

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 5, 1946, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 4, 1946, were approved unanimously.

Telegram to Mr. Treiber, Secretary of the Federal Reserve Bank of New York, stating that the Board approves, effective April 6, 1946, (1) elimination of rate of one per cent on advances to nonmember banks under the last paragraph of Section 13, with the understanding that the rate of two and one-half per cent established effective October 30, 1942, on advances to individuals, partnerships, and corporations, other than banks under the last paragraph of Section 13 will hereafter include nonmember banks, (2) the establishment without change of the other rates of discount and purchase in the Bank's existing schedules.

Approved unanimously.

Telegrams to Messrs. McCreedy and Mangels, Vice Presidents of the Federal Reserve Banks of Philadelphia and San Francisco, respectively, and Mr. Blair, Secretary of the Federal Reserve Bank of Cleveland, and Mr. Stewart, Vice President and Secretary of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on April 2, by the

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Federal Reserve Bank of St. Louis on April 3, and by the Federal Reserve Banks of Philadelphia, Cleveland and San Francisco, on April 4, 1946, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated April 4, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, submitting the resignation of Miss Margaret E. Appleton, a Research Assistant in that Division, effective at the close of business April 5, 1946, and recommending that the resignation be accepted and that proper lump sum payment be made to her for any accrued annual leave remaining to her credit at that time.

The resignation was
accepted as recommended.

Memorandum dated April 3, 1946, from Mr. Paulger, Director of the Division of Examinations, recommending that the appointment of Donald C. Robinson, an Assistant Federal Reserve Examiner, assigned to the road force with headquarters at Cleveland, Ohio, be extended until the close of business September 15, 1946, at his present salary at the rate of \$4,190 per annum, with the understanding that Mr. Robinson will be released and returned to the employ of the Reserve Bank on Monday, September 16, 1946.

Approved unanimously.

Telegram to Mr. Aaron M. Frank, President of Meier and Frank Company, Portland, Oregon, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of Portland Branch of Federal Reserve Bank of San Francisco for unexpired portion of term ending December 31, 1947, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

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Letter to Mr. William D. McRae, Chief Examiner, Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of January 11, 1946, transmitting a copy of the report of examination of the Old Colony Trust Company, Boston, Massachusetts, made as of November 23, 1945, and certain data relating to the Common Trust Fund which has been started by that bank since the previous examination.

"You state that certain questions have arisen in connection with the examination made of the Common Trust Fund, which are outlined on pages T-A(6) and T-A(7) of the confidential section of the report, and ask for rulings or suggestions covering these matters.

"Consideration has been given to the examiners' comments with respect to the audit report of the fund in question, and it is noted that this report was made when the fund had been in operation for but three months. As you know, Section 17(c)(3) of Regulation F requires that a common trust fund shall be audited at least once each year, and provides as follows:

"The report of such audit shall include a list of the investments comprising the Common Trust Fund at the time of the audit which shall show the valuation placed on each item on such list by the trust investment committee of the bank as of the date of the audit, a statement of purchases, sales and any other investment changes and of income and disbursements since the last audit, and appropriate comments as to any investments in default as to payment of principal or interest."

"After allowance for the fact that the fund in question had not been in existence long enough at the time of the first audit thereof to have made any distribution of income, and did not have any defaulted investments, it is believed that information given in the audit report of the common trust fund of the Old Colony Trust Company, although brief, meets the requirements specified in Regulation F. After the fund has been in existence for a longer period, it may be found desirable to review its operations with particular reference to compliance with the intent as well as the letter of the Regulation.

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"The Board is in sympathy with the opinion expressed by Mr. Wolcott in his letter of December 14, 1945, to the effect that reports by some banks operating common trust funds, in which the auditor's report is incorporated, are to a considerable extent in the nature of advertisements. Some appear to contain more information than may be desired by or necessary for the trust beneficiaries, or is necessary from the standpoint of the public interest. On the other hand, the Old Colony Trust Company report could no doubt contain a few more facts without violating the provisions contained in Regulation F against advertising or publicizing the earnings realized on any common trust fund or the value of the assets thereof. It is felt that, as a general rule and in the absence of violations of provisions of law or regulations or of sound principles of trust administration, questions involving a trust company's normal activities in the field of customer relationships or other operating policies or practices should be left to the determination of the management of the bank.

"The Board is following with interest the development of the common trust fund idea in the various institutions now operating such funds. It is hoped and expected that they will be so administered as to result in the greatest benefit to those interested, and will not be used for other than strictly fiduciary purposes, as such use undoubtedly would lead to more restrictive legislation or supervision. To this end, it is desired that the Reserve Banks continue to scrutinize carefully the administration of common trust funds and endeavor to obtain corrections of any undesirable developments."

Approved unanimously.

Letter to the "First National Bank of Lexington", Lexington, Mississippi, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority 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

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State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Mississippi, 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.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

Letter to Mr. Davis, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of March 20, 1946, and subsequent telephone conversations with members of the Board's staff, regarding the Regulation T circular dated March 1, 1946, issued by the Chicago Stock Exchange.

"The circular was not submitted to the Board or its staff for review before it was issued. However, it apparently is based, at least in part, on our letter of February 15, 1946, to the Federal Reserve Bank of Chicago. We are enclosing a copy of our letter for your information.

"As you suggest, the first question and answer in the circular may give a somewhat misleading impression, and might appropriately be clarified before being used by the New York Stock Exchange.

"While this might, of course, be done in various ways, the Board feels that a clearer statement of the facts involved would be especially desirable. Accordingly, it is suggested that the question and answer be reworded somewhat as follows in order to reflect the Board's original letter more clearly:

"Question

"When cash trades with other brokers and dealers are entered in a special cash account pursuant to Section 4(c)(1), the mechanics of effecting delivery and settlement often create situations which are subject to Section 4(c)(8).

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Assuming that the delivery and payment requirements of 4(f)(3) are met, it would be more convenient to use the latter section. Does the "purchase from" or "sell to" wording limit 4(f)(3) to trades in which broker-dealer A, the seller, and broker-dealer B, the purchaser, are acting as principals?

"Answer

"It is the view of the Board that if the other requirements of the section are met, the relationships between broker-dealer A and broker-dealer B may be included in a special miscellaneous account under 4(f)(3) even though broker-dealer A is acting for customer C and broker-dealer B is acting for a customer'".

Letter to Mr. E. W. Moise, Moise, Post & Gardner, Atlanta
3, Georgia, reading as follows:

"This refers to your letter of April 1, 1946, addressed to Mr. George B. Vest, the Board's General Counsel, regarding Regulation T.

"You ask, in effect, whether a dealer subject to Regulation T may make a loan on registered securities in a 'general account' in order that the customer receiving the loan may use the proceeds to supply margin in a 'special commodity account' with the dealer.

"As you recognize, the transfer of the funds from the general account to the special commodity account is forbidden if it would be a 'withdrawal of cash' from the general account. It is the view of the Board that this would be such a withdrawal, and that accordingly the transaction could not be effected in the general account.

"However, section 4(f)(8) of the Regulation permits a similar result to be reached by following a somewhat different procedure. This provides that in a 'special miscellaneous account' the dealer may 'extend and maintain credit to or for any customer without collateral or on any collateral whatever for any purpose other than purchasing or carrying or trading in securities'. Under this provision the loan could be made in a special miscellaneous account on registered securities, and the proceeds could then be transferred to the special commodity account to margin the commodity trades. You will note that the requirements of section 7(c) of the

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Regulation regarding the customer's declaration of purpose must be followed in connection with any such loan.

"A similar result could also be achieved in another manner. Since section 4(a) provides that a special account may contain 'relations incidental to those specifically authorized', it would be permissible to deposit the appropriate amount of securities directly into the special commodity account. The mechanics of setting up a loan on the securities to provide a 'cash' margin could be worked out as part of the bookkeeping arrangements within the account. It would, of course, still be necessary to comply with section 7(c) regarding the customer's declaration of purpose.

"You state that there is no indebtedness on the part of the customer in the general account he now has with the dealer. If the account also contains none of the other relations that make up an 'adjusted debit balance' under section 3(d), it would be a simple matter of bookkeeping to convert the present 'general account' into a 'special miscellaneous account' or into a part of the 'special commodity account'".

Approved unanimously.

Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your wire April 4. Board of Governors approves extension by Federal Reserve Bank of New York of loan or loans to De Nederlandsche Bank subject to following terms and conditions:

1. The amount to be lent shall not exceed \$100,000,000 in the aggregate at any one time outstanding, such loan or loans to be made up to 98 per cent of the value of the refined gold bars held by you in your vaults as collateral.
2. Such loan or loans to run for three months but no loan or renewal thereof to run longer than April 15, 1947.
3. Interest, until further notice, to be at the rate of 1 per cent per annum on the amounts actually advanced.

This approval is subject to the receipt by you from De Nederlandsche Bank of a satisfactory statement as to the purpose of the loan and the contemplated manner and time of repayment.

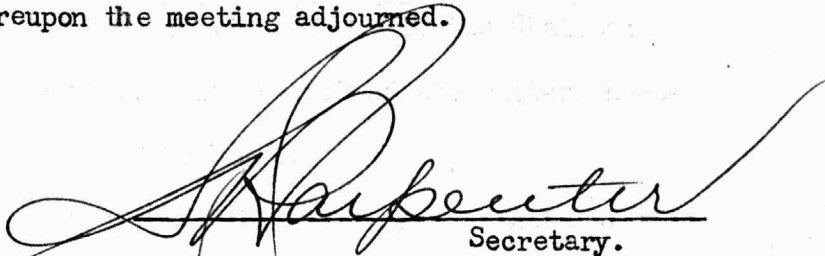
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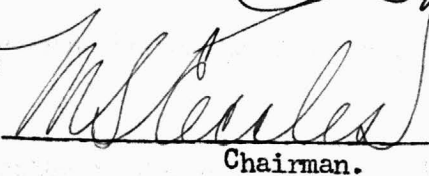
It will be appreciated if you will send us a copy of this statement when received. It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.