

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, September 21, 1940, at 11:00 a.m.

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

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

The action stated with respect to each of the matters herein-after 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 20, 1940, were approved unanimously.

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

"Reference is made to your letter of August 22, 1940 transmitting a letter from the San Francisco Stock Exchange regarding the Board's ruling of July 19, 1940 (Loose Leaf Service Item No. 7964.1) on the question of 'obtaining payment for purchase of securities in cash account under Regulation T'.

"Regulation T provides that in case a customer purchases a security in a special cash account and does not make full cash payment for the security within seven days after the date on which the security is so purchased, the broker or dealer shall, except as otherwise provided, 'promptly cancel or otherwise liquidate the transaction'.

"In its ruling the Board considered the situation in which the broker or dealer, after the seven-day period but before he had cancelled or otherwise liquidated the transaction, was offered payment by the customer. The ruling stated that in such circumstances the delayed payment might not be accepted as a substitute for the cancellation or liquidation of the transaction.

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"The present inquiry questions this interpretation of the regulation and suggests that the term 'liquidate' might include the acceptance of cash from the customer in payment for the transaction. The possibility of such a meaning for the term was considered at the time the ruling was issued and it was recognized that in some connections the term might be considered to include payment by the customer. The Board reached the conclusion, however, that this was not the preferable or most natural meaning of the word when read in its present context and in the light of the other provisions of the section.

"So called 'cash transactions' are given highly preferential treatment under the regulation. It is important to note, however, that while they are called 'cash transactions' they really involve credit. In net result they are sometimes quite similar to margin transactions, and it must be recognized that the margin provisions of the regulation may be weakened by certain transactions in the cash account. The Board has attempted to facilitate bona fide cash transactions in every way that seems practicable, but it seems essential that such transactions should follow certain requirements in order to safeguard the other provisions of the regulation and make the regulation reasonably precise and workable.

"Among such requirements is the provision regarding liquidation in the event of nonpayment by the customer. This provision clearly relates to action which is alternative to receiving payment from the customer — something which is to be done in lieu of such payment. It states that the specified action is to be taken 'in case a customer * * * does not make full cash payment for the security within 7 days.' Moreover the association of the word 'liquidate' with the word 'cancel' emphasizes the idea that, in the specified circumstances, the transaction is not to be carried through to completion with the customer but is to be given a different disposition.

"Section 4(c) shows throughout an intention to have payment obtained not later than the seventh day unless there is reasonable cause for the delay. Specific extensions, closely related in time to the circumstances involved, are provided for certain situations. There is a final provision for the appropriate exchange committee to deal with other cases on the basis of the reason for the delay. It seems clear that failure of the broker to close out the transaction cannot be an adequate explanation for the delay in obtaining funds from the customer.

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"In addition to the practical difficulties involved in counting payment by the customer as liquidation in the present case -- difficulties which were referred to in the inquiry -- it seems that the context of the provision and its relation to the other provisions of the regulation cannot be overlooked. It was in the light of all these considerations that the Board reached the conclusion set forth in the ruling, although some of the detailed discussion above was condensed in the ruling to avoid adding too greatly to its already rather considerable length. After carefully re-examining the question the Board still believes that view to be the most reasonable construction of the provision when read in its context and in connection with the other provisions of the regulation."

Approved unanimously.

Letter to Mr. Wm. H. McReynolds, Secretary, The Advisory Commission to the Council of National Defense, reading as follows:

"Following the receipt yesterday afternoon of your letter of September 20 in regard to a plan of cooperation between the Government and private manufacturers for the construction and equipment of new plants and additions, the Board of Governors sent to the 12 Federal Reserve Banks and their 24 Branches a telegram suggesting a quick survey of the attitude of representative banks toward the financing of the program involved in this plan. With this telegram there was transmitted a copy of your letter and also a copy of the 'Emergency Plant Facilities Contract'. In addition, a number of copies of this contract were placed in the mails last night addressed to all Federal Reserve Banks and their Branches.

"The Board of Governors is glad to have had this opportunity to cooperate with the Commission and as soon as the replies are received the Board will advise the Commission of the results of the survey. In this connection, as you will note from the Board's telegram to the Banks, each Federal Reserve Bank was requested to wire to the Board of Governors not later than the close of business Tuesday, September 24, a summary of its

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"survey. For your information and the records of the Commission you will find attached a copy of the Board's telegram."

Approved unanimously.

Thereupon the meeting adjourned.

Ernest Morrie
Secretary.

Approved:

Donald Hanson
Vice Chairman.