It is our intention to ask each Federal Reserve bank to submit to the Board some time this fall a list of all such records which they would like to have authority to destroy. Upon receipt of such list appropriate request for Congressional authority to destroy the records will be

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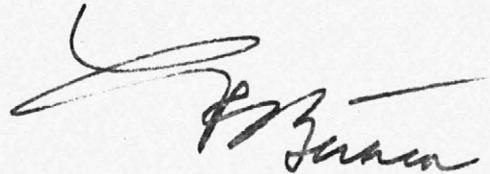
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"submitted through the Archivist of the United States. It is hoped that the accumulation of records at your bank is not such that it will be a material hardship for you to continue to keep the records for another year.

"In accordance with the recommendation contained in the report of the Committee on the Destruction of Records maintained by the Federal Reserve banks dated June 11, 1936, the minimum retention period for examination reports, condition reports and reports of earnings and dividends should be five years."

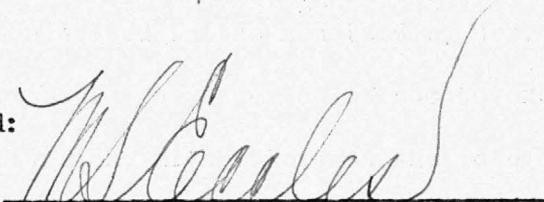
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.