A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the offices of the Board of Governors in Washington on Friday, October 4, 1946, at 11:25 a.m.

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

Mr. Carpenter, Secretary

Messrs. Whittemore, Sproul, Williams, Gidney, Leach, McLarin, Young, Davis, Peyton, Leedy, and Gilbert, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas, respectively.

Mr. Treiber, Secretary of the Presidents' Conference.

Mr. Sproul stated that the Presidents' Conference met in Washington on Tuesday and Wednesday, October 1 and 2, 1946, and yesterday presented to the Board a memorandum of matters which the Conference wished to discuss with the Board. The discussion at this meeting with respect to each of the topics referred to in the memorandum was substantially as follows:

1. Maximum deferment of credit for cash items. The Conference considered the suggestion that the maximum period of deferment of credit for cash items by the Federal Reserve Banks be reduced from three to two business days. It was agreed that the System should be alert and aggressive to improve methods of collection so as to shorten the period required for the actual collection of items and so as to
reduce when practicable the number of "sorts" required of banks. On the other hand, it was felt that it would be undesirable to embrace a policy of further reduction of deferment time regardless of collection time, particularly in present circumstances when float should be kept to a minimum in view of the current need and desire for greater control of the creation of Reserve Bank credit. The Conference would like to see a reduction in the maximum period of deferment, and would look with favor upon such a reduction if accompanied by speedier collections or perhaps by some arrangement requiring banks to maintain balances offsetting increased float. The subject was referred to the Committee on Collections through the Committee on Operations with the direction that the subject be thoroughly studied in the light of the views expressed by the Conference, and that the Committee endeavor to bring forth a plan which will result in a soundly conceived reduction in the maximum period of deferment.

Mr. Sproul stated that there was no question as to the desirability of a reduction in the maximum deferment time, that the Federal Reserve Banks were already taking steps to reduce the time needed for collection of cash items, and that the action of the Presidents' Conference was stated in the form set forth above in order to impress upon the Committee on Collections the importance of finding a workable solution. He said some of the Reserve Banks were using air freight and other methods for more rapid collection, and that a possible solution might lie in that direction.

Chairman Eccles stated that the Board considered this matter at a separate meeting this morning and felt that aggressive efforts should be made by the Banks to find a solution and would like to place the question on the agenda for the next meeting of the Presidents
with the Board, which might be held in December of this year, with the understanding that at that time the Committee on Collections would report the progress made.

Mr. Leach stated that a meeting of the Committee on Collections was scheduled to be held in the very near future and that the topic was on the agenda for that meeting.

Mr. Sproul said that it was the feeling of the Presidents that the Federal Reserve collection system should be the best in the United States, that the collection of checks was one of the important services that the Federal Reserve Banks could render for their member banks, and that the System could not afford to lag behind in the adoption of up-to-date methods.

2. **Job evaluation and classification.** The progress report dated September 20, 1946, by the Subcommittee of the Committee on Personnel was presented to the Conference by the Committee on Personnel. The report indicated that the work as a whole is progressing at a rapid pace and it is estimated that some of the banks will have completed the major task by the first of the year and all of the banks during the spring of 1947. Copies of the progress report are being made available to the Board.

Mr. Sproul stated that the Subcommittee on Job Evaluation and Personnel Classification of the Presidents' Conference met in St. Louis on September 9 and 10, 1946, that the discussion at that meeting formed the basis for the progress report above referred to, and that the Subcommittee would meet in Boston this month when Job evaluation and other personnel matters would be given further con-
sideration. He also said that the job evaluation work of the various Federal Reserve Banks was being expedited and was resulting in considerable benefit to the Federal Reserve Banks and their employees, and that, when the work was completed, it should result in a general classification plan which could fit into the Board's procedures and responsibility with respect to salaries at the Federal Reserve Banks.

Chairman Eccles stated that the Board had understood from the progress report of the Subcommittee that it was a tentative recommendation of the Subcommittee that the actual salaries attached to the grade classification should be determined as a result of a local market survey and that the classification plans that might be proposed might be quite different from the uniform plan contemplated by the Board for all of the Federal Reserve Banks. He also said that a different plan at each of the Federal Reserve Banks based upon local salary conditions would not be satisfactory to the Board for the reason that it felt that the time had come when the whole question of salaries had to be met by a general plan for the whole System which would be patterned after civil service. He went on to say that the civil service and large labor unions had largely eliminated wage scales based on local labor markets and that in his discussions with the Chairman of the National Labor Relations Board and a representative of the American Federation of Labor union which had petitioned for recognition as the bargaining agent representing the employees of the Federal Reserve Bank
of Dallas, he (Chairman Eccles) had taken the position that the Federal Reserve System did not need labor unions for the protection of the employees of the Reserve Bank as the Board was an agent of Congress and was establishing a plan which would prevent the payment of sub-standard salaries. He also said that this position had been difficult to defend because of the different salary scales at the different Federal Reserve Banks and that the only way the problem could be met was to establish a single plan which could be said to be substantially in line with civil service. He added that it was the view of the Board that the plan approved for the twelve Federal Reserve Banks should provide for minimum and maximum salaries for each classification with a range between the two limits which would enable the individual Reserve Banks to meet the local situation in such a manner that the Federal Reserve Banks would be leading rather than following the banks in their respective communities.

Mr. Williams called attention to the fact that the report of the Subcommittee contemplated that the local surveys which would be used as a basis for salaries established would include (in addition to bank and civil service positions) insurance companies, utilities, and manufacturing and other concerns which were competitors of the Federal Reserve Banks for employees and which were known to have progressive personnel policies and sound salary programs. He referred in this connection to studies by the National Industrial Conference Board which
showed a wide range in salaries in various cities for the same kind of position. He also expressed the opinion that the more realistic approach was not aimed at civil service rates throughout the country but took into account the supply and demand for labor and all of the social environments and customary values that prevail. He also suggested that if the salary scale used in San Francisco, where there was a highly organized union movement, were put into effect at the Federal Reserve Banks of Richmond or Dallas it would place the Banks in a difficult position and make it very difficult for the community to have a stable wage situation.

Chairman Eccles stated that the Board could not accept that position and that the time had come when the problem had to be looked at from the standpoint of the System as a whole rather than as twelve separate Federal Reserve Banks. He said that the minimum and maximum salaries to be provided by a uniform plan would give sufficient flexibility to enable the Banks to meet local conditions and qualifications of individual employees, and that if the Federal Reserve Banks were in a position where it could be said that they were paying salaries in line with civil service or union salaries for the same position, the System could take the position that there was no need to unionize the employees or for placing them under civil service.

Mr. Williams expressed the opinion that the civil service salary scales were based too much on the conditions in Washington and
should take local conditions in the different parts of the United States more fully into account. He also suggested that the Reserve Banks be permitted to work with the problem for a couple of years and see what the results might be.

Chairman Eccles responded that the System could not afford to wait for two years, that the labor problem was immediately before the System at the present time in the question raised by the attempt to organize the employees of the Federal Reserve Bank of Dallas, that he was trying to persuade the National Labor Relations Board to accept the position that the Federal Reserve Banks were part of the United States and therefore not subject to the National Labor Relations Act, and that in order to take that position it was necessary that the Federal Reserve Banks have a salary plan that would be uniform for all of the Banks.

Mr. Williams stated that the Board was under no mandate to impose civil service salary rates on the Federal Reserve Banks and Chairman Eccles replied that the Board was not undertaking to require the Federal Reserve Banks to comply strictly with civil service salary scales which might be out of line and too rigid in some cases. He concurred that there were some local wage differentials for certain civil service positions and in certain labor union jobs, but said that in the larger industries such as telephone and telegraph, railroads and other national industries there were uniform scales with minimum and maximum
salaries which permitted the necessary flexibility for meeting local conditions.

Mr. Whittemore stated that it had been his experience that when a labor union moved into a locality and undertook to unionize the employees, it worked first in the concern with the lowest salary scale, that the employees were not concerned about salaries for the same position in distant communities but were very much concerned with salaries for the same position nearby, and that that, in his mind, was the justification for the position that the Federal Reserve Bank should be at the top of the local salary scale. It was his feeling that with minimum and maximum salaries the individual Reserve Banks would be able to fix salaries in line with the conditions in their respective localities.

With reference to the spread between the minimum and maximum salaries, Chairman Eccles questioned whether it should be as much as 33-1/3 per cent as indicated by the Subcommittee on Job Evaluation and Personnel Classification. He also said that the important point was the establishment of a minimum which would protect against the charge that the Federal Reserve Banks were paying substandard salaries.

In response to an inquiry from Mr. Ransom, Mr. Williams stated that he would not want the Federal Reserve Banks to be in a position where they followed the local commercial banks, because the latter were noted for low salaries. He felt that if the Federal Reserve Banks
were closely in line with or in the lead of progressive companies in their respective areas, and if they made periodic surveys to assure their continuing in that position, they would be doing a more skilful job than if they tried to approach civil service salaries.

Mr. Sproul stated that the salary scale established for the salary classification plans had to be based on a complete study of the problem and that when that was done he did not think there need be any fear of civil service rates, as the Banks would have a plan which, with the other advantages that go with working in a Federal Reserve Bank, would leave the Banks in an entirely satisfactory position. He added that, if he were put to a choice between the civil service and labor unions in the Federal Reserve Banks, he would prefer the latter.

In response to an inquiry as to how the salary scales of the Federal Reserve Bank of Dallas compared with other salaries in Dallas, Mr. Gilbert said that they were above the salary scales of commercial banks, that the salaries paid by the Reserve Bank were based on an analysis of the salaries paid by banks and industrial and other concerns in the locality, and that the situation which occasioned the petition of the labor union was not one of salary levels but of seniority, as it had been necessary to advance some younger employees ahead of other employees who had been with the Bank for a long time but who had reached the maximum point of their development.
In response to an inquiry from Mr. Williams as to what the Board would do if the surveys being made by the Federal Reserve Banks indicated a justification for a substantial differential in the salary scales of the different Federal Reserve cities, Chairman Eccles said that the Board would not be willing to approve the plan for any Bank until the plans for all of the Reserve Banks had been received and the Board had had an opportunity to go over all of them, and that if the plans should fit into a pattern so that there could be a uniform plan for all of the Banks the Board would be willing to approve such a plan. However, he said, if the plans submitted were such as to constitute separate plans for each of the Reserve Banks, that would not be satisfactory to the Board as it would not be able to defend that situation in Congress. He also said that the Board desired to give the Banks as much flexibility as possible but that the Presidents should see the problem confronting the Board and endeavor to work out a System plan into which each Federal Reserve Bank could fit its program.

Mr. Peyton said that if there was sufficient flexibility in the minimum and maximum salaries established in a uniform plan there would be no problem.

Mr. Davis stated that the Federal Reserve Banks had given a great deal of consideration to this problem over a long period of time. He did not think, however, that there was any practical difference between the viewpoint expressed by the Board and the Presidents if
there were sufficient flexibility between the maximum and minimum salaries established in the plan finally adopted. He suggested that, when the Board reviewed the plans submitted by the Federal Reserve Banks, the task be done in cooperation with the officers at the Federal Reserve Banks who had been working on the problem. He felt that if this were done the matter would be worked out satisfactorily both to the Federal Reserve Banks and the Board.

Chairman Eccles said that the Banks should complete their studies as rapidly as possible and that when all the plans had been submitted the Subcommittee on Job Evaluation and Personnel Classification should meet with representatives of the Board and see if it would be possible to adapt the plans to a single plan for all of the Banks. The other members of the Board and all the Presidents concurred in Chairman Eccles' suggestion.

3. Proposed surveys of commercial, industrial, and agricultural loans. The Conference considered the Board's letter of August 15, 1946, regarding the proposed surveys of member bank loans outstanding to commercial and industrial business and of member bank and nonmember bank loans outstanding to farmers, and the report of the Chairman of the System Research Advisory Committee of September 27, 1946, with respect to such surveys. The Conference favors surveys of commercial, industrial, and agricultural loans; it feels that their scope, content and form should be held to minimum essentials to avoid unnecessary annoyances and burden to commercial banks and to the System. Such a limitation is particularly important in view of a general resistance toward the collection of statistics on complicated Government forms and because of possible embarrassment to the System as sponsor of the surveys.
Mr. Sproul stated that the Presidents recognized the need for surveys of this kind, but felt that it was desirable continuously to call attention to the caveat that it was necessary to guard against too frequent and too complicated requests for information which might injure the relations between the Federal Reserve Banks and their member banks.

Chairman Eccles responded that it was the Board's opinion that research activities of this kind should be such as to keep the burden imposed in reasonable relationship with the value of the results obtained, that the Board did not want to impose an undue burden on the banks, and that the proposed surveys would be worked out in cooperation with other interested agencies so that they would be satisfactory both as to timing and the extent of the survey.

In response to an inquiry from some of the Presidents as to whether the timing and other features of the surveys would be worked out in cooperation with the research people of the Federal Reserve Banks, it was stated that there had been close cooperation by the Board and the Banks on the matter.

4. **Legislation**
   
   (a) **Industrial loans.** The Conference continues to feel strongly that whatever need for business credit can not be met through private credit channels should be promoted by the permanent agency having responsibility for general credit
administration, i.e., by the Federal Reserve System. To this end it recommends appropriate Congressional legislation, the timing of which will require careful consideration. It should not appear to encourage the expansion of credit at a time when there are inflationary pressures and there is a need for the critical examination of requests for extensions of credit.

As for the form of the legislation, the Conference believes that it is preferable to amend section 13b of the Federal Reserve Act rather than to amend section 13. An amendment to the last paragraph of section 13 would be much more likely to encounter strong opposition than a more limited authority which could readily be provided by appropriate amendment of section 13b. The Conference believes that it is desirable to eliminate from present section 13b (1) the provision that funds be advanced for working capital purposes only, (2) the provision that the advances be made to established businesses only, and (3) the provision for the industrial advisory committees. The Conference believes that it is desirable to retain (1) the provision limiting direct advances by the Federal Reserve Banks to cases where borrowers are unable to obtain requisite financial assistance on a reasonable basis from the usual sources, (2) the provision limiting maximum maturities to five years, (3) the provision requiring a participating financing institution to maintain at least a 20 per cent interest, and (4) a provision limiting the total amount of funds which Reserve Banks may lend to some specified amount, such as the combined surplus of all Reserve Banks. The Conference also believes that provision should be made for the repayment to the Treasury of funds previously advanced by the Treasury to the Reserve Banks under section 13b.

Mr. Sproul stated that since the above statement was prepared, the second clause numbered (1) in paragraph 2 had been changed to provide that the limitation to cases where the borrowers were unable to obtain requisite financial assistance on a reasonable basis from the usual sources, would apply to guarantees and commitments as well as to direct advances by the Federal Reserve Banks. He also said that
the Presidents would be interested in knowing whether there were any new developments in connection with the proposed legislation.

Chairman Eccles stated that it was the view of the Board that, in the event of cancellation of the stock of the Federal Deposit Insurance Corporation, the $139 million representing the investment of the Federal Reserve Banks in the stock of the Corporation should be paid to the Treasury, and that in view of the opposition which had developed to the blanket loan agreement program of the Reconstruction Finance Corporation there was a question whether the authority of the Federal Reserve Banks to make industrial loans should be continued. He thought that section 13b probably should be repealed in its entirety or perhaps it should be left alone depending on the legislative climate. The Board would prefer, he said, legislation entirely eliminating section 13b and amending the last paragraph of section 13 so as to give the Federal Reserve Banks a broad authority with respect to guaranteeing industrial loans and perhaps making such loans in the event the necessary funds were not available to the borrower elsewhere.

Mr. Davis stated that the statement referred to above was a summary of the report made by the Legislative Committee of the Presidents' Conference and that he would like to send to the Board the complete report as the Board might be interested in some of the thinking of the Committee in formulating its views.
Chairman Eccles stated that no action would be taken on the matter until after the first of the year and, therefore, the Board would have ample time to consider the full report.

Mr. Draper stated that he was heartily in favor of the statement of the Presidents' Conference that the timing of the legislation would have to be very carefully considered.

4(b) Minimum capital requirements. The Conference thought that, although the Hays bill (H.R. 5630) would be an improvement over the present law, the provisions of the Hays bill are (1) unwise because the minimum capital required would be the same for a bank with one branch as for a bank with many branches, and (2) inadequate to achieve the desired result in all districts for it would still require, in effect, $100,000 capital for a prospective State member bank having one or more branches even though the bank would not be justified in increasing its capital to that amount, considering the deposit volume of the bank and the size of the community served.

The Conference would prefer to amend section 5155 of the Revised Statutes so as to require a minimum capital of $100,000 for a national bank with one branch (as does the Hays bill) and to require an additional $50,000 for each branch over one which the national bank might establish (which the Hays bill would not require). In addition, the Conference believes that in no case should a national bank be permitted to establish branches on more favorable terms as regards required capital than a State bank in the same place. The Conference would also favor an amendment to paragraph 10 of section 9 of the Federal Reserve Act to require that a State member bank with branches have as much capital as would be required in the aggregate for an equal number of unit banks in the places where the State bank and its branches are located.

The Committee on Legislation reported briefly to the Conference regarding minimum capital requirements of unit banks. Pursuant to the Committee's recommendation, this matter was referred back to the Committee for further study; and no opinion is expressed by the Conference with respect to this matter at this time.
On this matter Chairman Eccles stated that on April 12, 1946, pursuant to a request received from the Chairman of the House Banking and Currency Committee, the Board furnished such Committee a report on H.R. 5630 stating that the Board would prefer legislation of the type contemplated by H.R. 5258 rather than H.R. 5630. Chairman Eccles also said that the Board still held those views.

Mr. Davis as chairman of the Legislative Committee of the Presidents' Conference asked if a copy of the Board's report on the two bills could be sent to him for the use of the Presidents, and it was understood that that would be done.

4(c) Holding companies. The Conference believes that it is desirable to establish minimum statutory restrictions on the expansion of holding companies. It suggests that a practical approach to achieve this objective might be a provision which would prohibit a holding company from acquiring any additional banking facilities in any county or other local area in which the holding company already controls banking facilities having more than some specified percentage of the total deposits of the county or other local area.

It is the view of the Conference that a subsidiary bank should not be permitted to invest in "family" obligations on a more favorable basis than it can make loans on such obligations; and that it should be prohibited from owning or making loans on the stock of "family" interests on the same theory that it is prohibited from owning or making loans on its own stock.

The Conference believes that whenever a banking subsidiary of a bank holding company proposes to acquire the assets of another bank the prior approval of the Board of Governors should be obtained in all cases. In addition there should also be obtained the approval of the Comptroller of the Currency in the case of a national bank, and of the Federal Deposit Insurance Corporation in the case of a nonmember insured bank.
The Conference is disturbed by the possibility of a holding company discouraging Federal Reserve membership for its subsidiary banks except the key bank and encouraging such banks to deposit their reserves in the key bank. While the Conference sees no practical solution to this problem, it believes that the problem should continue to receive careful consideration and study by the Board.

Chairman Eccles stated that the independent bankers associations and the holding company groups had made certain suggestions for changes in H.R. 6225, and that whatever bill was proposed by the Board would have to have the support of those associations and not be opposed by the holding company groups or the Treasury.

In the discussion of this matter there was a reference to the statement contained in the recently released annual report of the Comptroller of the Currency for the year 1945 with respect to holding company legislation, and Chairman Eccles stated that between now and the convening of Congress it would be necessary for the Board to prepare a bill in the line of the discussions which had been had with representatives of the independent bankers associations and the holding company groups and that the report of the Presidents' Conference committee would be considered in that connection.

4(d) Reconstruction Finance Corporation blanket loan agreement. At the joint meeting of the Board and the Presidents on June 11 there was a short discussion of the current program of the Reconstruction Finance Corporation offering blanket participation, up to 75 per cent, in loans made by commercial banks to business enterprises. On June 13, 1946, the Chairman of the Conference wrote the Board expressing the views of the Con-
ference in greater detail, stating that "in the immediate circumstances the present active campaign of the RFC * * * to promote its blanket participation agreement is out of touch with these inflationary times, and is endangering the borrowing practices of business and the lending practices of banks." In his reply of July 8 the Chairman of the Board stated that "We will keep in touch with the situation and advise the Presidents of the status of the matter at the time of the next Presidents' Conference."

Chairman Eccles reviewed briefly the developments which had taken place in connection with this matter since the last meeting of the Presidents' Conference and suggested that the Presidents might wish to make a statement of its current position on the matter. He also said that the Federal Advisory Council was scheduled to meet in Washington on October 7, 1946, and undoubtedly would have something to say with respect to the matter and that he might present the statements of the Presidents and the Federal Advisory Council to Secretary of the Treasury Snyder and suggest that there be a meeting with representatives of the Reconstruction Finance Corporation to see if it would be possible to persuade them of the dangers of the present program. If it were not possible, he said, to bring about a termination of the program he would favor talking with the President of the United States, possibly with representatives of the Reconstruction Finance Corporation also being present, for the purpose of presenting to the President the position of the banks and the Federal Reserve System in opposition to the present program.
Mr. Sproul stated that the letter addressed to the Board on behalf of the Presidents' Conference on June 13, 1946, still expressed the views of the Conference and that it wished to renew its recommendation that something be done about the matter.

5. Consumer Credit -- Regulation W. The Conference considered the control of consumer credit. It has two recommendations. (1) It recommends revision of Regulation W to confine its application to the consumers' durable articles that customarily account for the great bulk of installment credit, and to include only such provisions as to charge accounts, single payment and installment loans, and renewals and consolidations of existing installment credit as are necessary to safeguard the regulation from evasion and circumvention. (2) The Conference believes that the Board should follow up the recommendation contained in its 1945 Annual Report and press for a legislative decision one way or another at the earliest practicable time on continuation of consumer credit control. Specifically, the Conference recommends that the Board direct the attention of the Office of War Mobilization and Reconversion to the difficulty of long-continued operation under the wartime executive order and request that Office to lead in seeking early consideration by Congress. This recommendation is not to be taken as an indication of approval by the Conference of legislation to continue consumer credit control.

Chairman Eccles stated that the Board was in agreement with the recommendation of the Presidents' Conference on this subject.

Mr. Sproul referred to the last sentence of the above recommendation and stated that the Presidents were about evenly divided on the question whether there should be legislation authorizing the continuation of the regulation of consumer credit.

In this connection Mr. Ransom called attention to the comment in the report of the director of War Mobilization and Reconversion,
as of October 1, 1946, to the effect that a cautious attitude toward consumer credit was a continuing responsibility not only of the Government but of all business men and consumers as well.

Chairman Eccles stated that the Board was unanimously of the opinion that it should not be called upon to continue the regulation of consumer credit under the outstanding executive order and that it was entirely willing to have the matter determined by the next Congress. He also said that the Board had not discussed the kind of legislation that might be proposed, but that between now and the end of the year it would determine whether it would support legislation and, if so, the form that the legislation should take.

6. Legislative proposals in Board's 1945 Annual Report. The Conference discussed in general terms the suggestions for legislative consideration contained in the Board's 1945 Annual Report. Supplementing the study which is being given to these proposals by the individual Presidents, the Conference Committee on Research and Statistics is being asked to devote primary attention to them and to the problems toward which they are directed. The Presidents obviously have a vital interest in such matters. They would like to be informed as to how these suggestions are being adjusted to shifts in the economic scene, in which the dangers of monetization of the public debt merge into dangers of unwise expansion of bank loans. And they would expect to be considered as participants in the formulation of whatever final recommendations are to be made by the System.

Chairman Eccles referred to the last sentence of the Presidents' statement that they would expect to be considered as participants in the formulation of whatever final recommendations were to be made by the System, and said that, as the Presidents knew, the Board could
not make a commitment that it would always discuss with the Presidents in advance any legislative proposals that the Board might offer to the Congress. He also said that in the past the Board had in practically all cases discussed legislative proposals with the Presidents and he saw no reason why that practice should not be continued.

Mr. Sproul stated that the Presidents would have no objection to changing the word "expect" in the last sentence of the above statement to "like" and that the sentence had been included in the statement with the thought that if the Presidents were expected to give full support to legislation which the Board submitted to the Congress they should be consulted.

He also asked if there were any new developments in connection with the proposals contained in the Board's annual report and Chairman Eccles responded in the negative, stating that, as indicated at the meeting of the Federal Open Market Committee yesterday, it might develop that the legislative proposals contained in the report might not be necessary, but that the Board had wanted to bring the fact to the attention of the Congress that the System might be faced with a situation in which additional authority would be needed. He added that the report started a wide discussion of the proposals which might have had the effect of deterring banks somewhat from taking actions which would have brought about the condition which the additional powers referred to in the report were designed to correct.
7. Administration and enforcement of Regulations T and U. The Conference discussed the administration and enforcement of the Board's Regulations T and U, particularly in the light of the present 100 per cent margin requirement. The Conference does not recommend any immediate relaxation of margin requirements. It is concerned about the continuing satisfactory administration and enforcement of the regulations. However, it believes that this will be impossible without the general cooperation of those regulated and that this in turn depends upon their acceptance of the view that the regulations are fundamentally reasonable within the limits imposed by the statute. Thus, restrictions which appear unreasonable, e.g., the prohibition of substitution of securities in under-margined accounts, and the inability of stockholders to obtain credit to exercise rights issued to them, tend to discredit the regulations in the minds of those who are subject thereto. And when margin requirements are raised so as to prohibit margin transactions rather than to limit the amount of credit that may be extended on securities, pressures to avoid the prohibitions of the regulations become intensified, a situation which is particularly destructive in view of the fact that Regulation U is practically unenforceable in the absence of widespread voluntary acceptance.

Mr. Draper stated that the Board was favorably disposed to the proposals contained in the Presidents' statement as set forth above and that they would be studied, but that the question of their adoption was largely one of proper timing.

On the latter point Mr. Sproul expressed the personal opinion that the changes proposed by the Presidents would make the regulations more reasonable and their enforcement more effective and that, therefore, they should be made promptly. He also said that, with the elimination of margin trading, the urge to evade the regulations was increased, but that if there were a reasonable administration the loopholes in the regulations would not be availed of as much as otherwise would be the case.
8. Federal Reserve Bank expenditures. Pursuant to the request contained in the Board's letter of August 15, 1946, the Presidents have reviewed the expenditures at their respective banks and have taken such steps as they deemed appropriate in the light of the Board's letter and the letter of August 1, 1946, by the President of the United States to the heads of executive departments and agencies, which was enclosed with the Board's letter. Each President is prepared to furnish the Board with a memorandum of what is being done at his bank.

Chairman Eccles stated that it would be appreciated if before the end of the year the Presidents would send to the Board a report of what the respective Banks have been able to accomplish in the direction of reducing expenditures.

9. Expenditures for luncheons, entertainments, etc. Pursuant to the Board's request contained in its letter of September 13, 1946, the Conference considered the subject of expenditures for luncheons, dinners, etc., including entertainment of bankers and others not in the banks' employ. The Conference believes that the statement of policy contained in the Board's letter (S-826; L.L.S. #3187) of January 16, 1945, and the attached memorandum (S-826-a) is workable and satisfactory provided it continues to be administered in a flexible manner.

Chairman Eccles said that this problem was a difficult one and that the Board would wish to give it further consideration in the light of the Presidents' statement, particularly with a view to working out a solution which would bring about somewhat greater uniformity than existed at the present time in these and other expenditures, such as travel allowances by the Federal Reserve Banks.

Mr. Sproul stated that the Board's letter of January 16, 1945, established a workable policy and that it was not practicable to establish a procedure to be followed in complete detail.
Chairman Eccles responded that the Board would give further consideration to the matter and establish some kind of a standard which would result in greater uniformity than in the past.

Thereupon the meeting adjourned.

Chairman.