

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 26, 1948. The Board met in the Board Room at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman pro tem.
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations
Mr. Townsend, Associate General Counsel

There was presented a telegram to the Federal Reserve Bank of Boston reading as follows:

"Retel March 22, Board approves effective March 26, 1948, rate of 1-1/4 per cent on purchases of Government securities under resale agreement as authorized by Federal Open Market Committee. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram dated March 22."

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Chicago and San Francisco on March 23, by the Federal

3/26/48

-2-

Reserve Banks of Atlanta and St. Louis on March 24, and by the Federal Reserve Banks of Cleveland, Richmond, Minneapolis, Kansas City, and Dallas on March 25, 1948, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to the letter dated March 24, 1948, from Senator Tobey, Chairman of the Senate Banking and Currency Committee, requesting information with respect to Transamerica Corporation which was discussed at the meetings of the Board on March 24 and 25 and concerning which it was agreed that a reply would be deferred until the request had been discussed with Chairman Eccles, who was away from Washington on vacation. Mr. Szymczak tried to reach Chairman Eccles by telephone after the meeting yesterday but was not successful, and since Chairman Eccles returned to his office this morning this meeting was called for the purpose of discussing the matter.

Mr. Thurston stated that this morning he had been informed by Mr. L'Heureux, Chief Counsel for the Banking and Currency Committee, that in response to a similar request the Committee had received a reply from the Comptroller of the Currency stating that that Office did not have any material such as was requested and that information in their files relating to pending applications for branches of banks was confidential.

Chairman Eccles stated that he felt that information requested by Senator Tobey in his capacity as Chairman of the Senate Banking and Currency Committee should be furnished, and that in

3/26/48

-3-

responding the Board should not be technical but should comply with the evident spirit and intent of the request. He said, however, that if it was decided not to furnish all the information that had been discussed, the Board should say that the material was of a highly confidential character and that it did not feel it should be released publicly. He added that the Board, as an agent of Congress, would be expected to respond to the request from the Senate Banking and Currency Committee in the light of the public interest involved.

Mr. Clayton stated that he felt the question also involved the matter of working arrangements with other administrative agencies of the Government, since it was possible that the Department of Justice and the Comptroller of the Currency might feel embarrassed by a public release of some of the correspondence, and that the furnishing of such correspondence might be considered by those agencies as going beyond the technical requirements of the letter from Senator Tobey. He went on to say that he felt that there was nothing in the Board's record that it would want to cover up, but that there was a question whether the information contained in the interdepartmental correspondence with the Attorney General and the Secretary of the Treasury in the spring of 1947 relating to a possible anti-trust suit against Transamerica necessarily came within the scope of Chairman Tobey's request.

3/26/48

-4-

Mr. Szymczak said that the record and position of the Board were clear, that in the past it had done all it could to get the Department of Justice to file an antitrust suit against Transamerica, that a year ago the Attorney General had referred the matter to the Secretary of the Treasury, and that so far as was known the Secretary of the Treasury had not acted, although the Board had urged him to do so when it learned that the Attorney General had submitted it to him. He then reviewed the action of the Board at the meetings on March 24 and 25 at which this matter was discussed, and said that if the confidential information with respect to the possible antitrust suit was furnished to the Committee it might embarrass the administration, and hurt the Board's relations with other departments of Government, that the purpose of Senator Tobey's inquiry was not clear, and that it was not apparent what the Board would accomplish by releasing information relating to the antitrust suit or, for that matter, the correspondence relating to the Board's Clayton Act investigation. Mr. Szymczak also raised a question whether the release of this information would not hurt the chances of passage of the bank holding company legislation which the Board strongly felt should be enacted in the public interest.

This question was discussed and it was the consensus that the passage of the bank holding company legislation depended primarily on factors other than the release of the information re-

3/26/48

-5-

requested, and that the response to Chairman Tobey should be on the basis of what was required by his letter and whether the interdepartmental correspondence should nevertheless be withheld on the ground that it was highly confidential.

In this connection question was raised as to whether the Committee had legal authority to request such information, and Mr. Vest stated that it had legal authority to subpoena evidence if that procedure was necessary. He added that, since Senator Tobey's letter could be interpreted in different ways, there might be some feeling that the Board should wait for a subpoena before releasing the confidential interdepartmental correspondence.

Mr. Clayton said that, in view of the wording of the first part of the letter from Senator Tobey, he felt the Board would be on worse grounds to withhold the interdepartmental correspondence, which was admittedly of a highly confidential character, than it would be to furnish the material, and that he had come to the conclusion that not only was such material squarely within the spirit of Senator Tobey's request but that it also came within the technical requirements of the language used in the letter.

Mr. Szymczak referred to the President's memorandum to officers and employees in the executive branch of the Government dated March 15, 1948, requesting that all reports, records, and files relative to the loyalty of employees or prospective employees be maintained in confidence, and said that if the same principles

3/26/48

-6-

were applied generally, executive agencies would be under a request not to release material of the type under discussion. He also suggested that the Board might either send Senator Tobey the 1942 correspondence with respect to approval of branches for Bank of America and the November 1947 correspondence with respect to a Clayton Act investigation and not disclose that there was any other material in its files that might be covered by Senator Tobey's request, or as an alternative the Board might send that information together with the correspondence relating to the possibility of an antitrust suit and call attention to the fact that this additional material was of a highly confidential character and that the Board would prefer that it not be released.

There was a discussion of various alternatives, during which it was suggested that a letter be prepared transmitting three groups of correspondence, namely, Group 1 - correspondence in 1942 relating to an application of one of the Transamerica-controlled State member banks for permission to establish certain branches; Group 2 - correspondence in 1945 and 1947 relating to the Board's interest in a certain investigation of Transamerica Corporation which was conducted by the Antitrust Division in 1945; Group 3 - correspondence in November 1947 relating to an investigation being conducted by the Board's Legal Division for the purpose of advising the Board whether there appeared to be reasonable cause for the Board to institute proceedings against Transamerica under Section 11 of the Clayton Act.

3/26/48

-7-

Following a discussion, upon motion by Mr. Clayton, it was agreed unanimously that Messrs. Vest and Townsend should prepare a draft of letter along the lines discussed and submit it to the Board for consideration.

At this point Messrs. Vest, Leonard, and Townsend withdrew and the action stated with respect to each of the matters herein after set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 25, 1948, were approved unanimously.

Telegram prepared in accordance with a memorandum dated March 25, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, to Messrs. Grove and Exter, economists in that Division, Manila Hotel, Manila, Philippine Islands, reading as follows:

"Board approves extension of itinerary proposed in your respective letters of March 16. Suggest call upon Governor Chang in Shanghai. In Tokyo report upon arrival to Cagle Finance Division. State Department being asked to arrange military permits for Tokyo."

Approved unanimously.

Memorandum dated March 24, 1948, from Mr. Smead, Director of the Division of Bank Operations, recommending the appointment of Mrs. Ruth R. Willard 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

3/26/48

-8-

the usual physical examination. The memorandum also stated that it was contemplated that Mrs. Willard would become a member of the Federal Reserve retirement system.

Approved unanimously.

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

"Reference is made to Chief Examiner Fenner's letter of March 24, 1948, requesting permission of the Board of Governors, pursuant to Section 8 of the Board's Rules of Organization, to use data obtained from reports of examination of State member banks with respect to salaries of bank officers and employees in discussing personnel relations at round table field conferences with bankers in the Third Federal Reserve District arranged as a part of the Bank Relations Program of the Reserve Bank.

"It is understood that the data used will be arranged and presented in such manner as to eliminate all possibility of persons outside of the Bank Examinations Department of the Reserve Bank being able to identify it as pertaining to an individual bank or groups of banks in a particular community. It is noted, also, that consent of the District Chief National Bank Examiner is to be obtained for the contemplated use of such data from reports of examination of national banks within the District.

"In the circumstances, the Board of Governors authorizes the use of the desired data to the extent, in the manner and for the purposes proposed."

Approved unanimously.

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

"In view of the recommendation contained in your letter of March 22, 1948, the Board of Governors extends to May 9, 1948, the time within

3/26/48

-9-

"which The Security State Bank, Polson, Montana, may accomplish membership."

Approved unanimously.

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

"In reply to your letter of March 23, 1948 regarding certain questions under the recent amendment to Regulation T, there is enclosed a copy of an S-letter setting out a ruling on the subject which will be published in the Federal Reserve Bulletin and the Federal Register. The solution of these questions was materially aided by the carefully reasoned analysis in your letter and the several telephone conversations which members of the Board's staff had with Mr. Norman P. Davis of your Bank.

"Careful consideration has also been given to the request of the New York Stock Exchange, as referred to in your letter, that the withdrawal of exempted securities from an undermargined account be permitted against the deposit of cash equal to the maximum loan value of the securities. The reasoning suggested by the Exchange would seem to be equivalent, in effect, to an argument for permitting withdrawals of securities against a deposit of their loan value not only in the case of exempted securities, but also in the case of registered securities. If so applied to registered securities, the permission would allow a broker to reduce the collateral in an undermargined account down to his own minimum maintenance requirements. In the circumstances, the Board believes that it would not be desirable at this time to permit the requested withdrawals.

"Your letter also refers to the request of the Stock Exchange that special provision be made for sale-and-purchase substitutions in connection with market orders for odd-lots. The request is based on the fact that the execution of odd-lot orders may be delayed by events beyond the control of the broker or customer, namely, by the failure of a round-lot transaction to occur on the given day. As you indicate, the subject does not appear to be of sufficient importance to justify an amendment to the Regulation at this time. Consideration will be given to the question whether it would

3/26/48

-10-

"be appropriate to reach the requested result by interpretation, and you will be advised further regarding the matter."

Approved unanimously, together with a letter to the Presidents of all Federal Reserve Banks reading as follows:

"For your information and for such distribution to interested persons in your district as you may consider appropriate, there is set out below the text of a ruling which will be published in the Federal Reserve Bulletin and the Federal Register regarding the recent amendment to Regulation T on the subject of substitutions in undermargined accounts:

SUBSTITUTIONS IN UNDERMARGINED ACCOUNTS UNDER RECENT
AMENDMENT TO REGULATION T

"Since the issue of Amendment No. 7 to Regulation T, effective April 1, 1948, the Board has been asked whether the Regulation as amended will permit any of the following operations in an undermargined account (one with an adjusted debit balance larger than the maximum loan value of the securities in the account), and in each case has replied in the negative:

(1) The counting of a deposit of unregistered non-exempted securities toward offsetting a withdrawal of registered or exempted securities (or the purchase of unregistered nonexempted securities, without additional margin, against a sale of registered or exempted securities). Comment - Unregistered nonexempted securities have no loan value under the Regulation, are not subject to the restrictions of the withdrawal rules, and are not referred to in those rules. Purchase of an unregistered security without a deposit of a sum equal to the cost would amount to a withdrawal of the cost of the security.

(2) The assigning of a maximum loan value of only \$250 to a \$1,000 exempted security received in the account as part of a sale-and-purchase or deposit-and-withdrawal substitution, even though the broker would ordinarily lend as much as \$900 on the security. Comment - The maximum loan value of an exempted security must be 'as determined by the creditor in good faith'. This means it must be the amount which the broker would customarily lend on the exempted security. The use of a lower figure merely for the

3/26/48

-11-

"purpose of permitting a later substitution of registered securities for exempted securities would not meet the requirement.

(3) The purchase of registered stock A, without additional margin, against the delivery out of the account of registered stock B (held long in the account) in settlement of a borrowing of stock B that has arisen from a 'short position' in the account. Comment - The sale of a registered security held in an account immediately reduces both the loan value of the securities in the account and the adjusted debit balance of the account. The fact that the broker goes through the form of setting up an equivalent 'short position', and thus delays the delivery of the security out of the account, does not affect either the loan value of the securities in the account or the adjusted debit balance of the account. Neither of these items, moreover, is affected by the eventual delivery of the security against the 'short position'. Accordingly, such delivery of the security does not permit a purchase of other securities without margin. This supersedes the ruling published at 1938 Federal Reserve Bulletin, page 353.

"The Board also took occasion to point out that if sale-and-purchase substitutions are to be made in an undermargined account without obtaining margin on the purchase, the two transactions must be on the same day."

Telegram to Mr. Knoke, Vice President of the Federal Reserve

Bank of New York, reading as follows:

"Your wire March 18. Board approves three months extension by your Bank of \$10,000,000 loans to Banque de France maturing April 2, 12, 14, 20, and 26 (two loans) on the terms and conditions specified in your wire as follows:

A. Such loans to be made up to 98 per cent of the value of the refined gold bars held in your vaults as collateral;

B. Such loans to mature not later than three months from the date thereof;

C. Such loans to bear interest from the date such loans are made until paid at the discount rate of your Bank in effect on the date on which such loans are made.

3/26/48

-12-

"It is understood that the question of renewing these loans will be resubmitted to the Board (as well as to your Directors and to the State Department) if prior to their present maturity dates developments occur in the international situation warranting such action. It is also understood that the usual participation in an extension of these loans will be offered to the other Federal Reserve Banks.

"The Board is reluctant to approve the extension of loans maturing more than one month in advance, and it is suggested that on or after April 20 you renew your request for Board action on the loans maturing April 29, May 3, and May 20."

Approved unanimously.

Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your wire March 25. Subject to approval by your Board of Directors the Board of Governors approves a loan or loans by your Bank to De Nederlandsche Bank up to a total amount of \$50,000,000 in installments of \$10,000,000 each if desired, on the following terms and conditions:

(A) Such loan or loans to be made up to 98 per cent of the value of gold bars held in your vaults as collateral;

(B) Each such loan to mature three months from the date thereof;

(C) Any such loan to be requested and made on or before September 30, 1948;

(D) Each such loan to bear interest from the date such loan is made until paid, at the discount rate of your Bank in effect on the date on which such loan is made

(E) Renewal, if any, of any such loan or loans to be subject to agreement between De Nederlandsche Bank and Federal Reserve Bank of New York.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

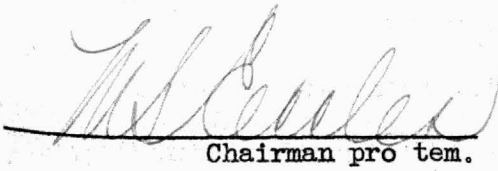
3/26/48

-13-

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.