

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 19, 1945, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Evans

Mr. Carpenter, Secretary
Mr. Connell, General Assistant, Office
of the Secretary
Mr. Thurston, Assistant to the Chairman

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

Memorandum dated July 17, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Mr. Richard J. Michel be appointed as a guard in that Division, on a temporary basis for an indefinite period at a salary of \$1,770 per annum, plus supplemental compensation for overtime of \$265.50, effective as of the date upon which he commences the performance of his duties, after passing the usual physical examination. The memorandum stated that Mr. Michel will become a member of the Board's retirement system.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"The Board has taken up again the question of increasing from 10 per cent to 15 per cent the maximum rate of supplemental compensation which the Federal Reserve Banks are authorized to pay their employees. You may recall that this was considered following the meeting of the Conference of Presidents in October 1943, but in a telegram dated December 16, 1943, the Presidents were advised that approval of such an increase could not be obtained from the National War Labor Board.

"Clearance of such an increase has now been obtained from the salary stabilization authorities and accordingly the Board of Governors authorizes the increase subject to the same limitations as to amount of salary as set forth in the Board's letter of March 3, 1942.

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"For convenience and to avoid the necessity of cross reference, this letter cancels and supersedes the Board's letter of March 3, 1942.

"Specifically, the Board authorizes the Federal Reserve Banks to pay such supplemental compensation or allowances as their respective boards of directors deem necessary from time to time up to a maximum of 15 per cent per annum on the first \$3,000 of annual salary to members of their staffs receiving annual salaries of less than \$6,000, provided, however, (1) that such supplemental compensation shall not increase the total of basic salary and supplemental compensation in any case beyond the rate of \$6,000 per annum, and (2) that supplemental payments covering salary periods ending prior to July 1, 1945, shall be limited to the amounts authorized under the Board's letter of March 3, 1942.

"Supplemental payments should not be considered as a part of basic salary nor should they be referred to as bonuses and no contributions to the Retirement System should be made in respect thereto.

"It should be understood that the Board reserves the right either to cancel or amend at any time the authority granted herein for the payment of supplemental compensation.

"The Board is giving no publicity to its action in this matter and, if any changes with respect to supplemental payments are approved by your directors, it is requested that you advise the Board of Governors but that otherwise such payments be handled as routine salary matters without publicity of any kind."

Approved unanimously, together with
letter to the Wage Stabilization Division,
National War Labor Board and to the Salary
Stabilization Unit of the Bureau of Internal
Revenue, with respect to the above changes
at the Federal Reserve Banks.

Letter to Mr. Laning, Vice President and Cashier of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of Cleveland and its Branches, as submitted with your two letters of July 7, 1945."

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Approved unanimously, together with a letter to the Salary Stabilization Unit, Commissioner of Internal Revenue, with respect to the above changes.

Approved unanimously.

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

"Receipt is acknowledged of your letter of July 10, 1945, with reference to the Board's letter of July 7, 1945, transmitting an inquiry received from Mr. E. A. Hillbom, Cashier, First National Bank, Wallingford, Connecticut, regarding the question whether the form of analysis of accounts used by that bank involves a payment of interest on demand deposits. You enclose copies of correspondence between your Bank and Mr. Hillbom in the early part of 1944 with respect to the same subject and raise the question whether the Board believes it desirable for you to make a reply to Mr. Hillbom's current inquiry.

"From the previous correspondence between your Bank and Mr. Hillbom, it appears that he has already been adequately advised by Mr. Berge of your Bank as to the substance of the Board's rulings relating to service charges. The position taken in those rulings has not been changed. However, as you know, under the Board's letter of June 22, 1945, to all member banks, the absorption of exchange charges in amounts aggregating not more than \$2 a month for any one depositor will be considered as trivial and will be disregarded, provided the bank keeps such records as the appropriate supervisory authority may require. This principle applies equally where the absorption is effected through the analysis of accounts. If, on the other hand, a bank absorbs exchange charges in amounts aggregating more than \$2 for any one customer during a month, whether by the use of an analysis of accounts or otherwise, it will be presumed that the law has been violated.

"Accordingly, in order that the effect of the letter of June 22, 1945 may be explained to Mr. Hillbom and also in order that his letter to the Board may receive an acknowledgment, it is suggested that your Bank might reply to his present inquiry along the lines indicated above."

Approved unanimously.

Letter to Mr. W. S. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

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"There is enclosed a copy of a letter which the Board has received from Mr. A. L. Rettig, Assistant Vice President, City National Bank of Baton Rouge, Louisiana, dated July 10, 1945, raising a question with respect to the application of the Board's letter of June 22, 1945, regarding the absorption of exchange charges.

"It is understood that the practice of the bank is to charge back to its depositors exchange charges at the rate of 1/10 of 1 per cent. Mr. Rettig states that they know of no specific case in which they have paid charges at a rate exceeding 1/10 of 1 per cent, and if there are no such cases there is, of course, no absorption involved. If, however, the amount of charges paid by the bank exceeds the rate indicated, the question arises whether the amounts absorbed aggregate more than \$2 for any one depositor in any one month, since, under the Board's letter of June 22, 1945, lesser amounts absorbed will be considered as trivial and disregarded, provided the bank keeps such records as may be required by the appropriate supervisory authority.

"We are unable to say on the basis of the facts presented whether the amounts, if any, absorbed by the bank may exceed \$2 per month for any one depositor and we do not feel that we are sufficiently familiar with the facts to make any suggestion, but it is possible that some reasonable basis might be found for allocating the amounts absorbed among the depositors affected, in order to determine this question. The question whether the practice of the bank constitutes a payment of interest is one which can only be decided when all the pertinent facts in the case are developed as a result of examination of the bank. Whenever the bank absorbs exchange charges, it should maintain such records as will enable it to provide the examiner with all the facts necessary to permit of a determination whether a payment of interest is involved.

"We recognize the natural desire of the bank to know in advance whether its practice may constitute a payment of interest, but you can understand why it would not be feasible for the Board to attempt to pass on this question in advance of the development of the facts by examination.

"It will be appreciated if your bank will make appropriate reply to Mr. Rettig's inquiry in the light of the above. We have advised Mr. Rettig that his letter is being referred to your bank for reply."

Approved unanimously.

Letter to Mr. G. Harold Klein, Niagara Falls, New York, reading as follows:

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"This is in reply to your letter of July 11, 1945, concerning the recent amendments to the Board's Regulations T and U having to do with margin requirements.

"You have suggested that the effect of the new rules will be to freeze margin accounts, to dry up selling, so that prices instead of being steadier will rise more rapidly. The known facts, when all of them are considered together, do not support this view. If, when there is strong pressure on the buying side, margin traders customarily eased that pressure by reducing their holdings, a case might be made against any action that would discourage any selling by margin traders under such circumstances. There is evidence to show, however, that margin traders do not as a rule reduce their aggregate holdings at these times; quite the contrary, they generally increase them and their switches from one stock to another help to stimulate speculative activity. In these circumstances, the aggregate effect of the new rules should be distinctly on the side of greater stability, both in rising markets and in falling markets.

"You also make reference to borrowing on stock exchange collateral for purposes other than purchasing or trading in securities. Neither Regulation T nor Regulation U governs such credit so that the broker or bank need obtain only so much collateral as it deems necessary for its own protection.

"If you have any further questions with reference to these regulations, you may find it convenient to communicate with the Buffalo Branch of the Federal Reserve Bank of New York which is responsible for the administration of the regulations in your district.

"As requested, we are enclosing copies of Regulations T and U together with the recent amendments."

Approved unanimously.

Letter to Honorable Joseph F. Ryter, House of Representatives, reading as follows:

"With your letter of July 6 you enclosed a petition by Mr. Thomas J. Reardon, of Hartford, Connecticut, with respect to which you asked for our reaction. Mr. Reardon's petition calls for legislation by Congress to substitute 'yield' for 'market quotation' as a method of valuation for the extension of credit for the purchasing and carrying of securities. The effect of such proposed legislation would be to change the basis of margin requirements as now established under the provisions of the Securities Exchange Act of 1934.

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"Margin requirements at present are percentages of actual prices at which transactions are effected. Under Mr. Reardon's proposal there would be substituted a theoretical value of each stock based on past yields. Just how these yields would be determined is not indicated, but it would seem to require a detailed study of the internal operations of each particular corporation. One corporation might have entirely different policies from those of others with respect to the determination of earnings and of the amounts available for dividends. Bookkeeping methods might produce varying results. The settlement of these questions would no doubt involve much controversy and time-consuming processes which might make the application of margin requirements to current transactions impossible, or at least very difficult. It would require special treatment of the stock of each individual corporation and to carry out the proposal would create additional administrative problems on the part of everybody concerned in the transaction as well as on the part of the Government.

"Aside from these difficulties, market judgment of values is not governed wholly by considerations of past yields. Opinions in the market as to future prospects and as to general economic conditions are much more potent. Therefore, margin requirements based solely upon past performance would not be a practical criterion from the point of view of people who buy and sell stocks currently. We do not believe that the change proposed by Mr. Reardon would be workable in practice.

"Mr. Reardon's petition is returned herewith."

Approved unanimously.

Letter to Mr. Woolley, Vice President and Cashier of the Federal Reserve Bank of Kansas City, reading as follows:

"As indicated in our telegram with reference to your letter of July 14, 1945, the Board has issued a ruling with reference to the application of Regulation W to credits for transport planes being sold by the Reconstruction Finance Corporation. A copy of this ruling is attached. You will understand that if similar credits are made by anyone other than the Reconstruction Finance Corporation the same ruling would apply.

"The reason why we have not distributed the enclosed interpretation is that an amendment to the regulation is in process of preparation which will obviate the need for the ruling. Furthermore, it was our understanding that there were no aircraft of the type described available for sale by anyone other than the Reconstruction Finance Corporation.

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"Answering your specific question with reference to instalment sale credits arising from the sale of listed articles, you are correct in your understanding that they are subject to the regulation no matter what their dollar amount."

Approved unanimously.

Memorandum dated July 18, 1945, from Mr. Hooff, Attorney, recommending that there be published in the August 1945 issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

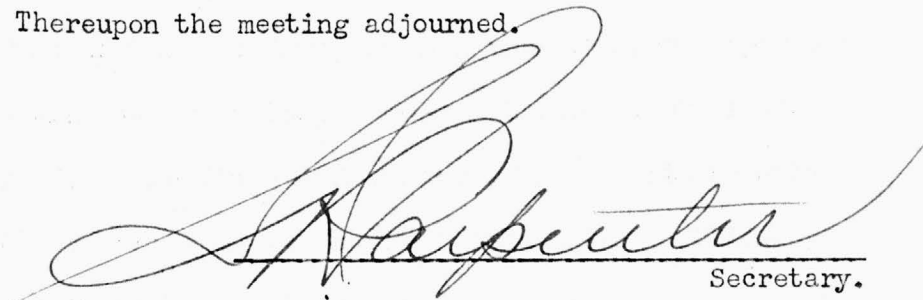
Margin Requirements for Purchasing Securities
Amendments to Regulations T and U

Common Trust Funds
Amendments to Regulation F

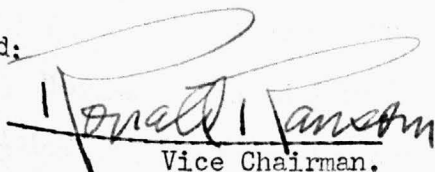
Suit Against Federal Reserve Bank
Appeal Dismissed.

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.