

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 22, 1946.

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

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

As stated in the minutes of October 30, 1946, Mr. Vardaman was absent on official business.

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, Secretary of the Federal Reserve Bank of Philadelphia; Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago; Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis; Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City; and Mr. Volberg, 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 San Francisco on November 19, the Federal Reserve Bank of St. Louis on November 20, the Federal Reserve Banks of New York, Philadelphia, Kansas City, and San Francisco on November 21, and the Federal Reserve Banks of Boston and Chicago today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Memorandum dated November 21, 1946, from Mr. Smead, Director of the Division of Bank Operations, recommending that the following increases in the basic annual salaries of employees in that Division be approved, effective December 1, 1946:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
John J. Hurley	Statistical Analyst	\$4,275.00	\$4,400.40
Margaret Muehlhaus	Secretary to Mr. Van Fossen	3,271.80	3,397.20
Sarah L. Trott	Secretary to Mr. Horbett	3,146.40	3,271.80
Dorothy Werner	Clerk-Stenographer	2,770.20	2,845.44
Margaret C. Griset	Clerk-Stenographer	2,694.96	2,770.20
Mary Ann Chadik	Clerk	2,619.72	2,694.96
Doris A. Garrison	Clerk	2,619.72	2,694.96
James P. Wooten	Accounting Clerk	2,394.00	2,694.96
Lillian F. Wopat	Clerk	2,394.00	2,469.24

Approved unanimously.

Letter to Mr. McCabe, Federal Reserve Agent of the Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the request contained in Mr. Hilkert's letter of November 20, 1946, the Board of Governors approves, effective November 1, 1946, the payment of salaries to the following members of the Federal Reserve Agent's Staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Elwood J. Braker	Alt. Assistant F. R. Agent	\$3,089.13
Margaret R. Newcomb	Alt. Assistant F. R. Agent	2,805.26
J. Frank Rehfuss	Alt. Assistant F. R. Agent	6,985.00
Richard G. Wilgus	Assistant F. R. Agent	6,985.00"

Approved unanimously.

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Letter to Mr. Berge, Secretary and Assistant Counsel of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of November 8, 1946, with further reference to the question whether section 32 of the Banking Act of 1933 is applicable to Messrs. Ayer, Dennett and Rice, who are serving as directors of the First National Bank of Boston and as directors of Capital Managers, Inc.

"Your letter and its enclosures indicated that General Capital Corporation, an investment company, with which Capital Managers, Inc. has a contract and certain interlocking personnel (not including the above-named), is preparing to offer a large number of its shares and that it may for that reason become engaged in the business described in section 32. However, there is nothing to indicate that the relationship between the two corporations is any different from what it was a year ago, and it is assumed from your letter and previous correspondence that you do not feel that the facts would justify disregarding the separate existence of the two corporate entities. Under the circumstances, the position of the Board as stated in its letter of January 5, 1946, remains unchanged. In other words, the Board is not disposed at this time to raise objection to the interlocking relationships in question, with the understanding that if there should be any changes in the relationship of the two corporations referred to or in their activities further consideration of the matter will be necessary."

Approved unanimously.

Letter to Mr. Sheehan, Chief Examiner of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of November 15, 1946, submitting the application of The Continental Bank & Trust Company of New York for permission to create acceptance liability on drafts or bills of exchange to an amount not exceeding at any one time in the aggregate one hundred per centum of its capital stock and surplus.

In view of your recommendation, the Board of Governors of the Federal Reserve System authorizes The Continental Bank & Trust Company of New York, New York, New York, to accept drafts or bills of exchange to an amount (which

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"amount shall include any drafts or bills of exchange accepted by other banks for its account) not exceeding at any one time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus, subject to the provisions of the Federal Reserve Act and the Board's Regulation C issued pursuant thereto.

"Please advise the member bank of the Board's action in the premises."

Approved unanimously.

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

"This refers to your letter of October 23 regarding certain questions presented by the Chicago Stock Exchange under Regulation T.

"The first question is whether delivery and payment under section 4(f)(3) must be exactly simultaneous (such as in sight draft shipments), or whether it is sufficient if the broker-dealer customer, 'as promptly as practicable in accordance with the ordinary usage of the trade', mails or otherwise delivers to the creditor a check in settlement of the transaction, the check being accompanied by instructions for transfer or delivery of the security. The Board is of the opinion that the latter method of settling the transaction is permissible.

"The second question is, in effect, whether the limitations of section 4(c)(8) apply to the account of a customer who is himself a broker or dealer. The answer is that the provision applies to any 'special cash account', regardless of the type of customer.

"The third question is, in effect, whether a purchase and a sale of an unissued security under section 4(f)(3) may be offset against each other, or whether each must be settled separately by what would amount to delivery of the security to settle one transaction and its re-delivery to settle the other. The answer is that it is permissible to offset the transactions against each other without physical delivery and re-delivery of the security."

Approved unanimously.

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Letter to Mr. L. E. Shuck, L. E. Shuck Realty Co., 1101 Rimpau at Olympic, Los Angeles 6, California, reading as follows:

"This refers to your letter of October 17, 1946, addressed to Chairman Eccles relative to margin requirements for security market credit.

"You state that, as a consequence of increased margin requirements which became effective early in the year, investors withdrew stocks which they had been carrying with brokers and placed them with banks as collateral for loans and that subsequently, following the September market decline, the banks requested additional margin which if it were not forthcoming resulted in forced liquidation of the loans. You indicate that investors whose loans were handled in this manner are now unable to repurchase and for that reason you presumably urge this Board to consider relaxation of the present margin rules.

"While the implications of your letter are not entirely clear we assume that the stocks which were withdrawn from brokerage offices were securities which were owned 'free' and which were not being carried on margin. As we are certain you are aware, the Board's margin requirements are contained in two regulations -- Regulation T and Regulation U. The former is applicable, in general, to brokerage concerns, the latter to banks. In respect of credit extended for the purpose of purchasing or carrying stocks registered on a national securities exchange the major requirements contained in the two regulations are identical. Further, in accordance with the provisions of Regulation U a bank is not permitted to accept the transfer of an account from a broker without following the requirements of that regulation governing the making of a loan. For that reason it is clear that the customary type of 'margin account' carried by brokerage concerns could not be transferred in the manner you describe unless the provisions of Regulation U were violated. Again, as you are undoubtedly aware, a bank may rely on a written statement signed by the borrower or by an officer of the bank in connection with loans secured by stocks to the effect that the proceeds of the loan are for purposes other than purchasing or carrying stocks registered on a national securities exchange. Reports reaching us have led

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"us to believe that fraudulent statements on the part of obligors do not constitute a serious problem. Certainly our statistical studies do not indicate that any substantial volume of customers' debits carried by brokerage concerns prior to January 21 have been liquidated and absorbed by the banks.

"Therefore, it would appear that you are concerned with an investor's ability to borrow against 'free' securities for purposes other than purchasing or carrying securities. This he may now do either at a bank or through a brokerage concern subject to the applicable provisions of Regulation U and Regulation T, respectively.

"Finally, it would not appear that a restoration of margin trading for the purpose of security purchases would help the situation which you describe. Had credit provisions been more liberal in this regard forced liquidation of holdings would have been much more widespread. One of the basic purposes of the present margin requirements has been to prevent excessive forced selling in the event of a serious market decline."

Approved unanimously.

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


"A Summary of Regulation W Enforcement Reports for the month of October 1946 is enclosed.

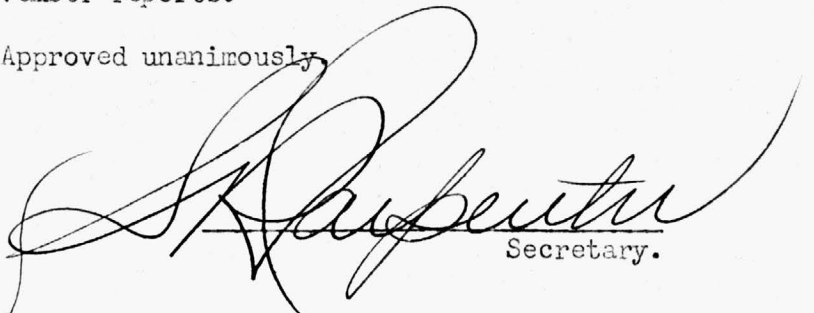
"House-to-house peddlers, furniture stores, jewelry stores, clothing stores, and state-licensed small loan companies continue to represent the areas in which enforcement problems have been most severe.

"It is likely that considerable trade reaction to the revised regulation will be manifested during the latter part of November and it is suggested that the Banks may wish to incorporate a summary of such reaction as a part of their November reports."

Approved unanimously.

Approved:


Chairman.


Secretary.