

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 21, 1946, at 11:00 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 June 20, 1946, were approved unanimously.

Telegrams to Mr. Whittemore, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. McCreedy, Vice President of the Federal Reserve Bank of Philadelphia, Mr. Bryan, First Vice President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Mangels, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on June 15, by the Federal Reserve Banks of Atlanta and San Francisco on June 18, by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on June 20, 1946, and by the Federal Reserve Bank of Boston, today, of the rates of

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discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 19, 1946, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Mr. Thomas B. Handley, a Clerk in that Division, and recommending that the resignation be accepted effective at the close of business on July 7, 1946, and that proper lump sum payment be made for any unused annual leave remaining to his credit at that time.

The resignation was
accepted as recommended.

Memorandum dated June 20, 1946, from Mr. Leonard, Director of the Division of Personnel Administration, submitting the resignation of Mrs. Dorothy J. Klise, as Secretary to Governor Szymczak, and recommending that the resignation be accepted effective as of the close of business on June 19, 1946, the expiration date of her accrued annual and sick leave.

The resignation was
accepted as recommended.

Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"This is to acknowledge receipt of your letter of May 31, 1946, with respect to certain amendments to the by-laws of your Bank which were adopted by your board of directors at its meeting on May 29, 1946.

"It is noted that among other changes the revised bylaws will provide for regular meetings of your board of directors on the second Thursday of each month, permit the participation of all directors in meetings of the executive committee, authorize the holding of meetings of the executive

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"committee by telephone conferences, require prior approval of the board of directors in the case of certain advances under section 10(b) of the Federal Reserve Act, define the duties of the audit review committee and enumerate the duties of the auditor.

"It is understood that the amended bylaws are to become effective July 1, 1946, and that printed copies will be forwarded to the Board in the near future."

Approved unanimously.

Letter to Mr. Edgar Josephson, 140 Aycrigg Avenue, Passaic, New Jersey, reading as follows:

"This refers to your letter of June 4, 1946, regarding the withdrawal of cash from a security margin account for the purpose of paying a capital gains tax on bonds redeemed in the account.

"It is true that the present terms of Regulation T prevent the withdrawal of cash or securities from a margin account (unless the entire debit balance is liquidated) regardless of the use to which the withdrawal is applied. This provision is necessary in our opinion because such withdrawals could, and often would, be used to buy stocks, and such purchases on credit would tend to nullify the present intent of the regulation and give holders of existing accounts an advantage over those just entering the market. Any attempt to allow withdrawals for some purposes and not for others, we believe, would be administratively impracticable.

"This Board's security loan regulations do not prevent you from borrowing money, under certain conditions, to pay taxes. You may borrow for this purpose either from a broker in a special miscellaneous account as provided in sections 4(a), 4(f)(8) and 7(c) of Regulation T, or from other lenders.

"We realize that control of security market credit alone cannot solve the country's present financial problems, but we do believe that the inflationary danger would be greater if the use of credit to buy securities were not restricted. Considering the broader objectives of the security loan regulations, we do not believe that cases such as you present are numerous enough to justify an exception which might seriously weaken the effectiveness of these regulations as a part of the Government's anti-inflation program."

Approved unanimously.

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

"This refers to your letter of June 11, 1946 regarding a question under Regulation U raised by the United States Trust Company, Boston, Massachusetts.

"It appears that a certain finance company is interested in making loans that are secured by stocks and are for the purpose of purchasing or carrying stocks registered on a national securities exchange. Regulation U prohibits banks from making such loans. The question is whether a bank may lend to the finance company to enable the latter to make loans of the specified kind.

"Under the present provisions of Regulation U, a loan by a bank is not subject to the regulation if it is not secured directly or indirectly by any stock. However, it would, of course, be so secured if it was collateralized by notes for which stocks are pledged.

"Furthermore, the Board is of the opinion that the proposed loans to the finance company should be considered to be for the purpose of purchasing or carrying registered stocks. Hence, if they are secured directly or indirectly by any stock, they would be subject to the regulation and a bank would not be permitted to make them."

Approved unanimously.

Letter to Mr. Peterson, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of June 4, 1946, regarding a question concerning Regulation U raised by the Mississippi Valley Trust Company, St. Louis.

"The question relates to section 2(c) of the Regulation which exempts:

'Any loan to a dealer, or to two or more dealers, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange;'

"The application of this provision necessarily depends on the facts of the particular case, but some general observations as to its meaning may be helpful.

"The term 'distribution' as there used means activities of the type that are commonly referred to as 'primary' or 'secondary' distributions, involving sizable blocks of

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"securities. The organization of a group of dealers to handle the sales would be a fact which would tend to support the conclusion that a distribution was involved. On the other hand, the exemption would not apply to transactions in which a dealer buys securities from time to time from the public, or from other dealers, and later sells them to customers.

"A 'distribution' does not qualify as 'not through the medium of a national securities exchange' unless the sales at all stages, including those to the ultimate customers who are not brokers or dealers, are off the exchange.

"The Trust Company describes a situation in which the owner of a large block of United States Steel common arranges to sell a block of 100,000 of these shares directly to a dealer or group of dealers, who will in turn resell. If the ultimate sales to the general public, and the intervening sales, are not to be made on an exchange, it is believed that the transaction would qualify for the exemption. However, it must again be emphasized that each case must depend upon its own facts, and that a different factual situation, such as a different type of security, size of block, or method of sale, might lead to a different result."

Approved unanimously.

Letter to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of June 10 regarding Consumers Home Equipment Company, which enclosed a copy of letter from Mr. Bratton to Mr. Haefele, submitting a form which he hoped would make it possible for the Company to sell articles at a time price of \$14.95 without obtaining a down payment.

"The principal new feature in the form is that the cash price of \$10.00 and the carrying charge of \$4.95 are actually printed on the form so that the salesmen would be prevented from resorting to one of the devices which they used in concealing the existence of the cash price at the time of making the sale. The form would also attempt to spell out a legal relationship which would make the customer an offeror instead of a purchaser at the time of the initial transaction.

"The Board does not believe that it can say that the proposed form would accomplish the result desired by Mr. Bratton. The salesmen, according to the reports of investigation, used various means of explaining the \$10.00 figure on the rare oc-

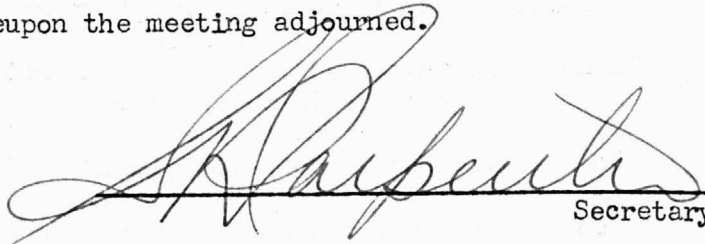
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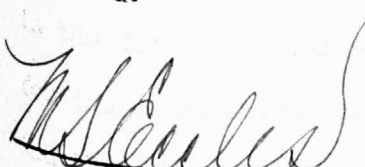
casions when the customer discovered it. They explained that it was put in to avoid a luxury tax or to satisfy the OPA, or some other explanation. The use of the proposed new form would probably not prevent such practices. The Board, in short, believes that many of the difficulties discussed in Mr. Hodge's letter of July 31, 1945 to Mr. Townsend would still be present. Whether or not the language purporting to make the customer an offeror instead of a purchaser would have the desired effect is a matter upon which the Board expresses no opinion. Mr. Bratton heard the ruling of the District Court on a closely related point, and is in a position to form his own opinion."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.