A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 20, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Connell, General Assistant, Office of the Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Parry, Director of the Division of Security Loans
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Attorney
Mr. Brown, Assistant Director of the Division of Security Loans

Mr. Draper stated that in view of developments in the securities markets he would like to have the Board discuss in a preliminary way today what, if any, action should be taken with respect to the margin requirements prescribed in Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

At Mr. Draper's request, Mr. Parry reviewed the trend of security prices and the volume of trading on the New York Stock Exchange during the period from 1916 to date and particularly since 1937, and pointed out that current prices are almost at the highest since the peak in 1937. He also discussed the level of security prices in relation to the total volume of customers' debit balances and stated that, while the market had been advancing rapidly, the amount of credit being used in the market as shown by such balances had been declining, that the decline started in July after the Board took action to increase margin requirements to 75 per cent, and that available information indicated that the decline did not represent merely a shift of credit from brokers to banks but that it was a net decline.

With reference to the proportion of trading on the New York Stock Exchange on a margin basis, Mr. Brown stated that in the early part of this year the amount of margin trading by the public (as distinguished from that by members of the Exchange) was about 50 per cent of the total number of shares traded, that when the required margins were raised by the Board to 50 per cent the proportion of margin trading declined slightly, that when the Stock Exchange instituted the rule that purchases of all stocks selling at $10 or less per share be fully margined there was a slight further decline until by June approximately 40 per cent of the total number of shares traded was on a margin basis, and that after the Board's action in July the proportion of margin trading fell to 25 per cent of the total, where it had remained on a stable basis up to the present time. He also said that during the same period up to July of this year, margin traders were purchasing more shares than they were selling but that following the action of the Board in July the situation was reversed and margin account holdings of shares had been reduced by approximately 1,300,000 shares.

The conditions as outlined by Messrs. Parry and Brown and the effects of the actions which the Board had taken with respect to margin requirements were discussed, and Mr. Draper stated that if the Board should decide to take further action it might be in the form of (1) a "bring-up" margin of 75 per cent, (2) a 100 per cent margin without a "bring-up" margin, (3) a 100 per cent margin with a "bring-up" margin of 75 per cent, or (4) a 100 per cent margin with a "bring-up" margin of 100 per cent.

These actions were discussed in the light of possible trends in the market between now and the end of the year, and it was the consensus that even if the Board should increase margin requirements to the limit of its authority such action, because of the large amount of liquid funds in the hands of the public with which to purchase securities, would not have more than a temporary effect on the upward trend of security prices.

Mr. Draper expressed the opinion that if the present trend of market activity and prices continued the Board should take further action.

Mr. McKee stated that he did not think further action was called for and in that connection referred to instances which had come to his attention where banks were being acquired or organized by irresponsible individuals and stated that higher margin requirements might encourage the public to turn to these institutions for "black market" funds for security transactions which would not be in conformity with the Board's regulations. He also suggested that the staff be requested to explore the situation with representatives of the Securities and Exchange Commission to see if there were any way in which the problem could be met by other than Board action alone.

At the conclusion of the discussion, it was understood that the Board would continue to watch developments in the market and that at the proper time Mr. Draper would bring the matter before the Board again for further consideration, it being understood that any action contemplated at that time would be taken up with the Securities and Exchange Commission, the Secretary of the Treasury, and the Director of War Mobilization and Reconversion.

While the above matter was under consideration, Mr. Paulger, Director of the Division of Examinations, and Mr. Leonard, Director of the Division of Personnel Administration, joined the meeting, and at the end of the discussion Messrs. Thomas, Parry, and Brown withdrew.

Mr. McKee presented a letter received from Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, under date of November 8, 1945, in which it was stated that the Board of Directors of the Bank on that date voted, subject to the approval of the Board of Governors, to increase the salaries of President Leedy and First Vice President Koppang from $20,000 to $25,000 and from $15,000 to $18,000, respectively, effective December 1, 1945. Mr. McKee also read a draft of reply to Mr. Caldwell's letter in which it was stated that, as Mr. Caldwell was advised in the Board's letter of November 13, 1945, the increases in the maximum salaries approved by the Board for the positions of President and First Vice President of the Kansas City Bank were to become effective March 1, 1946, with the beginning of the new five-year terms and that, therefore, action on the increases proposed for Messrs. Leedy and Koppang would be deferred until the appointments for the new terms were under consideration.

> There was agreement with the position taken in the reply but it was suggested that, instead of writing a letter, Mr. Leonard should call Mr. Caldwell by telephone advising him of the decision as set forth in the reply and stating that no consideration was given to the size of the increase that should be approved when the matter was taken up again, and that there should be consultation with the Board regarding the salaries to be fixed by the directors before formal action was taken in connection with the appointments of the President and First Vice President of the Bank for the term beginning March 1, 1946.

In accordance with the understanding reached at the meeting on November 6, 1945, Chairman Eccles discussed with Mr. Szymczak the increases proposed by the board of directors of the Federal Reserve Bank of Chicago for Messrs. Harris, Netterstrom, and Sihler, Vice Presidents, and Mr. Hodge, General Counsel, and Mr. Szymczak while in Chicago recently discussed the matter with President Young. Following his conference, Mr. Szymczak submitted a memorandum dated November 15, 1945, recommending that a salary increase of $1,500 for each of the four officers named be approved by the Board, effective October 26, 1945, for Mr. Hodge, effective immediately for Mr. Harris, and effective January 1, 1946, for Messrs. Netterstrom and Sihler.

It was agreed unanimously that Mr. Leonard should call Mr. Young on the telephone and advise him that the Board approved the salary fixed by the directors for Mr. Hodge, but that in view of the question of the maximum salary of managing officers of branches of Federal Reserve Banks which was raised by the proposal with respect to Mr. Harris and the fact that Messrs. Netterstrom and Sihler received substantial increases on April 1 of this year, the Board had decided to defer action on the increases proposed for them until the matter could be discussed with Mr. Young the next time he was in Washington. It was also agreed that following Mr. Leonard's telephone conversation with Mr. Young a letter would be sent to him merely advising of approval of the salary proposed for Mr. Hodge and stating that action had been deferred on the increases for the other three officers until the matter could be discussed with Mr. Young.

Mr. McKee referred to the revision which had been prepared by a committee of the Presidents' Conference, in consultation with representatives of the Reconstruction Finance Corporation, of the fiscal agency agreements between Federal Reserve Banks and the Corporation which were executed a number of years ago. He said that Messrs. Vest and Smead had participated in discussions of the revision and felt that it was the best that could be obtained under the circumstances and that he would like to get into the record the fact that without undertaking to approve the contract the Board interposed no objection to the execution of the agreements, with the understanding that, as suggested by the committee of the Presidents' Conference, Mr. Vest would be authorized to obtain the signature of the Reconstruction Finance Corporation when the agreements were sent in by the respective Federal Reserve Banks.

The matter was discussed in the light of the Board's responsibility for general supervision of the Federal Reserve Banks and for the expenses incurred by the Banks including fiscal agency expenses, and the procedure proposed by Mr. McKee was concurred in.

There was also agreement with the suggestion made by Chairman Eccles that in matters of this kind the Board should be sure that the Presidents keep in mind that contacts with other Government agencies should be made through or in consultation with the Board rather than directly with the agency concerned.

Mr. McKee stated that in accordance with the decision reached at the meeting of the Board on November 16, 1945, arrangements had been made for Mr. Schlaikjer, Counsel for the Federal Reserve Bank of Boston, to come to Washington on November 23, 1945, for the purpose of meeting with representatives of the Treasury in connection with the deficiencies in reserves of the Federal Reserve Bank of Boston, and that it was proposed to submit a statement of the facts involved to the Treasury and, if the Treasury took the position that a deficiency did in fact exist, to have the Bank pay the required tax on such deficiency.

All of the members of the Board present were in agreement with this procedure.

At this point Messrs. Smead, Vest, Paulger, and Leonard withdrew from the meeting.

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 November 19, 1945, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council, held on November 19, 1945, were approved unanimously.

Memorandum dated November 15, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Philip D. Faber, who has been on military leave, be reinstated in his position as laborer in that Division, with basic salary at the rate of $1,800 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Letter to Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Atlanta made as of September 11, 1945, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also furnished President McLarin.

"It is noted that the report contains a number of criticisms and suggestions. These are set forth principally under 'Other Matters Subject to Comment' on pages 13-16 and in corresponding comments in the texts relating to the several branches.

"It is understood that before leaving Atlanta the Board's examiner discussed with you, rather briefly, the more important of these criticisms and suggestions and that they were also discussed, in considerable detail, with President McLarin and other officers. The examiner has reported that these officers indicated general agreement with his views on various of the matters discussed and the necessity for prompt and effective corrections. He has reported also that before the examination was completed President McLarin had taken steps to eliminate some of the criticisms. Doubtless others have been eliminated by this time.

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"In view of the nature and extent of the criticisms, the Board requests that the report be considered thoroughly by your Board of Directors. The Board also desires that you submit, as soon as practicable, a comprehensive report on the steps to be taken or proposed to be taken to eliminate the criticisms referred to and to prevent the recurrence of these or others of a similar nature."

Approved unanimously.

Thereupon the meeting adjourned.

S R Carpenter
Secretary.

Approved:

M S Eccles
Chairman.