

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 17, 1946, at 11:00 a.m.

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

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. 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. Wyatt, General Counsel

Mr. Eccles referred to the recent discussions by the Board of a further increase in margin requirements, and stated that, in his opinion, the continued upward movement of stock prices, and the substantial increase in the volume of trading, amply justified an increase in margin requirements to 100 per cent. Mr. Eccles also said that yesterday he discussed this and other matters with President Truman at which time he stated to the President that the value of stocks listed on the New York Stock Exchange had increased about 22 billion dollars between January 15, 1945, and January 15, 1946, a larger increase than in any previous year, that the volume of trading had continued to increase materially despite increases in margin requirements in February and July of last year, and that elements were

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present in the situation which might result in a speculative movement exceeding even 1929.

Mr. Eccles stated further that he advised the President that if the Board increased margin requirements to 100 per cent, he proposed to issue a statement to the press which would emphasize: (1) that it was realized that the effect of the action would be minor in relation to the general inflationary picture, but that to the extent that it would curb speculative activity it was desirable; (2) that the tremendous volume of currency and bank deposits which had resulted from monetizing the public debt through bank financing was the primary source of inflationary danger and stimulus to speculative activity which should be met by an adequate capital gains tax; and (3) that there should be no further increase in bank holdings of Government securities as that would result in further increases in the supply of money and reduction in the long-term interest rate.

The President, Mr. Eccles stated, said that he saw no reason why the Board should not take the proposed action and that as far as he was concerned the Board should go ahead.

The other members of the Board indicated that they were in agreement with the issuance of a statement along the lines suggested by the Chairman.

At Mr. Ransom's request, there was read a draft of statement, prepared by Mr. Parry in accordance with the understanding reached

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at the meeting of the Board on January 10, 1946, setting forth the reasons which the Board might advance for its action in raising margin requirements to 100 per cent. The proposed action was then discussed in the light of the trend and activity in the securities markets, the level of stock prices and interest rates, corporate earnings, and other elements affecting security prices.

Mr. Draper suggested that in view of the disturbed labor situation and the pending message of the President to the Congress, consideration be given to the question of timing the announcement of any action that the Board might take. In the discussion of this point there was agreement that the announcement should be made at a time when it would get the greatest notice in the press.

In response to an inquiry by Mr. Szymczak as to whether the proposed action should be cleared with any other agency, Mr. Eccles said that he would call Mr. Snyder, Director of the Office of War Mobilization and Reconversion and inform him that the matter had been cleared with the President, and that he would likewise advise Mr. Vinson, Secretary of the Treasury. In view of the letter received from the Chairman of the Securities Exchange Commission under date of December 29, 1945, it was agreed that the Commission need not be advised.

Mr. Eccles suggested that, if the Board wished, it might adopt the proposed amendments to become effective on Monday, January 21, 1946,

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with the understanding that the statement for the press relating to the Board's action would be released by the Chairman's office today or tomorrow, whichever appeared to be the most desirable, it being understood that if anything should develop in his conversations with Messrs. Snyder and Vinson, or in the overall situation, which would make it appear desirable to defer the release beyond tomorrow afternoon, the matter would be considered by the Board again.

In this connection, and at Mr. Draper's suggestion, a draft of statement for the press which had been prepared by Mr. Parry was read and in the ensuing discussion was amended to read as follows:

"The Board of Governors of the Federal Reserve System today amended Regulations T and U, effective January 21, 1946, to raise margin requirements to 100 per cent.

"These requirements relate only to future purchases and sales of registered securities. They do not apply to the use of credit for any purpose except to finance transactions in securities.

"Rules incorporated in both regulations in July of 1945 will now require that whenever securities held as collateral are sold, the proceeds must be used to reduce or retire the customer's indebtedness. Except to this extent, the regulations do not require reduction or liquidation of existing accounts or loans.

"The text of the amendments is as follows: \*\*\*\*\*"

Thereupon, upon motion by Mr. Draper, the following amendments to 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, were adopted by unanimous vote, with the understanding (1) that the press statement set forth above would be released

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in accordance with the suggestion made by Chairman Eccles, (2) that he would be authorized to issue a separate statement to the press at the same time covering the three points which he had presented to the President, and (3) that, when the press releases were issued by the Chairman's office, the Secretary would advise the Federal Reserve Banks by wire, sending them copies of the amendments and the press releases and requesting that they have the amendments printed and distributed to interested persons in their respective districts:

"AMENDMENT NO. 5 TO REGULATION T

"ISSUED BY THE  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

"Regulation T is hereby amended in the following respects, effective January 21, 1946:

"1. By adding the following sentence to section 3(a):  
During any period when the Supplement to this regulation specifies that registered securities (other than exempted securities) shall have no loan value in a general account, any transaction consisting of a purchase of a security other than a purchase of an exempted security or a purchase of a security to reduce or close out a short position shall be effected in the special cash account provided for by section 4(c) or in some other appropriate special account provided for by section 4.

"2. By changing the Supplement to read as follows:

"SUPPLEMENT TO REGULATION T

"Issued by the  
Board of Governors  
of the

Federal Reserve System

"Effective January 21, 1946.

"Maximum Loan Value for General Accounts. - In a general account subject to section 3 of Regulation T, a registered security (other than an exempted security) shall have no loan value.

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"Maximum Loan Value for Specialists' Accounts. - In a specialist's account subject to section 4(g) of Regulation T, the maximum loan value of a registered security (other than an exempted security) shall be 50 per cent of its current market value.

"Margin Required for Short Sales in General Accounts. - The amount to be included in the adjusted debit balance of a general account, pursuant to section 3(d)(3) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 100 per cent of the current market value of each such security.

"Margin Required for Short Sales in Specialists' Accounts. - The amount to be included in the adjusted debit balance of a specialist's account, subject to section 4(g) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 50 per cent of the current market value of each such security."

"AMENDMENT NO. 6 TO REGULATION U

"ISSUED BY THE  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

"The Supplement to Regulation U is hereby amended to read as follows:

"SUPPLEMENT TO REGULATION U

"Issued by the  
Board of Governors  
of the

Federal Reserve System

"Effective January 21, 1946.

"For the purpose of section 1 of Regulation U, no stock, whether or not registered on a national securities exchange, shall have any loan value.

"Loans to Specialists. - Notwithstanding the foregoing, a stock, if registered on a national securities exchange, shall have a maximum loan value of 50 per cent of its current market value, as determined by any reasonable method, in the case of a loan to a member of a national securities exchange who is registered and acts as a specialist in securities on the exchange for the purpose of financing such member's transactions as a specialist in securities."

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Mr. Ransom suggested that the statement of reasons for the Board's action as read earlier in this meeting should include a statement that no new credit should be used in the stock market under present conditions. In this connection, it was stated that the regulations as changed by the above amendments did not completely exhaust the Board's authority to prevent the use of new credit for the purpose of purchasing or carrying securities. It was agreed, however, that the amount of new credit that could be used for this purpose so far as the Board had authority to prevent it would be so small as to be unimportant, and that the thought suggested by Mr. Ransom could very well be incorporated in the statement of reasons for the Board's action. Thereupon, the statement of reasons was revised to read as follows:

"In taking this action the Board was guided by the following considerations:

"During the present period of reconversion from a wartime to a peacetime economy, the country is being exposed to powerful inflationary pressures. They arise from the accumulated demands for many types of civilian goods, the temporary shortage of such goods, and the unprecedented volume of liquid assets in the hands of individuals and corporations. Following the end of hostilities this period has also been characterized by public pressure for premature removal of governmental wartime controls, with the consequent effect of promoting speculative activity. Restriction of the use of credit in the securities market would tend to discourage speculative activity which is both a characteristic and a feeder of inflation. In these circumstances, any expansion in the use of credit for the purpose of buying or trading in registered securities is, in the judgment of the Board, an excessive use of credit and consequently should be prevented under the legislative mandate to the Board.



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"While the Board recognizes that action in this field can have only a limited effect in combating general inflation, it believes that this action is not only in accordance with its legal obligation, but would help, though to a necessarily limited extent, to protect the national economy from the dangers of inflation.

"During the past year the Board advanced margin requirements on two occasions by a total of 35 points from a 40 per cent level to a 75 per cent level, and also tightened the provisions in connection with the use of outstanding accounts. These measures were followed by a decrease in the use of credit for purchasing or carrying securities, which had been increasing rapidly in 1943 and 1944, and the volume of trading on credit, which is mainly speculative, decreased substantially. Nevertheless, this type of trading has continued in considerable volume amounting to several hundred thousand shares per day, and the level of stock prices has advanced. Consequently, it is the judgment of the Board that further restraining action is in the public interest.

"Under the new requirements, much the larger part of the trading in registered securities is expected to be on a cash basis. If further restraint should seem to be appropriate in the future, the Board will consider the desirability of making some of its margin rules more rigid or requiring some liquidation of outstanding credits used for carrying securities."

At this point Messrs. Parry, Thomas, Vest, Brown, and Wyatt withdrew from the meeting.

The action stated with respect to each of the matters herein-after 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 January 16, 1946, were approved unanimously.

Memorandum dated January 14, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Robert H. Jones, who has been on military leave, be reinstated in his position



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as a mail clerk in that Division, with basic salary at the rate of \$2,034 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.

Memorandum dated January 15, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Mrs. Ruth Jones, an Administrative Clerk in that Division, who has been in a leave without pay status since November 5, 1945, be continued in the same status through January 19, 1946, and that the Board authorize continuation of the death benefits under the retirement system for Mrs. Jones, who is a member of the Board Plan, for the period of leave without pay provided she makes appropriate contributions therefor.

Approved unanimously.

Memorandum dated January 15, 1946, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of James W. Sanderson, a guard in that Division, and recommending that the resignation be accepted as of the close of business January 15, 1946, and that a lump sum payment be made for any accrued annual leave remaining to his credit at that time.

The resignation was accepted as recommended.

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

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"Receipt is acknowledged of your letter of January 11, 1946, advising that, at the meeting of the Board of Directors on January 10, 1946, Mr. H. R. DeMoss was elected a Vice President and, subject to the approval of the Board of Governors, was given supervision of the examination function of the Bank, with salary at the rate of \$7,000 per annum.

"The Board of Governors approves the designation of Vice President H. R. DeMoss as the officer in charge of the Examination Department and approves the payment of salary to him for the period January 10, 1946, to May 31, 1946, inclusive, at the rate of \$7,000 per annum, the rate fixed by the Board of Directors as reported in your letter.

"It is noted from your letter that Assistant Vice President Morgan H. Rice was elected Assistant Vice President and Secretary of the Board. Accordingly, the Board of Governors approves the continuation of the payment of salary to Mr. Rice in his new position at his present rate for the period January 10, 1946, to May 31, 1946, inclusive.

"It is noted also that all of the other officers of the Bank were reelected and that Chairman Parten is writing the Board regarding your reelection and that of First Vice President Gentry.

"It is further noted that Vice President W. O. Ford is making plans to retire on March 1, 1946, under the disability provisions of the Retirement System and, in order that Mr. Ford might remain on the pay roll of the Bank until his retirement is effected, he was granted a further leave of absence until that time."

Approved unanimously.

Letter to the "New Cumberland Bank," New Cumberland, Pennsylvania, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the application for permission to exercise fiduciary powers made by you on behalf of the Cumberland County National Bank and Trust Company, New Cumberland, Pennsylvania, the national bank into which the New Cumberland Bank, New Cumberland, Pennsylvania, is to be converted,

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"and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the Commonwealth of Pennsylvania, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"The foregoing authorization is made with the understanding that, prior to conversion the capital structure of your bank will be increased to provide capital and surplus at least equal to the minimum amounts required by State law for the organization of a State bank or trust company exercising trust powers in a place the size of New Cumberland.

"After the conversion of the New Cumberland Bank, New Cumberland, Pennsylvania, into the Cumberland County National Bank and Trust Company becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise fiduciary powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Philadelphia for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded."

Approved unanimously.

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

"This is with reference to the Board's letter of November 23, 1945, concerning registrations under Regulation W and the maintenance of mailing lists.

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"The replies from the Federal Reserve Banks indicate agreement on the procedure which should be followed in accepting registration statements and maintaining the status of Registrants. New registrations should be accepted unless there is no possibility that the business is or could become subject to the instalment provisions of the regulation. Registrations should not be cancelled on the initiative of the Federal Reserve Bank unless there is evidence that the organization is out of business.

"On the subject of mailing lists, there was some difference of opinion on details but the general feeling, in which the Board concurs, was that any attempt to remove names completely would not be worth the effort required. It was thought that the names of certain types of Registrants could be segregated and when the material to be distributed clearly would not affect them, it would not need to be sent to them. A number of the Federal Reserve Banks mentioned the desirability of obtaining wide dissemination of information on the regulation and the consequent advisability of broad distribution of general material even if some people receive it who have little or no current interest in the subject. The Board is in agreement with the opinion expressed by several of the replies to the effect that no group should be canvassed to ascertain whether or not they wish to continue to receive material. In addition to the work involved, it might cause confusion in the minds of the Registrants.

"Enclosed is a consolidation of the reports received from the Federal Reserve Banks as to the number of Registrants in the various classifications employed by the Registration Statement."

Approved unanimously.

Before this meeting there had been circulated among the members of the Board a memorandum dated January 14, 1946, from Mr. Ransom submitting a memorandum prepared by Messrs. Vest and Wyatt following the discussion at the meeting of the Board on December 18, 1945, of the Administrative Procedure Bills (S. 7 and H. R. 4941). For reasons stated therein, the latter memorandum contained the following recommendations, and Mr. Ransom's memorandum stated that he concurred in

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the recommendations and recommended their approval by the Board:

- "1. That no letter on this subject be addressed to the Chairman of the Judiciary Committee of the Senate and that no other action be taken with reference to this Bill in the Senate, either with a view of obtaining an amendment or with a view of obtaining the insertion in the record of a clarifying statement with reference to the exercise of the System's credit control powers or the protection of confidential information;
- "2. That no letter on this subject be addressed to the Chairman of the House Judiciary Committee at this time;
- "3. That the undersigned be authorized to give Mr. McFarland informally a 'blind' memorandum listing certain technical amendments which should be considered by the House Judiciary Committee; and
- "4. That the Bill be watched very closely while it is in the House Judiciary Committee and that every effort be made to obtain the privilege of having a representative of the Board participate in any round table conferences between representatives of the House Judiciary Committee and representatives of the interested Government agencies for the purpose of perfecting and clarifying the Bill."

Approved unanimously.

Letter to Mr. Ueland, Vice President and Counsel of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter to Mr. Vest of January 2, 1946, enclosing copies of an application of your bank for a ruling classifying Assistant Examiners as exempt under the Fair Labor Standards Act and inquiring as to the practice of the Administrator of the Wage and Hour Division with respect to holding hearings on applications of this character.

"We have talked informally to a representative of the Wage and Hour Division and are advised as follows:

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"In the usual course an application of this kind is considered by the national office, which is located in New York City. If the Administrator feels that he has enough information in the application and in the reports of the investigators to make a ruling in the matter, he does so and notifies the regional office, which in turn notifies the applicant for the ruling. If the Administrator's ruling is adverse to the applicant's position, the applicant may request a hearing in the matter for the purpose of developing further information. Such a hearing is usually held in the regional office located nearest the applicant and, if formalized, the hearing officer sometimes obtains the testimony of the employees involved, as well as others. Upon the conclusion of such a hearing, the matter is then resubmitted to the Administrator. In lieu of a hearing the matter is sometimes handled through the procedure of an informal conference if requested by the applicant, and information developed in this way is reconsidered by the Administrator.

"The Board stated in its letter of October 25, 1938, that it concurred in the view of the Presidents of the Federal Reserve Banks that as a matter of policy all of the Reserve Banks should conform to the standards established by the Fair Labor Standards Act of 1938 and that doubts as to the applicability of the Act to particular employees should be resolved in favor of its applicability at least until the situation should be clarified by rulings. The Board is still of the opinion that doubtful questions as to the Act's application should in general be resolved in favor of the employees and, accordingly, does not feel that it should formally or informally take action to support the request for a ruling that Assistant Examiners should be classified as exempt. The Board recognizes that a Federal Reserve Bank, like other employers affected by the law, needs in some cases to ask for rulings or interpretations clarifying the status of its employees but, for the reasons indicated, it questions the advisability of the Reserve Bank's requesting a hearing in order to pursue the matter further in the event it should be held by the Administrator, on the basis of the application which has been submitted, that Assistant Examiners should be classified as non-exempt.

"In connection with this matter, you might be interested in knowing that at New York and Boston, the Reserve Banks initially classified all Assistant Examiners as

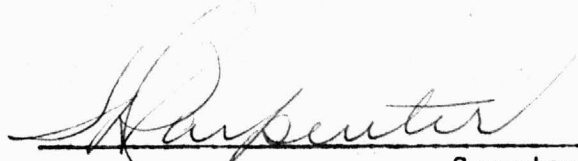
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"non-exempt; at Philadelphia and Chicago, the Wage and Hour investigators have not challenged the Reserve Bank's classification of Assistant Examiners as exempt; at Richmond and San Francisco, the Wage and Hour investigators challenged the Reserve Bank's classification of Assistant Examiners and held them to be non-exempt; and at Dallas, the Assistant Examiners were originally classified as exempt but last year the bank tentatively classified them as non-exempt and the Wage and Hour investigators concurred. None of these banks, so far as we are advised, has formally asked for a ruling or requested a hearing regarding this question."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:   
Chairman.