A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 18, 1943, at 11:55 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Brown, Administrative Assistant in the Division of Security Loans

Chairman Eccles stated that in accordance with the understanding reached at the meeting of the Board on May 12, 1943, he had told Mr. Purcell, Chairman of the Securities and Exchange Commission, over the telephone that the Board of Governors was considering increasing the margin requirements prescribed in Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and would like to have the views of the Commission as to the desirability of such action and the extent to which it should go. Mr. Purcell subsequently reported, Chairman Eccles said, that four of the five members of
the Commission felt that, while immediate action was not called for, something should be done in the not too distant future, that they would favor an increase in margin requirements to 100 per cent, and that the timing of the action was very important. One member of the Commission who felt that action should be taken was of the opinion that it should be delayed until the proposed executive order that would confer authority on the Board to regulate the use of credit for purchasing, carrying, or trading in commodities, real estate, or securities had been issued and that then action should be taken in connection with action in the whole field of credit control rather than separately. The member of the Commission who was not in favor of action at this time, Chairman Eccles said, felt that if action were taken it should be to increase margin requirements to 100 per cent, which should be applied to everyone including specialists.

Chairman Eccles made the further statement that Mr. Purcell said that the Commission had no objection to certain proposed technical changes that had been suggested in Regulations T and U, and that if action were taken by the Board the Commission simultaneously or shortly following such action would like to take action in the direction of prohibiting trading on the floor of national securities exchanges and prohibiting future "put" and "call" transactions. Chairman Eccles added that Mr. Purcell expressed appreciation on behalf of the Commission for the opportunity afforded by the Board to the Commission to consider the matter and to express its views as to the desirability of action by the Board of Governors at this time.
Chairman Eccles went on to say that he had stated in the discussion with Mr. Purcell that he was in agreement with the position that, while prices and the volume of trading on the exchanges were much higher than a year ago, there was no appreciable difference in prices of securities and the volume of trading as compared with 30 days ago, and that, therefore, no immediate action was called for. However, it was his opinion that when action was taken it would be better to increase margin requirements by a single step to 100 per cent rather than to increase it by some lesser amount with the thought that subsequent increases might be made.

Mr. McKee expressed the opinion that the anticipated trend of prices of securities during the war would not justify placing the market on a cash basis at this time and that as much of the power of the Board as possible should be reserved for use after the war. Mr. Ransom raised, and there was a discussion of, the relation of action by the Board with respect to margin requirements to the whole field of credit control, including consumer credit and credit for the purpose of purchasing real estate and unlisted securities.

During this discussion Mr. Goldenweiser left the room.

Before this meeting each member of the Board was furnished with a copy of a memorandum prepared by Mr. Parry under date of May 17, 1943, which, after referring to the alternative proposals of increasing margin requirements to the 55 or the 100 per cent level, discussed the arguments for and against the latter action. The memorandum was read at this point

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in the meeting, and there was a discussion of (1) the comparative effectiveness of the two proposals in diverting credit from the securities markets and (2) whether the need for action was such that it should be taken before a decision was reached on the question whether the executive order would be issued which would confer additional authority on the Board to regulate the use of credit for the purpose of purchasing, carrying, or trading in commodities, real estate, or securities. The conclusion arrived at on the basis of the discussion was that, in view of the present trend of prices and volume of trading in the securities markets and the pendency of the proposed executive order on which it was possible that a decision might be reached within the next week or 10 days, no action should be taken by the Board at the moment, but that if a decision on the order were too long delayed it might be necessary for the Board to act without waiting for that decision.

At this point Messrs. Thurston, Smead, Parry, Thomas, and Brown withdrew from 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 May 17, 1943, were approved unanimously.

Memorandum dated May 17, 1943, from Mr. Leonard, Director of the Division of Personnel Administration, submitting the resignation of Miss Helen Lindley Brown as a clerk in that Division, to become effective as of the close of business on May 27, 1943, and recommending (1) that the resignation be accepted as of that date and, (2) with the concurrence of the Division of Research and Statistics, that Miss Virginia M.
Paquin be transferred from that Division to the Division of Personnel Administration as a clerk, with no change in her present salary at the rate of $1,620 per annum, effective immediately.

Approved unanimously.

Letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the requests contained in your letters of May 11, 1943, the Board approves the appointment of Paul C. Stetzber as an examiner and the appointment of Don L. Kreider as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise us of the dates upon which these appointments become effective, and also as to the salary rate for Mr. Kreider."

Approved unanimously.

Telegram to Mr. Cameron, Assistant Cashier of the Detroit Branch of the Federal Reserve Bank of Chicago, reading as follows:

"Your wire May 17 regarding commitment and other fees on Regulation V loans. Under Board's wire of May 12, 1943, borrower may not be charged service or handling fee by trust department or other trustee representing participating financing institutions. However, charges may, of course, be made for out-of-pocket expenses in connection with the loan."

Approved unanimously, together with (1) a similar telegram to Mr. McConnell, Assistant Vice President of the Federal Reserve Bank of Minneapolis, which contained a further statement that copies of his letter of May 13 and the Board's reply were being furnished the services for their information, and (2) letters to the War and Navy Departments and the Maritime Commission transmitting copies of Mr. Cameron's telegram of May 17 and Mr. McConnell's letter of May 13 and the Board's replies thereto.

Letter to Mr. Hale, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:
In reply to your letter of April 24, 1943, regarding the procedure to be followed in the substitution of the new form of guarantee agreement for guarantee agreements now outstanding, there is enclosed a copy of a memorandum received from the War Department, dated May 14, 1943, signed by Lt. Col. Paul Cleveland, with respect to this matter.

Approved unanimously.

Memorandum dated May 14, 1943, from Mr. Leonard, Director of the Division of Personnel Administration, submitting a memorandum dated May 12, 1943, addressed to the heads of executive departments and agencies by direction of the President, which stated that the necessity for maintaining maximum output in Government activities throughout the war period required that days normally observed by the departments and agencies as holidays, with the exception of Christmas, should be considered as regular work days for the duration of the war. Mr. Leonard's memorandum recommended that the Board follow this policy and that its employees be advised promptly in order that they might make their plans.

Approved unanimously.

Memorandum dated May 17, 1943, from Mr. Leonard, Director of the Division of Personnel Administration, requesting, for the reason stated in the memorandum, that $75 be added to the item of books and subscriptions in the 1943 non-personal budget of that Division.

Approved unanimously.

Thereupon the meeting adjourned.

Approved:  

Chairman.

Secretary.