A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, November 8, 1941, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Morrill, Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wingfield, Assistant General Counsel

Mr. McKee referred to the discussion at the meeting of the Board on November 4, 1941, relating to proposed amendments to the Securities Act of 1933, and stated that a letter had been received under date of November 5, 1941, from Clarence F. Lea, Chairman of the House Committee on Interstate and Foreign Commerce, requesting a report by the Board of Governors on the proposed amendment to Section 2 of the Securities Act of 1933 which would add to that section a new paragraph numbered 14 which would provide that the term "public offering" would include, with certain exceptions, a private offering of securities in excess of $3,000,000 and with a maturity of more than five years if the securities were sold in whole or in part to any organization which held itself out as regularly receiving funds from investors, policy holders, or depositors and which invested its funds in substantial part in securities. He also said that, pursuant to the discussion at the meeting of the Board on November 4, 1941, an agreement had been
reached with the Federal Deposit Insurance Corporation and the Comptroller of the Currency on the form of a proposed joint statement to be made by these two agencies and the Board with respect to the proposed amendment, it being understood that in transmitting the proposed joint statement to Chairman Lea each of the three agencies would be at liberty to send a covering letter containing any statement it wished that would not be inconsistent with the content of the joint statement. Mr. McKee then submitted a draft of a proposed letter for use in transmitting the proposed joint statement on behalf of the Board, after which he made the further comment that the draft of statement had been approved by Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, Mr. Delano, Comptroller of the Currency, and Mr. Bell, Under Secretary of the Treasury, and that the latter had advised that it would be submitted by him on the morning of Monday, November 10, 1941, to the Secretary of the Treasury. In view of this understanding, Mr. McKee said, the proposed letter to Chairman Lea should not be sent until advice had been received from Mr. Bell of the results of his discussion with the Secretary of the Treasury.

The draft of joint statement was then read and discussed and, upon motion by Mr. McKee, was approved unanimously as follows:

"The new section 2(14) proposed to be added to the Securities Act of 1933 would require a borrowing or issuing corporation to file with the Securities and Exchange Commission registration statements covering certain loans obtained from, or issues of securities sold directly to,
banks and other institutional investors. This amendment has been proposed by representatives of the securities business. It is neither recommended nor opposed by the Securities and Exchange Commission.

In so far as the proposed amendment relates to banks, its avowed purpose is to protect depositors and presumably the banks themselves. It appears to be the hope of the representatives of the securities business that this amendment will impose sufficient restraints upon industry in financing directly with banks and other institutional investors to cause industry to finance to a greater extent through securities dealers as middlemen. If this result is achieved, it will cause unwarranted delay and expense in the financing of industry without any corresponding benefit to the public.

Therefore, the three Federal bank supervisory agencies, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation unanimously oppose this proposal to the extent that it relates to banks subject to their supervision.

The proposed amendment would require registration with the Securities and Exchange Commission of a considerable portion of the securities which heretofore have not been required to be registered because they were not offered to the public but were purchased by banks and other institutional investors through direct negotiation with the issuers. Moreover, this requirement would apply also to certain types of loans because of the definition of 'securities' contained in the Securities Act of 1933.

The purpose of the Securities Act of 1933 was to protect investors, with a minimum of interference to business, by requiring disclosure of information concerning original issues of securities, which the average individual investor purchasing securities on the market could not otherwise obtain. The proposal to require registration of securities which are not being publicly distributed or sold on the market departs from this principle and would unnecessarily interfere with business. Furthermore, such a proposal is wholly inconsistent with the avowed purpose of the representatives of the securities business in presenting their recommendations to this Committee, which was

'... to make it possible to transact business more efficiently without impairing the protection afforded to investors by the requirement
"'of fair and adequate disclosure of information as to the character of securities offered or sold to the public ... and ... to facilitate the resumption of private investment and the flow of idle money into industry through the simplification of procedures and by the removal of these restrictive provisions, unnecessary for the protection of investors, which have impeded the exchanges and the private capital market from functioning efficiently in the public interest.'

"The proposed amendment would move in the opposite direction and create a 'restrictive provision unnecessary for the protection of investors'.

"In so far as loans and securities of a type which would be affected by the amendment are concerned, our experience in the field of bank supervision satisfies us that federally supervised and insured banks obtain more complete information through direct negotiations with the issuer than they obtain in connection with purchases of publicly offered registered securities. Registration, therefore, would not increase the protection they now have in connection with these transactions. The banks are professional investors. They are in a position to demand and obtain all facts and disclosures necessary to enable them to appraise the value and soundness of any investment.

"The character of the supervision to which these banks are subject provides further safeguards in the public interest against the improper conduct of their business. Lending and investing practices of federally supervised and insured banks are now circumscribed by the express provisions of Federal and State banking laws and regulations. In addition, standards of sound practice which influence and guide such banks in making loans and security investments have been developed over many years through the process of examination and supervision by Federal bank supervisory agencies. These standards are fortified by the promulgation by the Comptroller of the Currency, pursuant to the express provision of an Act of Congress, of a regulation carefully delineating the type of securities in which investments may be made by national banks and State member banks of the Federal Reserve System. The standards of quality laid down in this regulation are applied in examinations of all other insured banks by the
"Federal Deposit Insurance Corporation. Thus the whole investment policy of banks which are subject to Federal supervision is affected in a manner which is believed adequate to make unnecessary the type of protection which the proposed amendment would allegedly afford.

"Of course, all of these factors which protect federally supervised banks also protect their depositors against losses resulting from the purchase of unsound investments by the banks. In addition, the depositors are protected by the cushion provided by the capital funds of the banks and by the insurance of their deposits by the Federal Deposit Insurance Corporation. As a consequence thereof and in view of all the improvements in the banking system effected by the Banking Acts of 1933 and 1935 few depositors of federally supervised and insured banks have suffered loss. The losses which have been sustained have amounted to less than one per cent of the deposits in the insured banks which were closed or taken over for the protection of depositors. Therefore, the possibility of depositors suffering a loss as a result of unsound loans or investments made by the banks is remote and would not be further diminished by requiring registration of securities acquired by the banks through direct negotiations.

"It has been suggested that the proposed amendment also will give additional protection to individual investors who may subsequently purchase from banks securities acquired by them directly from issuing companies. The redistribution of unregistered securities by banks can be only negligible since the Banking Act of 1933 prohibits banks of deposit from engaging in the business of underwriting or distributing securities.

"We believe that business should be free to negotiate with banks for the form of credit best suited to its needs and that federally supervised banks should be limited in such transactions only by restrictions in banking laws and regulations and by the policies of the regularly constituted bank supervisory authorities. The proposed amendment, if adopted, would place unwarranted restrictions on banks' investments and loans and would merely retard and burden the financing of worthy enterprises and industries, a result which would be particularly unfortunate in this period of grave national emergency when every effort is being made to speed up the industrial machine."

The following draft of letter of transmittal to Chairman Lea which had
been prepared for the signature of Chairman Eccles was also read and, after a discussion and upon motion by Mr. McKee, was approved unanimously with the understanding that the letter and its enclosure would not be transmitted until advice had been received from Mr. Bell that it had been approved by the Secretary of the Treasury:

"This refers to your letter of November 5, 1941, enclosing a Committee Print containing certain proposals for amendments to the Securities Act of 1933 and the Securities Exchange Act of 1934 upon which hearings are now being held by your Committee. You called attention to a new subdivision (14) which it is proposed would be added to section 2 of the Securities Act of 1933 and invited such report, if any, on this section as the Board thinks appropriate.

"There is enclosed a copy of a joint statement which has been prepared by the three Federal bank supervisory agencies unanimously opposing the provisions of the proposed new subdivision (14) of section 2 of the Securities Act of 1933 in so far as it relates to banks subject to their supervision.

"In preparing this joint statement it was felt appropriate for the three bank supervisory agencies to confine their discussion to the effect of the proposal on banks subject to their supervision, that is, national banks, State member banks, and insured nonmember banks. However, in addition to its bank supervisory functions, the Board has certain responsibilities in the field of credit and believes that it is appropriate for it to state that it is opposed to the new subdivision (14) regardless of the type of institutions to which it would apply, since it would serve no useful purpose and would place additional restrictions upon the extension of credit needed to finance commerce and industry. The Board believes that the reasons set out in the attached statement as to why the proposal is undesirable as to insured banks are substantially applicable in the case of other institutional investors which acquire securities or loans through direct negotiations with issuers.

"Therefore, the Board recommends that the proposed new subdivision (14) be omitted entirely.

"At an appropriate time the Board may have comments which it will wish to submit to your Committee with respect
"to other proposals for amendments to section 17(c) of the Securities Act of 1933, sections 7, 8, and 14 of the Securities Exchange Act of 1934, and possibly with respect to other proposals for amendments which are now before your Committee."

Attention was directed to the three-day Fiscal Agency Conference at the Federal Reserve Bank of Atlanta on November 12-14, 1941, which had been arranged by Under Secretary of the Treasury Bell, and which is to be attended by representatives of the Treasury, the Board of Governors, and each of the Federal Reserve Banks, and to the fact that it was understood that certain items on the agenda for the conference were to be made the first order of business for a meeting of the Board of Governors on Monday, November 10, 1941, at 10:30 a.m.

At this point Messrs. Thurston and Wingfield 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 November 7, 1941, were approved unanimously.

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

"As requested in your letter of November 5, 1941, the Board of Governors approves the payment of a salary to Mr. Elmer F. Fricke, Alternate Assistant Federal Reserve Agent, at the rate of $1,944 per annum, effective November 1, 1941."

Approved unanimously.
Letter to Mr. John G. Nichols, Chief of the Division of Examination of the Federal Deposit Insurance Corporation, reading as follows:

"In accordance with the request contained in your letter of November 5, 1941, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of The St. Charles State Bank, St. Charles, Michigan, in order that you may ascertain the extent to which, if any, the required corrections requested in your citation of October 9, 1941, have been effected."

Approved unanimously.

Letter to "The First National Bank of Ipswich", Ipswich, Massachusetts, reading as follows:

"This refers to the resolution adopted on June 2, 1941, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any
"of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to the "Citizens First National Bank of Frankfort",

Frankfort, New York, reading as follows:

"This refers to the resolution adopted on August 14, 1941, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System.

"Since it may be necessary for you to file a certified copy of the Board's certificate with the State authorities in connection with the release of the securities which you have deposited with them, such a copy is enclosed herewith."

Approved unanimously.
Letter to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Cleveland made as of September 5, 1941, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also furnished President Fleming.

"The report does not appear to contain any matters requiring further comment at this time. The Board will appreciate advice, however, that the report has been considered by the board of directors. Any comments you may care to offer regarding discussions with respect to the examination, or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

Thereupon the meeting adjourned.

[Signature]
Secretary.

[Signature]
Chairman.