

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 8, 1949. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Draper
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Young, Associate Director of the Division of Research and Statistics
Mr. Solomon, Assistant General Counsel

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on April 4, by the Federal Reserve Bank of St. Louis on April 6, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, and Minneapolis on April 7, 1949 and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Mr. Vardaman stated that he had asked that consideration be given at this meeting to proposed technical amendments to Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, as discussed at the meeting on March 28, 1949, but that he had talked with Mr. Clayton and had no further questions at this time.

Mr. Clayton presented a memorandum prepared by Mr. Solomon under date of April 7, 1949, and at his request Mr. Carpenter read the memorandum which stated that (a) a study was being made of a proposal of the New York Stock Exchange for greater concessions to specialists and that definitive action would seem to be dependent upon receipt and analysis of certain information which the Exchange had agreed to supply; (b) that with respect to substitutions of securities in undermargined accounts, there had been no serious complaint at the present rule but that if for some reason the Board should wish to make a change in this feature of the Regulation very quickly, a rule which would permit a purchase to be matched against a previous sale within two or three business days would be a possibility; (c) that in connection with a proposal that the present provisions relating to subscriptions for securities through the exercise of rights issued to the purchasers,

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the matter had been discussed with Mr. Norman P. Davis, Assistant Vice President of the Federal Reserve Bank of New York, who canvassed the situation in New York and reported that lending officers and underwriters were unanimous in stating that the present provisions had never to their knowledge caused any difficulty whatever in the issuance of securities through rights, that they indicated practically no interest in the possibility of an "installment purchase" feature being added to the Regulation, that he (Mr. Davis) felt that something could be said for changing the provision so that instead of giving a 50 per cent loan value to all collateral put up to finance the purchase, it would give a 100 per cent loan or "good faith" loan value on the stock purchased with the rights, and that if the Board for some reason should wish to make some change in this feature of the Regulation very quickly, a change along that line would be a possibility; (d) that the National Association of Security Dealers had urged that the standard period of seven calendar days, within which payment must be obtained in a cash account, be changed to seven business days whereas the New York Stock Exchange opposed such a change and that if the Board for some reason should wish to make some change in this feature of the Regulation very quickly, it probably would come down to adopting the seven business days suggested by the National Association of Security Dealers, even though opposed by the Stock Exchange.

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During a discussion of the memorandum Mr. Vardaman raised the question whether all members of the Board had been informed of a request of the New York Stock Exchange for changes in the Regulations, and stated that he felt all requests for changes in any Board regulation should be brought to the attention of all members of the Board upon receipt rather than waiting until studies of the proposed changes had been completed.

There followed a general discussion of the proposal made by Eugene Meyer of the Washington Post for instalment payment for securities purchased through the exercise of rights and of the relationship of such a proposal to margin requirements.

At the conclusion of the discussion, upon motion by Mr. Vardaman, the staff was requested to prepare drafts of amendments to Regulations T and U with respect to rights and the 7-day settlement rule for consideration at the meeting on April 19, 1949, and it was understood that there would be further discussion at that time of amendments that might be made with respect to specialists and substitutions.

At this point Mr. Solomon withdrew from the meeting.

In connection with the foregoing, Chairman McCabe suggested that the views of the Investment Bankers Association of America be obtained with respect to the proposal for instalment purchases of securities, and it was understood that Mr. Clayton would discuss the matter with Mr. Murray Hanson who represented the Association in Washington.

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Chairman McCabe stated that the Federal Reserve Bank of Cleveland had submitted for informal consideration of the Board a list of proposed increases in officers' salaries for the period May 1, 1949 to April 30, 1950, that the Personnel Committee had discussed the proposals at a meeting yesterday, and that it had no comment to make to Cleveland except in the case of Mr. Fulton, recently appointed Vice President in charge of the Cincinnati Branch, for whom the Bank proposed an increase of \$2,000 which would bring his salary to \$13,500, an amount within \$500 of the maximum previously paid for the position. Chairman McCabe stated that the Personnel Committee felt it would be desirable to raise the question with the Cleveland Bank whether it would be preferable to make the increase for Mr. Fulton \$1,500 at this time which would be a substantial recognition for him and which would leave the way open to a later increase of \$1,000 without exceeding the previous maximum paid for the job.

Mr. Vardaman stated that while he would interpose no objection to that procedure, he was opposed in principle to questioning action of directors of Federal Reserve Banks with respect to salary proposals so long as the proposed rate was within a limit that the job could pay and that he felt such action amounted to substitution of management by the Board in place of supervision of a Federal Reserve Bank. The other members of the Board present

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indicated agreement with the views of the Personnel Committee as stated by Chairman McCabe.

Mr. Nelson stated that a separate letter dated March 15, 1949 was also received from the Cleveland Bank requesting approval of the payment of a retainer fee to the law firm of Squire, Sanders and Dempsey for the year May 1, 1949, to April 30, 1950, and he referred to the discussion at the meeting on March 9, 1948, at which Mr. Brainard, Chairman, and Mr. Gidney, President of the Cleveland Bank were present, and at which it was understood that the retention of outside legal services would be terminated at the end of April 1949.

During a discussion, Mr. Vardaman suggested that Mr. Nelson informally advise Mr. Gidney that the Board would be willing to approve retention of the firm of Squire, Sanders and Dempsey until December 31, 1949, if the Cleveland Bank would make such request in a letter which stated that the Bank would terminate the arrangement at that time and would not again raise the question of its continuation.

Mr. Vardaman's suggestion was approved unanimously.

Mr. Clayton stated that in accordance with the discussion at the meeting on April 5, 1949, an appointment had been made with Mr. Russell G. Smith, Executive Vice President of the Bank of America N.T. & S.A. to meet with representatives of the Board at

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2:30 p.m., on Wednesday, April 13, 1949. He outlined the matters which he felt should be discussed with Mr. Smith at that time concerning the foreign branch operations of the bank. He stated that he understood the Board representatives would not be authorized to make any commitment as to the solution of the problems of the bank, but he proposed that there be a discussion covering the overall policy of the bank as to extension of foreign branches, the operating policies followed in such branches, their experience with the more recently established branches, and consideration of the need for additional branches of American banks in Germany. The discussion would also cover the capital position of the bank and a comparison of its position with that of other American banks operating foreign branches and would raise the question of what action the bank had in mind for improving its capital position. Mr. Clayton stated that he expected to discuss the matter with Mr. Szymczak upon his return to Washington on Monday, April 11, and that the matter might be considered further at the meeting on Tuesday.

At this point Messrs. Riefler, Thomas, Vest, Nelson, and Young withdrew and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 7, 1949, were approved unanimously.

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Memorandum dated April 8, 1949, from Mr. Carpenter, Secretary of the Board, recommending an increase in the basic salary of Miss M. Elizabeth Jones, a supervisor in the Files Section, Office of the Secretary, from \$3,476.40 to \$3,601.80 per annum, effective April 17, 1949.

Approved unanimously.

Memorandum dated April 8, 1949, from Mr. Carpenter, Secretary of the Board, recommending that Mrs. Portia R. Agadjanian be appointed on a permanent basis as a file clerk in the Office of the Secretary, with basic salary at the rate of \$2,573.52 per annum, effective as of the expiration of her temporary appointment at the close of business on April 10, 1949.

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

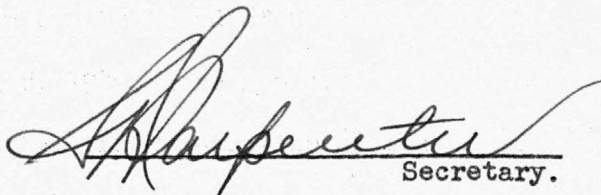
"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that The First State Bank, Hawkins, Texas, became a member of the Federal Reserve System on April 4, 1949, and is now a member of the System. The Board 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:

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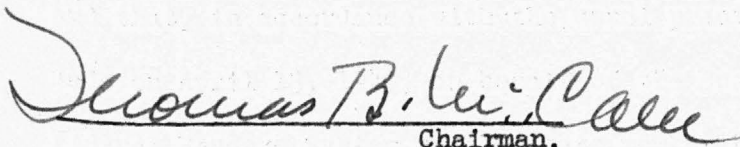
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- "1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.


Secretary.

Approved:


Chairman.