

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 7, 1949. The Board met in the Board Room at 2:35 p.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Clayton

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

In accordance with the understanding reached at the meeting of the Board yesterday, there was presented a memorandum dated July 7, 1949, from Mr. Vest submitting a revised draft of a proposed amendment to section 4(e) of the proposed bank holding company bill. The proposed amendment was in the following form:

"(e) Nor shall the prohibitions of this section apply to the ownership by a bank holding company of shares or other securities or obligations of any company which do not include more than 5 per cent of the outstanding voting securities of such company, and do not have a value greater than 5 per cent of the value of the total assets of the bank holding company, as determined under regulations prescribed by the Board; nor shall they apply to the ownership by a bank holding company, in excess of such limitations, of shares or other securities or obligations of an investment company which is not engaged in any business other than investing in securities if the bank holding company and all such investment companies (in which

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"the bank holding company has investments in excess of such limitations) do not together own shares or other securities or obligations of any one other company which are in excess of the foregoing limitations. If, while such bank holding company owns or controls such shares, securities, or obligations, the Board, after notice and opportunity for hearing, determines that the ownership or control of such shares, securities, or obligations is resulting in the violation or evasion of any of the purposes or provisions of this Act, it may by order require such bank holding company to dispose of all or any part thereof forthwith."

Following a consideration of how the proposed amendment would affect situations to which it would apply, Mr. Clayton raised for discussion the question of the procedure to be followed in submitting the amendment. This point was discussed and Mr. Vest suggested that it might be sent to the spokesmen for the various groups, who had participated in discussion of the bill during the past year, before the draft of bill containing the proposed amendment was sent to the Congress. There was general agreement with this proposal and, following consideration of suggestions as to the form such a letter should take, it was understood that a draft of letter would be prepared along the lines agreed upon and that it would be sent out tomorrow following approval by the Board.

At this point Messrs. Vest, Baumann, and Hostrup 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 July 6, 1949, were approved unanimously.

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Memorandum dated July 5, 1949, from Mr. Sloan, Assistant Director of the Division of Examinations, submitting for approval letters to the following foreign banking corporations calling for the submission of reports of condition as of June 30, 1949:

Bankers Company of New York	New York, New York
First of Boston International Corporation	Boston, Massachusetts
International Banking Corporation	New York, New York
Morgan & Cie., Incorporated	New York, New York
The Chase Bank	New York, New York

The memorandum stated that the first four corporations were organized under State laws but operate under agreements made with the Board pursuant to the provisions of section 25 of the Federal Reserve Act, and that The Chase Bank was chartered by the Board under provisions of section 25(a) of the Act.

Approved unanimously.

Memorandum dated July 5, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending an increase in the basic salary of Miss Caroline Lichtenberg, an economist in that Division, from \$3,225.60 to \$3,727.20 per annum, effective July 10, 1949.

Approved unanimously.

Letter prepared for Chairman McCabe's signature to Mr. Emil Schram, President of the New York Stock Exchange, Eleven Wall Street, New York, New York, reading as follows:

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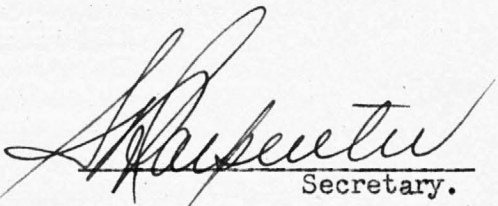
"As I indicated in my letter of June 14, your suggestion that Regulation T be amended to give a loan value of 75 per cent to registered non-exempted bonds is interesting, but has a number of ramifications.

"It seems reasonable to believe that the effect on securities markets and on the over-all use of credit would not be large, whether the loan value of bonds is changed to 75 per cent or retained at the present 50 per cent. However, the relatively greater advantages, from the viewpoint of the national economy, that can flow from the use of equity financing rather than debt financing seem relevant in this connection. It may be recalled that such considerations were among those leading to the adoption of the recent amendments to Regulations T and U facilitating the purchase of shares through subscription rights. It appears that the amending of Regulation T to give a higher loan value to bonds than to stocks would to some extent look in the opposite direction.

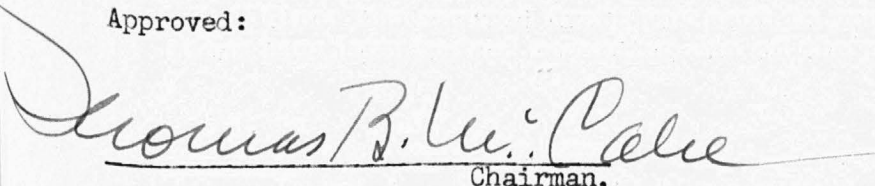
"As you indicate, under section 7(d) of the Securities Exchange Act of 1934 the standard limitation on loan values does not apply to bonds serving as collateral at banks under Regulation U, even though the limitation does apply to credit on bonds for carrying securities under Regulation T. The consequences of this difference between Regulation T and Regulation U are, however, lessened as a result of the recent increase in loan values from 25 per cent to 50 per cent.

"In the circumstances, the Board is inclined to feel that it would be desirable to observe more fully the operation of the recent changes in the margin rules and to defer at this time the making of a substantial change in the principles of Regulation T such as would be involved in adopting a higher loan value for bonds than for stocks.

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.