

9/3/46 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 3, 1946, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Draper  
Mr. Vardaman

Mr. Carpenter, Secretary

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

Telegram to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, stating that the Board approves for the Bank, effective September 4, 1946, a minimum buying rate of one per cent for the purchase of bankers' acceptances of all maturities.

Approved unanimously.

Memorandum from Mr. Nelson, Director of the Division of Personnel Administration, submitting and recommending that the Board accept the resignation of Miss Ardith E. Jeffries, a Clerk-Typist in that Division, to become effective as of the close of business September 11, 1946, and that appropriate payment be made for the accumulated annual leave remaining to her credit at that time.

The resignation was accepted as recommended.

Letter to Mr. R. V. Mosley, Stroud & Company, Inc., 123 South Broad Street, Philadelphia 9, Pennsylvania, reading as follows:

"Your letter of August 14, 1946 to Mr. Treanor of the Securities Exchange Commission, has been referred to this Board.

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"You ask generally about the financing of underwriting, and in that connection you mention both Regulation T, which applies to brokers and dealers, and Regulation U, which applies to banks. We understand, however, that you are interested in the requirements that banks must follow when they finance your underwritings, rather than those you must follow when you sell the securities to customers. If that is the case, your question involves only Regulation U; generally speaking, Regulation T and section 7(c) of the Securities Exchange Act of 1934 relate to credit extended by brokers or dealers rather than to borrowings by them.

"A loan is not subject to Regulation U unless two conditions exist. The first is that the loan must be for the purpose of purchasing or carrying registered stocks. The second is that it must be secured by stocks (whether registered or unregistered). You will note that unregistered stocks securing a loan can not cause it to be subject to the regulation unless the purpose of the loan is to purchase or carry registered stocks.

"In other words, even under the present 100% margin requirements, a bank is not flatly forbidden to lend on stocks. It can lend on either registered or unregistered stocks so long as the purpose is not to purchase or carry registered stocks. On the other hand, it can lend on neither registered nor unregistered stocks if the purpose is to purchase or carry registered stocks.

"The ruling published in the 1937 Federal Reserve Bulletin, page 392, considered a case in which a dealer borrowed funds for the purpose of purchasing both registered and unregistered stocks. There was no separation of transactions or borrowings. Accordingly, the Board expressed the opinion that while the loan might also have certain other purposes, it should be considered to be for the purpose of purchasing or carrying registered stocks.

"However, the regulation contemplates that some transactions, and the borrowings to finance them, will not be subject to the regulation when they are appropriately separated. For example, section 2(c) of the regulation 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 exemption necessarily depends on the facts of the particular case, but some general observations as to its meaning may be helpful.

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

"You refer to certain securities that you had already sold but for which you had to obtain overnight financing. You may, therefore, be interested in section 2(f) which exempts:

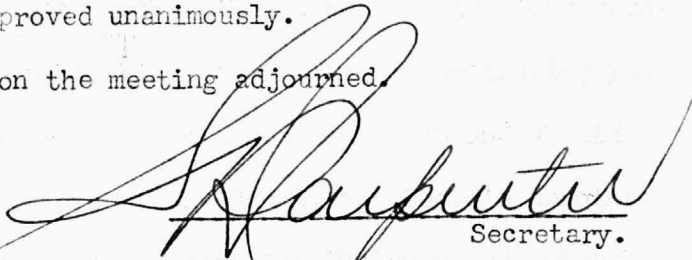
'Any temporary advance to finance the purchase or sale of securities for prompt delivery which is to be repaid in the ordinary course of business upon completion of the transaction;'

"In general, the question whether a particular loan to a broker or dealer is exempted can not be decided by a narrow view of a small part of the borrower's operations. As indicated in the 1937 ruling already mentioned, such a loan is not exempted unless it is clearly identified and set apart as such in the light of the borrower's entire operation. We believe, however, that underwritings will often be so identifiable.

"We realize that these comments are rather general, but we hope that they will help to clarify the problems that have troubled you."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Vice Chairman.