

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, February 7, 1942, at 10:30 a.m.

PRESENT: Mr. Szymczak
Mr. McKee
Mr. Draper

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

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

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

"Reference is made to your letter of February 2, 1942, regarding the proposed purchase of assets and assumption of the deposit liabilities of the Standard National Bank of New York, New York, New York, by the Manufacturers Trust Company, New York, New York, and the establishment of a branch of the trust company in the quarters now occupied by the national bank on Roosevelt Avenue at Sixtieth Street, Woodside, Borough of Queens, City of New York.

"The Board concurs in your opinion that the acquisition of equivalent assets and assumption of the approximately \$5,200,000 deposits of the national bank by the Manufacturers Trust Company, now having deposits amounting to approximately \$983,000,000, and the addition of the proposed branch to the sixty odd branches now being operated by the trust company, will not constitute any change in the general character of the assets or broadening in the functions of the trust company within the meaning of condition of membership numbered 3."

Approved unanimously.

Letter to Mr. Davis, Manager of the Security Loans Department of the Federal Reserve Bank of New York, reading as follows:

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"Reference is made to the question regarding Regulation T raised by Mr. Allan M. Pope of the First Boston Corporation. The matter was discussed in your letter of July 25, 1941, and in subsequent conversations between members of the staffs of your bank and the Board.

"It is understood that First Boston Corporation is engaged in a joint venture with McLeod, Young and Weir, an American corporation which is domiciled in New York, but which is in turn owned or controlled by a partnership of the same name, or a similar name, in Toronto, Canada. The corporation apparently was organized to facilitate transactions which First Boston has conducted with the Canadian partnership over a number of years.

"Originally, these transactions were chiefly related to distributions of new issues of securities, particularly securities of the Canadian Government. In view of the absence in recent years of new financing in the form of underwriting, the joint venture appears to have been largely devoted to dealing in American and Canadian securities.

"The inspectors of the Securities and Exchange Commission have raised certain questions as to whether the joint account complies with the requirements of Regulation T.

"Mr. Pope suggests that the First Boston Corporation does not 'transact a business in securities through the medium of a member of a national securities exchange', and hence is not subject to Regulation T. This, of course, is a question of fact. However, in view of all the circumstances, including the fact that the Securities and Exchange Commission inspectors presumably are familiar with the situation and appear to be of the opinion that the corporation does 'transact a business in securities through the medium of a member', it will be assumed for the purposes of this letter that the corporation is subject to the regulation.

"Section 4(f)(5) appears to be the only provision of Regulation T that might exempt these transactions. However, the present transactions could not qualify for exemption under this provision unless they could be said to be 'for the purpose of facilitating the underwriting or distributing of all or part of an issue of securities * * *.'

"While the facts stated by Mr. Pope are not entirely clear, there seems to be little doubt that the transactions involved are essentially trading transactions and

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"could not reasonably be said to involve the 'distributing of all or part of an issue of securities.' It is conceded, of course, that they also do not involve any underwriting.

"In view of these considerations the Board agrees with your view that these transactions are not exempt under Regulation T.

"Of course, the absence of such an exemption does not necessarily mean that the transactions are entirely forbidden or that a large amount of paper work, such as Mr. Pope appears to anticipate, is necessarily required. As you know, Regulation T is primarily concerned with the proper margining of the transactions and, especially in the case of a general account, does not require the maintenance of elaborate records.

"If the First Boston Corporation and the McLeod corporation made contributions of capital to the joint venture in proportion to their right to share in the profits, in accordance with section 6(b) of the regulation, it might be possible to continue the transactions with comparatively slight variation from present practices. On the other hand, if the McLeod corporation is not prepared to make such a contribution to capital, the facts as presented do not suggest any reason why the transactions should receive special concessions that are not available for other trading activities under the regulation.

"It is possible that a fuller statement of the facts might alter the application of the regulation. However, the views of the Board with respect to the facts as they appear to be at present have been set out above for such use as they may be to you in dealing with the matter."

Approved unanimously.

Letter to Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"This is in reply to your letter of January 16 relating to section 4(e) of Regulation W, with which you enclosed an advertisement of a furniture company offering two groups of furniture, each at a price of \$75 with a down payment of only \$5.

"You state that the company's position is that, in the first group, the sofa and matching club chair constitute the living room suite, which is priced to sell at

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"\$50, requiring a \$5 down payment, and that no down payments are required in connection with the other items (guest chair, desk, desk chair, desk lamp, and table, ash tray, etc.) since each sells for less than \$20 and is not a 'closely related' item within the meaning of W-113. The company takes a similar position with respect to the other group, saying that the vanity, vanity bench, bed, and chest of drawers are a suite which they sell for \$50, requiring a down payment of \$5, and that the springs, mattress, pillows, etc., making 19 pieces in all, are not regarded as closely related items within the meaning of W-113, and since each sells for \$20 or less, no down payment is required on them.

"The Board agrees with you that since W-113 refers to a 'group' of closely related items 'sold as a unit', each of the two groups covered by the advertisement, being offered as an entire group at a price of \$75 which covers the group as a whole, requires a down payment of \$7.50.

"In view of the fact that the home office of the company is located in Atlanta a copy of your letter and of this reply are being sent to the Federal Reserve Bank of Atlanta."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved:

Mrs. [Signature]

Member.