A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board of Governors in Washington on Monday, November 17, 1941, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel


Mr. Walter Lichtenstein, Secretary, Federal Advisory Council

Mr. Brown stated that the Federal Advisory Council wished to express its appreciation of the position taken by the Board of Governors in the joint statement approved by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, with respect to the proposed new section 2(14) of the Securities Act of 1933, which would require a borrowing or issuing corporation to file with the Securities and Exchange Commission registration statements covering certain loans obtained from or issues sold directly to banks or other
institutional investors. He said the Council also wished to commend the Board for the position taken in its letter transmitting a copy of the joint statement to the Chairman of the House Committee on Interstate and Foreign Commerce.

Mr. Brown then referred to a proposed amendment to section 17(c) of the Securities Act of 1933 now under consideration by the House Committee which would subject corporations, including banks, to the penalties of the Securities Act for any materially false or misleading information sent to their stockholders, and stated that the provision would include statements of condition and earning statements sent out by the banks, and that the provision was objectionable to the members of the Council for the reasons (1) that the question of the valuation of the bank's assets referred to in statements of condition, and statements of earnings in earnings reports because of reserves established, were largely a matter of opinion, and (2) that if the amendment were adopted and the section were made applicable to banks, the Securities and Exchange Commission would be under the responsibility of ascertaining whether statements issued by banks contained any false statements with respect to any material fact and the only way the Commission could discharge that responsibility would be to examine the banks. He added that it was felt that, in view of the fact that insured banks were required to make sworn statements to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the Board of Governors, and...
were examined regularly by one of the three Federal agencies, there
was no purpose in subjecting the banks to the jurisdiction of the Se-
curities and Exchange Commission; that, while it was doubted that the
Securities and Exchange Commission had contemplated that banks would
be covered by the amendment, if the amendment were adopted in its pres-
ent form, the Securities and Exchange Commission would be in the field
of bank supervision; and that the Council hoped very much that the
Board would take the position that the amendment should be changed to
exclude banks.

There ensued a discussion of the possible effects on banks of
the proposed amendment. Mr. McKee stated that there was a possibility
that a decision would be reached during the coming week to abandon the
amendment but that if that were not done the Federal bank supervisory
agencies might wish to present a joint position with respect to it in
much the same manner as they did in connection with the proposed amend-
ment referred to at the beginning of this meeting.

Following a comment by Chairman Eccles that, in view of the
circumstances under which the proposed amendments to the Securities
Act were presented to the House Committee in the form of a report rather
than in the form of a bill, he did not feel there was much likelihood
of their being enacted, Mr. Brown responded with the statement that the
Council felt that the matter should be watched and was glad to know
that, as indicated by comments which they had made during the discus-
sion, some of the members of the Board were opposed to the amendment.
Mr. Brown then called attention to another amendment to the Securities Act being considered by the House Committee on Interstate and Foreign Commerce which, with certain exceptions, would make pension plans of corporations, including banks, subject to the provisions of the Securities Act on the theory that through the plans the corporations were selling securities to their employees. He said that this provision was objectionable to banks because it would affect their own pension systems and, inasmuch as the pension funds of corporations which were not established by an arrangement with an insurance company were usually in the form of a trust with a trust company, if the funds were made subject to the Securities Act it was very likely that many existing funds would be terminated and others that might be created would not be brought into existence, which would result in the loss to banks of a substantial amount of trust business.

Mr. Ransom raised the question whether, in view of all the circumstances involved, the Board could take any position with respect to the amendment and Mr. Brown stated that the reason the Council was bringing it to the attention of the Board at this time was because the analysis prepared in the Board's Legal Division of the proposed amendments to the Securities Act of 1933 did not refer to this amendment as one affecting banks.

Mr. Wyatt explained that the analysis referred to by Mr. Brown had been prepared hurriedly by one of the law clerks in the Legal Division and that the members of the staff who had worked on the joint
statement which had been sent to the Committee on Interstate and Foreign Commerce were fully aware of the possible effects on banks of the amendment under discussion.

Chairman Eccles referred to the experience of pension funds during the thirties and questioned whether the Board logically could take a position in opposition to a proposal for public control of such plans. Mr. Brown said he shared the doubts expressed by Messrs. Ransom and Eccles as to whether the Board should take a position on the amendment, and that all the Council was asking the Board to do was to make a study of the matter and determine whether it could suggest an amendment which would prevent the loss by banks of a considerable volume of trust business.

Mr. Ransom stated that he would suggest that the Board obtain further information with respect to the proposed amendment and consider what action might be taken.

At the request of Mr. Brown, Mr. Lichtenstein read the following statement adopted by the Council at its separate meeting:

"The Federal Advisory Council endorses and reaffirms the views expressed by its Executive Committee in a letter, dated August 16, 1941, and addressed to Governor Ronald Ransom, making suggestions as to desirable amendments to Regulation W.

"The Council also wishes to endorse specifically the position taken by its Executive Committee at a meeting held in the Board Room of the Federal Reserve Building on September 26, 1941. The belief was expressed by the Committee at that time that Section 5(b) should be eliminated once a purpose test is adopted, i.e., if the statement of the borrower indicates that the loan is not being made to purchase
"a 'listed article' or to refund any indebtedness previously incurred in the purchase of a 'listed article'. While the public understands the restriction of instalment credit granted for the purpose of purchasing 'listed articles' the Council is fearful that restrictions by Regulation W of instalment credit granted for other purposes is subject to serious misunderstanding and injurious public reaction."

It was made clear during the discussion that this statement was submitted for the information of the Board and was not intended for publication.

Mr. Szymczak pointed out that section 5(b) of Regulation W made nonpurpose loans subject only to the limitation that the unpaid balance be retired by substantially equal payments in eighteen months and he also explained the reasons for the retention of section 5(b) in the regulation after the amendment of the regulation to provide for a purpose statement.

Mr. Hanes inquired whether the provisions in the regulation relating to irregular payments were such as would enable a person receiving income largely from quarterly dividend payments to make instalment payments quarterly and, after some discussion, Mr. Wyatt stated that the Board probably would have to strain the language of the regulation to reach that conclusion.

Mr. Szymczak said that the Board was meeting with the operating officers at the Federal Reserve Banks in charge of the administration of Regulation W and would be glad to have any suggestions that the members of the Council might wish to make with respect to the regulation,
so that they might be considered while the Federal Reserve Bank representatives were here.

Chairman Eccles referred briefly to circumstances which had led him to the conclusion that it would be necessary to tighten substantially the provisions of Regulation W, and stated that, if it were not possible through taxation and other means to counteract inflationary developments and dampen consumer demand, the country would be faced with over-all price control and a rationing system. He also expressed the opinion that it might be necessary in connection with Regulation W to go so far as to include open book accounts in order to effect the purposes of the Executive Order under which Regulation W was adopted and to avoid an expansion of consumer credit that would tend to offset increases in taxes.

Mr. Brown stated that it was the unanimous opinion of the Council that the automatic restriction on the extension of bank credit which was being brought about by the application of priorities and allocations should be fully tested before resorting to selective credit controls either by regulation or supervision in individual instances. He said that the Council's view on that point was influenced by the fact that priorities or allocation bodies would terminate when the emergency was over while organizations established to administer selective credit controls would probably be more difficult to discontinue after the emergency.

Mr. Ransom raised the question whether it was not possible for a substantial expansion of bank credit to occur in connection with commodities not covered by priorities. This point was discussed, Chairman
Eccles pointing out that it might be possible to have a substantial expansion of credit in connection with the purchase of farm lands and existing housing. During the discussion comments were made by members of the Council to the effect that there has been some increase in rates charged by banks on business loans, that indications were that the volume of bank loans was beginning to increase again, and that a substantial increase in loans for the purpose of paying taxes could be expected.

At the conclusion of the discussion Chairman Eccles stated that he did not think there was much likelihood of a broad extension of the application of selective credit controls at the present time. Mr. Ransom said that while he did not feel that there would be any immediate broad extension of instalment credit controls he did feel that the trend was somewhat in that direction, and that, in the absence of a comprehensive program which could be achieved and which would vest in the Board additional powers over reserve requirements, other methods of control inevitably would be broadened.

In response to an inquiry from Mr. McKee as to how much of the decrease in the volume of automobile sales was due to Regulation W, Mr. Brown suggested that the decline was not so much the result of the application of the regulation as it was the result of an oversold condition prior to the effective date of the regulation.

Mr. Brown then referred to the position which had been taken by the Council previously with respect to Regulation Q, Payment of Interest on Deposits, and stated that for its guidance the members of the Council would like to have the benefit of the present views of the
Board with respect to the regulation. He stated that because of low interest rates and reduced earnings the absorption of exchange charges has been greatly reduced, that it was felt that the opposition to the abandonment of the practice of absorbing exchange charges had been greatly diminished, and that the Council would like to know whether the Board still felt that if the prohibition against the absorption of exchange charges were pressed it might result in the repeal of the existing prohibition of the payment of interest on demand deposits. He added that a majority of the members of the Council felt that the absorption of such charges should be discontinued but that a strong minority had taken the position that the matter should not be pressed without first ascertaining the views of the Board.

In the discussion which followed comments were made by Messrs. Eccles and Ransom to the effect that there had been no fundamental change in the situation and that the problem could not be met adequately until there was a determination of the broader problem of membership in the Federal Reserve System.

Mr. Brown stated that the Council would also like to have the benefits of any comments by the Board as to what effect, if any, the increase in reserve requirements had had on bank balances and whether the shift of such deposits occasioned by the increase was completed or still in progress. It was understood that this matter would be discussed with Mr. Goldenweiser, Director of the Division of Research and Statistics, when he met with the Council this afternoon in its separate session.
Following a statement by Chairman Eccles relating to, and a discussion of some of the problems connected with, the future financing program of the Government, the meeting adjourned.

Chester Morris
Secretary.

Approved:

Chairman.