

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 11, 1939, at 11:30 a.m.

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

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

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

Telegrams to Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on August 8, 1939, and by the Federal Reserve Banks of Richmond, Atlanta, Chicago, Minneapolis and Dallas today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to "The Security National Bank of Reno", Reno, Nevada, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates,

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"assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Nevada, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

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

"Reference is made to your letter of July 29, 1939, requesting a ruling with respect to section 6(c) of the Board's Regulation T, which section relates to guaranteed accounts.

"Section 3(b) of Regulation T provides that when all of the transactions on any day in a customer's general account, combined, have the effect of creating or increasing an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, the creditor must obtain the deposit of a certain amount of cash or securities. Section 6(c) permits certain deductions in the calculation of the adjusted debit balance of a general account that is guaranteed by another customer, so that transactions may be effected therein without creating or increasing such an excess.

"The pertinent provisions of section 6(c) are as follows:

"In case a general account maintained by a creditor for one customer is guaranteed in writing by another customer for whom the creditor maintains a general account, the adjusted debit balance of the guaranteed account may, at the option of the creditor, be computed by deducting from the sum of the items specified in section 3(d) an amount not greater than the excess of the maximum loan value of the securities in the guarantor's general account over the adjusted debit balance of such guarantor's account calculated without the addition thereto prescribed by the following paragraph, provided (1) the guarantor is not a creditor, (2) a duplicate original of

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"the guarantee has been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected, and (3) the guarantee permits the creditor to use funds and securities in the guarantor's account to carry the guaranteed account without restriction, except that the guarantee may be limited to a specified amount and in that event the deduction shall not exceed such amount.

'In case a guarantee has served to permit in the guaranteed account any transaction which could not otherwise have been effected in accordance with this regulation: (A) the adjusted debit balance of the guarantor's account shall be computed by adding to the sum of the items specified in section 3(d) an amount equal to the deduction made pursuant to the preceding paragraph; * * *.'

"The question which you have presented relates to the following set of circumstances: Customer A, not a creditor, has executed a guarantee of the general account of Customer B, and a duplicate original of the guarantee is properly on file with the secretary of a national securities exchange. Customer B, also not a creditor, has executed a guarantee of the general account of Customer C and a duplicate original of the guarantee is likewise filed with the secretary of a national securities exchange. Neither of the guarantees is restricted as to amount.

"The maximum loan value of the securities in the general account of Customer A exceeds the adjusted debit balance of the account by an amount greater than \$400. The maximum loan value of the securities in the general account of Customer B just equals the adjusted debit balance of the account. The maximum loan value of the securities in the general account of C is less than the adjusted debit balance of the account.

"The question is whether the creditor may utilize the excess loan value in the general account of Customer A in effecting for the general account of Customer C a purchase of registered nonexempted securities at a total cost of \$1,000.

"While the use of such indirect guarantees is rather unusual, the Board is of the opinion that the answer to the question is in the affirmative provided the terms of the guarantee executed by Customer A are such that, as a matter of general law and without regard to Regulation T, the guarantee clearly covers Customer C's account and provided, of course, that all other requirements of section 6(c) are met. The question whether Customer A's guarantee extends, as a matter of general law, to Customer C's account would, of course, depend upon the terms of the particular guarantee.

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"If the necessary requirements are met, the creditor may first deduct \$400 from the sum of the other items used in computing the adjusted debit balance of Customer B's general account and then make the same deduction in Customer C's general account. Under the present provisions of the supplement to Regulation T the \$1,000 of securities purchased would have a maximum loan value of \$600, and there would be no increase in the excess of the adjusted debit balance of Customer C's general account over the maximum loan value of the securities in the account. After these transactions, the adjusted debit balances in the general accounts of both Customer A and Customer B would be computed by adding \$400 to the sum of the other items included, although in the case of Customer B's account the \$400 addition would be offset by the equal deduction resulting, as indicated above, from Customer A's guarantee."

Approved unanimously.

Telegram to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Retel August 10, since time schedules of some Reserve banks are based in part on calendar days, it is not believed advisable to have second paragraph Board's proposed press release, R-514a, refer to business days."

Approved unanimously.

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

"There was forwarded to you with the Board's letter of July 24, 1939, R-511, a copy of a letter dated July 18 which the Board received from the Treasury Department transmitting a copy of House Report No. 1066 with respect to the destruction of certain fiscal agency and depository records.

"In the Board's letter to you of December 14, 1938, it was stated that after the destruction of the above-mentioned forms had been approved, the Treasury Department planned to list such forms on a 'Standard list of forms to be destroyed periodically'; that once having been compiled, the 'Standard list of forms to be destroyed periodically' will be duplicated by the Treasury Department and used each year by the Department in making recommendations for the disposition of useless papers; that it will be necessary for the Department to re-

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"ceive advice annually only as regards to the elimination of forms that have become obsolete and to the addition of new forms; and that the forms included on this list should not be destroyed by the Federal Reserve banks until the printed report of the Joint Congressional Committee recommending that the records be destroyed has been received.

"Since your bank, in response to the Board's letter of December 14, 1938, submitted the consolidated list of fiscal agency and depositary records recommended for destruction and is, therefore, familiar with the procedure followed, it will be appreciated if you will submit annually to the Board as of October 1 a list of the fiscal agency and depositary forms previously reported on Treasury Department Form A which have become obsolete, showing the date they were discontinued, and a list on Treasury Department Form A of any additional forms which it is felt should be added to the 'Standard list of forms to be destroyed periodically', showing the date the forms originated.

"The list on Form A submitted as of October 1, 1939 should include any records which have now been held for the minimum retention period recommended in the report of the Committee on Destruction of Records, dated June 11, 1936, which were not included in the list of records submitted with Mr. Rice's letter of January 11, 1939, for the reason that they had not at that time been held for the required period. It appears that such records comprise Treasury Department forms 6601, 6605 and 6606, listed in Schedule G of the Committee's report.

"As heretofore, the original and four copies of Form A, together with a sample of each item marked with the appropriate item number, should be submitted to the Board. The Board will then forward the original and three copies of this list to the Treasury Department."

Approved unanimously.

Letter to Mr. McCabe, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"Referring to the third paragraph of your letter of July 28, 1939, in reply to the Board's letter of June 20, S-165, with respect to the destruction of records accumulated by Federal Reserve Agents, you are correct in assuming that mimeographed statements issued by the Board, such as B-812 and B-812-a, may be destroyed in your discretion."

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Thereupon the meeting adjourned.

Charles Morris
Secretary.

Approved:

W. S. Coates
Chairman.