

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 27, 1946, at 10:30 a.m.

PRESENT: Mr. Draper, Chairman pro tem
Mr. Evans

Mr. Carpenter, Secretary
Mr. Thurston, Assistant to the Chairman

Mr. Vardaman was absent on vacation.

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

Telegram to Mr. Whittemore, President of the Federal Reserve Bank of Boston, stating that the Board approves for the Bank, effective August 30, 1946, a minimum buying rate of one per cent for the purchase of bankers' acceptances for all maturities, and the establishment by the Bank, without change, of other rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated August 26, 1946, from Mr. Carpenter, recommending, for the reasons stated therein, that the Board approve (1) the appointment of Mr. Merritt Sherman, now serving as an Assistant Cashier at the Federal Reserve Bank of San Francisco, as an Assistant Secretary of the Board of Governors of the Federal Reserve System with salary at the rate of \$8,478.75 per annum, effective as of the date upon which he enters upon the performance of his duties, and (2) reimbursement to him for the cost of his trip to Washington when he assumes his duties and for the cost of moving his household effects from San Francisco to Washington. The memorandum also stated that Mr. Sherman was a member of the retirement system of the Federal Reserve Banks.

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Approved unanimously. Messrs. Eccles and Vardaman advised before they left Washington that they would approve the appointment.

Memorandum dated August 20, 1946, from Mr. Young, Assistant Director of the Division of Research and Statistics, recommending that Miss Ann Beverly Conner be appointed as a Clerk-Typist in that Division on a temporary indefinite basis, with basic salary at the rate of \$2,168.28 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated Miss Conner was a member of the Civil Service retirement system and that she would remain a member of that system.

Approved unanimously.

Memorandum dated August 23, 1946, from Mr. Young, Assistant Director of the Division of Research and Statistics, submitting the resignation of Mr. Walter R. Gardner, Chief of the International Section of that Division and recommending that the resignation be accepted, effective, in accordance with his request, at the expiration of such annual leave as may be due him following his last day at the office, which will be August 23, 1946.

The resignation was accepted as recommended.

Memorandum dated August 9, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Alfred Sherrard

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be reappointed as an Economist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$7,102.20 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum also stated that Mr. Sherrard was a member of the Civil Service retirement system and would remain a member of that system.

Approved unanimously.

Memorandum dated August 21, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective at the beginning of the next pay roll period following approval by the Board:

<u>Name</u>	<u>Title</u>	<u>Proposed Increase</u>	
		<u>From</u>	<u>To</u>
Margaret L. Wolfe	Secretary to Mr. Boothe	\$2,544.48	\$2,644.80
Benjamin D. Berry	Mail Clerk	2,318.76	2,394.00
Edith Bare	Page	1,954.00	2,020.00
Anna Mae Boucher	Page	1,954.00	2,020.00
Florence McVeary	Cafeteria Helper	1,888.00	1,954.00

Approved unanimously effective September 8, 1946.

Memorandum dated August 19, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Mrs. Miriam P. Jasper be appointed as a Clerk in the Publications Section of that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,394 per annum, effective as of the date upon which she enters

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upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that Mrs. Jasper was a member of the Civil Service Retirement and Disability Fund and it was contemplated that she would continue in that retirement system.

Approved unanimously.

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

"The Board of Governors approves the changes in the personnel classification plan of the Houston and San Antonio Branches consisting of the elimination of the position of Field Representative at each Branch, as submitted in your letter of August 20, 1946.

"As requested, a new page 34 for the Houston Branch and a new page 33 for the San Antonio Branch, reflecting the elimination of the position of Field Representative, have been prepared, which will be placed in the Board's copy of the plan."

Approved unanimously.

Letter to Mr. John V. Hastings, Jr., 819 Filbert Street, Philadelphia 7, Pennsylvania, reading as follows:

"This is in reply to your letter of August 21 to Chairman Eccles protesting 'against the 75% margin requirements on stock loans'.

"Margin requirements have been established at 100 per cent, in effect, since January 21, 1946. A copy of the statement made by Chairman Eccles on the occasion of the amendment to the regulations at that time is enclosed for your information.

"Regulations T and U, which regulate security loans, were established under the Securities Exchange Act of 1934, which made this Board responsible for preventing the excessive use of credit for the purchase or carrying of securities. The Board recognizes that these regulations cannot solve all of our financial problems. But it does feel that the present security loan restrictions are a necessary part of the Govern-

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"ment's anti-inflation program at this time of strong inflationary pressures.

"Since you refer to automobiles as not being restricted, we should like to call your attention to Regulation W, also issued by this Board, which regulates the credit that may be extended for purchase of automobiles among other articles.

"Though we cannot agree with the position you take, we appreciate the interest indicated by your letter and the spirit in which you write."

Approved unanimously.

Letter to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of August 15, 1946, regarding certain questions presented by the San Francisco Stock Exchange regarding Regulation T, especially the arbitrage provisions of section 4(d). For convenience, the questions will be discussed separately.

"(a) One question refers to short sales of a stock, the short sales to be covered later by exercising Rights to subscribe to shares of the stock. The transactions might remain open and uncompleted for as long as thirty to sixty days, depending on the circumstances.

"Such a transaction can qualify as bona fide arbitrage under section 4(d)(2), only if there are a purchase of the Right and an offsetting sale of the stock. These must occur 'at or about the same time' and must be 'for the purpose of taking advantage of a disparity in the prices of the two securities'.

"If the customer already owns the Rights, or if for any other reason the requirements of section 4(d) are not met, such transactions can be effected only in a general account; and they would then be subject to the margin requirements applicable to short sales, which are now 100 per cent in the usual case. You will note, however, that under section 3(d)(3) the 100 per cent requirement does not apply to a short sale of a security if sufficient Rights to purchase the security are held in the account.

"(b) Another question apparently refers to arbitrage transactions in the security, or in the Rights, between the New York and San Francisco Stock Exchanges.

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"Such transactions are subject to section 4(d)(1). It should be noted that under this provision the offsetting transactions must occur in the different markets 'at as nearly the same time as practicable', and must be 'for the purpose of taking advantage of a difference in prices in the two markets'.

"(c) A question is asked about 'short sales in the Rights to Subscribe to be covered by the purchase of Rights to Subscribe'. There is nothing to indicate that these short sales are any different from ordinary ones. Accordingly, they would seem to be subject to the same rules as other short sales.

"(d) The inquiry states that it is planned to use a joint account for certain of these transactions, and that the account would be carried by one of the participants. In this connection it should be noted that section 6(b) in effect requires that each participant margin his share of the joint account to the extent of his right to share in the profits. This requirement does not apply to a special arbitrage account that complies with section 4(d), but it does apply to a general account."

Approved unanimously.

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

"A reply to your letter of April 16 has been delayed in the hope that a way would be found of avoiding the necessity of requiring the insurance agents mentioned in the letter of General Securities Corporation which you enclosed, to register under Regulation W. As you pointed out, there seems to be no great advantage to be derived from requiring them to do so.

"However, the provisions of the Regulation seem clearly to require them to register, and the inconvenience which that requirement might cause does not appear to be great enough to justify an amendment to the Regulation, since registration is not a matter which would require an appreciable amount of time or trouble on the part of each insurance agent."

Approved unanimously.

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

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"This will acknowledge your letter of August 20, 1946, enclosing a telegram from Charles R. Lewis, President, Connecticut Association of Small Loan Companies, Bridgeport, Connecticut, relative to Amendment No. 21 to Regulation W.

"Similar comments have been received from the Beneficial Management Corporation, and we enclose a copy of a telegram which was sent to it.

"With regard to the hearing requested by the Connecticut Association, we suggest that you might wish to give these people an opportunity to talk with you in New York."

Approved unanimously.

Letter to Mr. Wallace, Counsel of the Federal Reserve Bank of Richmond, reading as follows:

"This is in reply to your letter of August 12, 1946, asking whether radio transmitting and receiving sets commonly used by amateurs are 'listed articles' within the meaning of Regulation W.

"It is the Board's view that radio transmitting sets and combination radio transmitting and receiving sets are not 'listed articles'. This view is based on the fact that such sets are designed for communication purposes, i.e., for transmission of messages between sender and designated recipients and the fact that those operated by amateurs cannot be distinguished from those having large commercial usage."

Approved unanimously.

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

"In replies to the Board's letter of July 26, 1946, asking for certain information on Regulation W enforcement activities during March and July, a number of the Federal Reserve Banks gave information on their arrangements with cooperating supervisory agencies. The letters reveal that there is a considerable degree of variance in the reporting arrangements worked out with the respective regional Supervising Examiners of the Federal Deposit Insurance Corporation and the head office of that agency has been in touch with us to ascertain whether or not the arrangements could be made uniform.

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"Some Federal Reserve Banks have assured themselves of continuing cooperation and have asked for reports only in case of willful violations; others have requested monthly statistical reports of one sort or another covering investigations conducted; while a third group has worked out arrangements for short-form Regulation W reports on each examination.

"The Board believes that it would be advisable, because of the operating organization of the F.D.I.C., that a uniform procedure be worked out with the head office and would appreciate your suggestions and views as to the proposal that should be presented. Also, it may be possible to discuss this matter at the meeting of examiners in Washington on September 11-13 and it is recommended that your representatives be prepared to participate in the discussion.

"Some of the considerations that will have to be taken into account are: (1) the arrangement should, if possible, contemplate few, if any, changes in the Corporation's Manual of Examination Policies; (2) no change should probably be contemplated in the method of handling cases requiring corrective action; (3) the proposal should require as little inconvenience to the F.D.I.C. as possible; and (4) the suggested basic procedure should be one which is feasible in all districts."

Approved unanimously.

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

"In accordance with the request contained in the Board's letter of January 26, 1943, (S-612) the Federal Reserve Banks have been forwarding to the Board of Governors quarterly reports with respect to activities in connection with the enforcement of Regulation W, Consumer Credit. As your Bank has been advised, it is now proposed that reports be submitted on a monthly basis and under date of May 17, 1946, Mr. Parry, Director of the Division of Security Loans, sent to each of the Reserve Banks a preliminary draft of a report form which has also been discussed at the recent Regulation W regional conferences.

"The report form (Form No. F.R. 639) has been revised to incorporate most of the suggestions made by the representatives of the Reserve Banks at these conferences, and copies are enclosed herewith. One hundred copies are being sent to

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"you under separate cover and an additional supply may be had upon request. An explanation of the form headings and instructions with respect to additional information to be furnished with the report are printed on the reverse side of the form.

"The quarterly reports which have been submitted in the past should be discontinued after submission of the report covering the quarter ending July 31, 1946, and it will be appreciated if your Bank will forward reports on the new form for each month beginning with the month of August, 1946.

"As soon as the monthly reports are received in the offices of the Board of Governors they will be analyzed and a copy of the analysis of the enforcement activities in all Federal Reserve Districts will be forwarded to each of the Federal Reserve Banks for its information.

"This letter supersedes the Board's letters of January 26, 1943 (S-612), May 8, 1943 (S-648), and February 21, 1944 (S-735)."

Approved unanimously.

Letter to the Chairmen of the Federal Reserve Banks, with a copy to each President, reading as follows:

"As you know, there is some variation in the fees and allowances paid by the different Federal Reserve Banks to directors of the Banks and their branches. It has been a long time since any general revision has been made in the schedule of fees and one of the Banks recently inquired whether the Board would consider it appropriate, because of increased traveling, subsistence, and other costs, to increase directors' fees and allowances.

"The Board feels that it would be desirable in the interest of a simpler procedure for meeting its own responsibility under the statute for the approval of such allowances if there were in effect a uniform schedule for all the Federal Reserve Banks, as there does not seem to be any real necessity for different allowances at the different Federal Reserve Banks. In order to aid the Board in reaching a conclusion in this matter, therefore, it would be appreciated if you would give the Board the benefit of your views in response to each of the questions listed below. In this connection you may wish to obtain the suggestions of the President of your Bank. A copy of this letter is being sent to him:

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"1. What should be the maximum daily fee for attendance at directors' meetings or while engaged on other work for the bank, (a) by head office directors, and (b) by branch directors?

"2. Should there be any difference in the fee paid for attendance at meetings of the Board of Directors, executive committee, or other committees of directors?

"3. If a meeting of the Board of Directors and a meeting of a committee of the board are held on the same day, should more than one fee be paid?

"4. Should subsistence expenses be on a per diem or actual expense basis?

"5. Should any additional allowance be paid to directors residing any distance outside the city in which the meeting is held?

"6. Should other changes be made in existing allowances?

"When the replies to this letter have been received, the Board will undertake to prepare a single schedule which, in the absence of objections requiring further consideration, it would be willing to approve covering directors' fees and allowances at all Federal Reserve Banks and Branches."

Approved unanimously.

Letter to Mr. Herbert V. Prochnow, Acting Secretary, Federal Advisory Council, 38 South Dearborn Street, Chicago 90, Illinois, reading as follows:

"I have brought to the attention of the members of the Board your letter of August 17, 1946, in which you advise that the next meeting of the Federal Advisory Council is to be held in Washington on September 15 and 16, 1946, and ask for a list of the subjects which the Board wishes the Council to discuss.

"The Board has no topics to suggest for the meeting agenda but the members who are in Washington on September 16 will be pleased to meet with the Council for the consideration of any matters which the members of the Council may wish to take up. As you know, Mr. Szymczak has left for his assignment in Europe. Chairman Eccles is in the West and Messrs. Evans and Vardaman will be out of the city when the Council meets. However, it is expected that Messrs. Ransom and Draper will be here at that time.

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"We shall be happy to make arrangements for luncheon for the Council in the Blue Room on Monday, September 16. Please feel free to call on me if there is anything we can do in connection with the arrangements for your meeting."

Approved unanimously.

Letter to Mr. Robert H. Armstrong, The Appraisal Journal, 12 East 41st Street, New York City, New York, reading as follows:

"The Board has no objection to your reprinting in the Appraisal Journal either one or both of the portions of 'Housing Needs and the Housing Market' mentioned in your letter of August 23, 1946, provided that the source is acknowledged, and that it is made clear, as stated in the preface at the beginning of the pamphlet, that there is no official endorsement of any of the opinions or proposals expressed by the authors of papers included in the series Postwar Economic Studies. It is assumed that you will indicate to the reader that only part of the paper is being reprinted."

Approved unanimously.

Memorandum dated August 23, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the appropriate budget classification of that Division be increased by approximately \$900.00 to cover the cost of the dinner to be held in the Board's cafeteria on September 18, 1946 for officials of the Savings Bond Organization, Treasury Department officials and a small group of special guests.

Approved unanimously.

Memorandum dated August 26, 1946, from Mr. Hooff, Attorney, recommending that there be published in the law department of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

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Farm Tenant Loans
Amendment to Section 24 of Federal Reserve Act

Silver Legislation

Regulation U
Capital Contribution Loans

Acceptances by Member Banks
Revision of Regulation C

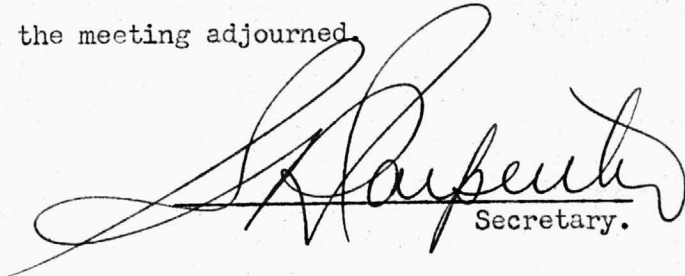
Consumer Credit
Amendment to Regulation W

Administrative Procedure Rules

Foreign Funds Control
Treasury Department Releases

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman pro tem.