

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 5, 1948.

PRESENT: Mr. Szymczak
Mr. Draper
Mr. Evans

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

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

"Retel May 4, 1948. Board approves designation of M. F. Dastugue of the New Orleans Branch as special assistant examiner for the Federal Reserve Bank of Atlanta."

Approved unanimously.

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

"This refers to your letter of April 21, 1948, submitting the request of The Ebenezer State Bank, Ebenezer, New York, for permission to exercise the trust powers granted to it by the State of New York.

"Consideration has been given to the generally satisfactory condition and apparently capable management of the applicant, to the probable nature of the transactions to be handled by it, and to the fact that the bank does not desire to engage in fiduciary activities generally.

"It is the view of the Board that the servicing of mortgages created by the bank and sold to other institutions represents an agency relationship incidental to the conduct of a commercial banking business, rather than a true fiduciary function, and that the Board's standard trust conditions are not applicable.

"Accordingly, the Board will interpose no objection to The Ebenezer State Bank, Ebenezer, New York, acting

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"in the capacity stated above and will not prescribe the trust conditions. This action is taken with the understanding that, if at any future time the applicant should desire to engage to any greater extent in fiduciary activities, it will first obtain the permission of the Board and accept the three standard trust conditions ordinarily prescribed by the Board for State member banks exercising trust powers.

"Please advise The Ebenezer State Bank accordingly."

Approved unanimously.

Letter to the Honorable Harry F. Byrd, United States Senate, reading as follows:

"This refers to your letter of April 27, 1948 enclosing a letter from Mr. Alfred E. Frisbie of Orvis Brothers & Co., Woodward Building, Washington, D. C. Mr. Frisbie's letter, which we are returning for your files, deals with a recent opinion which the Board issued on the subject of its Regulation T, relating to margin requirements. Since your letter was received, a member of the Board's staff has had the benefit of a telephone call on the subject from Mr. Frisbie. We appreciate the opportunity for the discussion of the matter with Mr. Frisbie over the telephone, and also this opportunity to set down the substance of the explanation given him.

"The opinion in which Mr. Frisbie is interested is to the general effect that when a security is sold in a margin account the transaction is immediately reflected as a sale of the security, even though the broker goes through the form of setting up an equivalent 'short position' and thus delays delivery of the securities. Consequently, any offsetting purchase of securities (if it is to be made in an undermargined account without obtaining additional margin) must be made on the date when the sale actually occurs rather than when securities are delivered against the 'short position' set up by the broker.

"The Board was asked this question in connection with an amendment to the Regulation which became effective April 1, 1948. The answer, however, did not depend

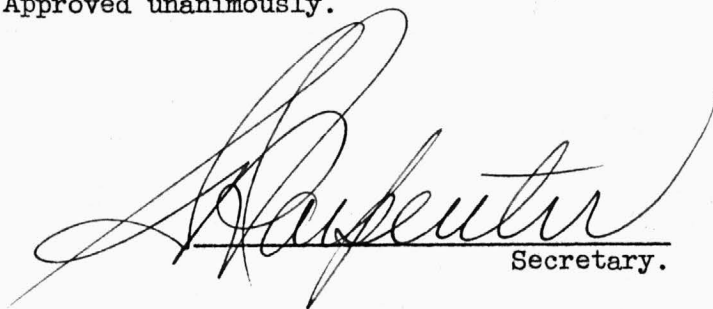
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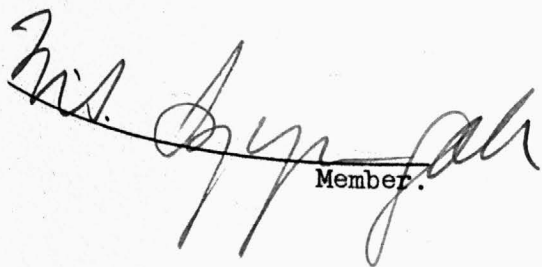
"on that amendment. It was the result of a change in the Regulation in July 1945, and if an inquiry on the point had come before the Board at any time after July 1945 the answer would have been the same, namely that the pre-1945 situation had been changed.

"It appears that a customer of Mr. Frisbie's sold a security, assumed the pre-1945 rule to be applicable, and attempted to delay the effect of the sale by having the broker go through the form of setting up a 'short position' in the security. The customer can, of course, have the broker make delivery against the short position at any time that he desires. Similarly, he can, of course, purchase other securities if he supplies adequate margin on the new commitment. It seems clear, however, that he failed in his effort to delay the effect of the sale, and that he cannot now make a new purchase of securities in an undermargined account without supplying the specified margin."

Approved unanimously.


Secretary.

Approved:


Member.