

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 29, 1945, at 10:30 a.m.

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

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

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

The minutes of the meeting of the Board of Governors of the  
Federal Reserve System held on August 28, 1945, were approved unani-  
mously.

Letter to the "State Bank of Slater," Slater, Missouri, reading  
as follows:

"The Board is glad to learn that you have completed all  
arrangements for the admission of your bank to membership in  
the Federal Reserve System and takes pleasure in transmitting  
herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt  
of this certificate."

Approved unanimously.

Letter to Mr. Ray Spalding, New York, New York, reading as fol-  
lows:

"This is to acknowledge your letter of August 20, in  
which you comment on the 75 per cent margin rules prescribed  
by the Board's Regulations T and U.

"It appears to be your opinion that a 75 per cent mar-  
gin requirement is too high and that in any event a margin

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"trader who, by reason of action in the past, happens to have borrowed more than 25 per cent against the stocks in his account should be permitted to switch on the old basis from one stock to another. You may be sure that both of these views were carefully weighed and considered by the Board before it adopted the present rules. The fact that after such consideration the rules were in fact adopted indicates, as you will understand, that in the judgment of the Board their advantages, from the point of view of the public interest, outweigh their disadvantages.

"The reference made in your letter to 'small investors' indicates in the context that you draw no distinction between the investor and the speculator. It cannot be maintained, however, that the margin trader is not a speculator, whether he is a small operator or a large one. It is the operations of all such traders that are restricted by the Board's regulations, pursuant to the mandate given to the Board by Congress in the Securities Exchange Act of 1934. We cannot agree, therefore, that these regulations are, as you state, 'discriminatory in favor of the wealthy.' We should like to add for your consideration that in the long run, for small investors as a class, the stabilizing effect of margin requirements on the course of the market should be of genuine benefit.

"At a time like the present, when inflationary forces set in motion by the war are so strong, there is good reason for having higher margin requirements than have been customary in the past. If and when the time arrives to consider changing the present requirements, the views presented in your letter will be weighed and considered afresh."

Approved unanimously.

Letter to Reverend David Isaac, Luzerne, Pennsylvania, reading as follows:

"The Securities and Exchange Commission has forwarded to us your letter of August 14, 1945, because it is the Board's Regulation T which governs margin requirements.

"The recent changes in margin requirements were intended to restrain both increases in stock positions held on credit and trading on the basis of existing credit, unless accounts are margined to the extent of 75 per cent.

"It is in the nature of the rules that new commitments cannot be undertaken unless 75 per cent margin is provided. The acquisition by you of 200 shares of Baldwin Locomotive Works stock on the exercise of the warrants would be a new

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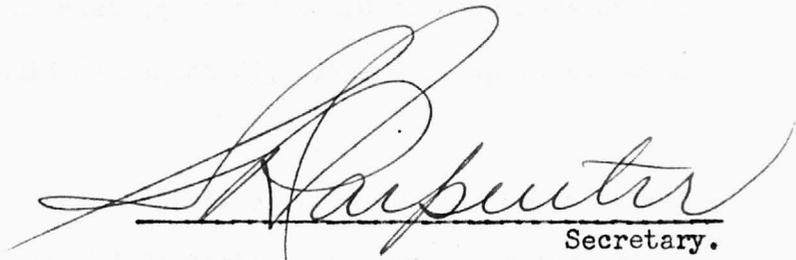
"commitment, since you are free either to exercise the warrants or sell them.

"The decline in the value of the warrants is of course one of the risks of market trading. Warrants are almost always more speculative than the stocks which can be obtained through exercising them, since they are usually lower in price than the corresponding stocks and their price fluctuations are as large as the fluctuations in the stock prices. The fluctuations are accordingly larger in relation to the value of the commitment.

"We regret that we cannot grant your request for an exception in your case. To do so would require either permitting you to do something not permitted to others in the same and similar positions or changing the basic rule which the Board decided was required by the situation."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.