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Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, January 20, 1947.

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

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 19, 1946, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 20, 26, 27, 30, 31, and January 2, 3, 7, 8, 10, 13, 14, 15, 16 and 17 were approved and the actions recorded therein were ratified unanimously.

Letter to the Federal Deposit Insurance Corporation reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the DeKalb State Bank, Doraville, Georgia, became a member of the Federal Reserve System on January 15, 1947, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,

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- "5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Letter to Mr. Louis Loss, Chief Counsel, Trading and Exchange Division, Securities and Exchange Commission, 18th and Locust Streets, Philadelphia 3, Pennsylvania, reading as follows:

"Your letter of January 10, 1947 requests the opinion of the Board as to whether, on the basis of certain information you present, the firm of Otis & Co. of Cleveland, Ohio, is subject to the provisions of section 7(c) of the Securities Exchange Act of 1934 and Regulation T. The firm is both a broker and a dealer, but is not a member of any national securities exchange. The question, therefore, is whether it 'transacts a business in securities through the medium of a member' within the meaning of the Act and the Regulation.

"You state the facts as follows:

'Otis & Co. is one of the country's larger non-member firms. Its over-the-counter business includes participations in distributions, as well as ordinary trading with members, non-member firms and the public generally. In addition, it effects transactions on national securities exchanges through the medium of members. We have data relating to the number of transactions of different types during a three-month period, and we assume for the present that these data are indicative of the amount of business of each type which Otis & Co. transacts.

'During this period Otis & Co. effected 5,073 transactions. Of these, 7.2% were effected on national securities exchanges through members acting as agent. Altogether its transactions with members over-the-counter and on exchanges (including cases in which the member acted as agent and cases in which the member acted as principal) came to 10.5% of its total transactions.

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'Slightly over one-half of the firm's transactions during the particular period studied (2589 transactions) consisted of purchases and sales in connection with the distribution of new issues. It appears that member firms were not parties to any of these transactions. When compared to its ordinary day-to-day business (that is, its business other than the distribution of new issues) the relative size of its business with members was approximately twice as great as the percentage figures already given. Thus, limiting our consideration to the firm's business other than the distribution of new issues, we find that 14.6% of this business was effected on exchanges through members acting as agent and that 21.0% was with member firms acting as principal or as agent, on exchanges and over the counter.

'Otis & Co. is registered with the Commission as a broker as well as a dealer. This reflects the fact that, as broker, it is engaged in the business of effecting transactions in securities for the account of others within the meaning of Section 3(a)(4) of the Securities Exchange Act. 47.4% of its business as broker is effected on exchanges through members acting as agent. Altogether, 54.7% of its brokerage business is with members acting as principal or as agent, on exchanges or over the counter.

'The firm maintains six private wires to the offices of member firms.'

"In an opinion at 1938 Federal Reserve Bulletin, page 951, the Board stated that a broker or dealer may fall within the provision even though he carries no so-called margin accounts. At 1939 Federal Reserve Bulletin, page 961, the Board expressed the view that a firm could be subject to the provision even though no more than 10 per cent of its total business was transacted through the medium of a member. The latter opinion pointed out that the provision refers to a broker who transacts 'a business' in securities through the medium of a member, and that it does not require that a majority of his business be so conducted or that the business be 'principally' or 'chiefly' so conducted.

"It is clear, of course, as stated in the 1938 opinion, that the question of whether or not a particular broker or dealer falls within the provision must turn upon all the relevant facts involved in the particular

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"case. It is believed, however, that the 1938 and 1939 opinions indicate the purpose and scope of the provision, and that they throw light on the present situation.

"After careful consideration and on the basis of all the facts presented in your letter, the Board is of the opinion that Otis & Co. is clearly subject to Regulation T as a broker or dealer who 'transacts a business in securities through the medium of a member."

Approved unanimously.

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

"This is to acknowledge receipt of your letter of January 13, regarding the experience of your Bank under Regulation V.

"We note that as of December 31, 1946, your Bank had practically completed the Regulation V program; that under it the net income to the Services amounted to \$2,789,376.22; and that the senior employees connected with this work have been successful in obtaining employment, several of them in official positions, either with your Bank, other banks, or business concerns.

"The feeling expressed by you with respect to the Regulation V program, as contained in the next to the last paragraph of your letter, seems to be generally accepted by everyone connected with the program.

"We are glad to have the information contained in your letter and appreciate your making it available to us."

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 December is enclosed.

"Some easing of enforcement difficulties was indicated, following the general elimination of house-to-house peddlers and jewelry and soft goods stores, and the exemption of articles under \$50, by the December 1 revision of the regulation. Four classes of Registrants

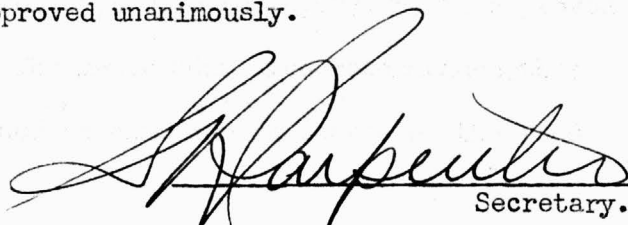
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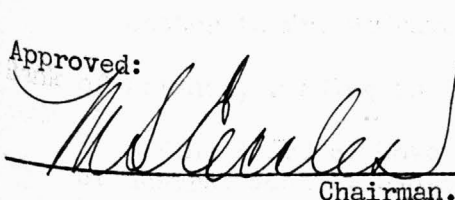
"accounted for about 89 per cent of the total investigations in December: sales finance companies (6.4 per cent), automobile dealers (42.1 per cent), furniture or house furnishing stores (23.2 per cent), and household appliance or radio stores (17.1 per cent). Investigations of automobile dealers were substantially increased, these having been 24.4 per cent of the total investigations in November and 17.2 per cent in October. The changes in investigative activity in response to the revised regulation were accompanied by a decline in the total number of violators reported per 100 investigations, from 17 in October and 11 in November to 10 in December.

"Registrants investigated continued to express general approval of the regulation. Several Banks reported that many vendors were still using the terms in effect before December 1 for transactions now exempted. The principal objection to the regulation's terms was again expressed by automobile dealers, six Banks reporting dealers' opinions that the automobile maturity should be lengthened, now or when cars are in better supply, to 18 or 24 months."

Approved unanimously.


Secretary.

Approved:


Chairman.