

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, February 5, 1951.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 2, 1951, were approved unanimously.

Memorandum dated January 31, 1951, from Mr. Sloan, Assistant Director of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to satisfactory final clearance of references, Charles P. Sturges be appointed on a temporary indefinite basis as an Assistant Federal Reserve Examiner, with salary at the rate of \$4,850 per annum, and with official headquarters at Washington, D. C.

By unanimous vote, Mr. Charles P. Sturges was appointed an Examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other Acts of Congress pertaining to examinations made by, for, or under the direction

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of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Washington, D. C., and with basic salary at the rate of \$4,850 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to satisfactory final clearance of references.

Memorandum dated February 1, 1951, from Messrs. Young and Williams, Director and Assistant Director, respectively, of the Division of Research and Statistics, recommending the appointment of Miss Gladys M. Davis as a draftsman in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,450 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual-physical examination and subject to the receipt of satisfactory references.

Approved unanimously.

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

"Reurtel February 2. In accordance with your recommendation Board grants an additional period of 20 days from February 5, 1951 for submission of report as of December 30, 1950 of Burlington Transportation Company as an affiliate of Bankers Trust Company."

Approved unanimously.

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

"Reference is made to your letter of December 21, 1950, submitting the request of 'Peoples Trust Company of Bergen County', Hackensack, New Jersey, under the requirements of Section 24A of the Federal Reserve Act, for approval of an increase in its investment in bank premises by \$31,810. The bank's investment in such premises now exceeds the par value of its common capital stock.

"In accordance with your recommendation the Board of Governors approves the additional investment in bank premises already made and to be made (in the aggregate of approximately \$31,810) by the Peoples Trust Company of Bergen County, Hackensack, New Jersey as set forth in its letter of November 21, 1950."

Approved unanimously.

Letter to Mr. Charles L. Wilson, Secretary, Philadelphia-Baltimore Stock Exchange, Philadelphia 2, Pennsylvania, reading as follows:

"This refers to your letter of January 29, 1951, regarding Regulation T.

"You refer to the fact that section 3(a) of the regulation, in effect, requires all financial relations between a creditor and a customer to be included in the customer's general account with the creditor, with some exceptions noted in section 4 of the regulation. You then state:

"It would appear that if an account properly margined under prior margin requirements becomes frozen as a result of the new regulation, a broker opening a new account will not be permitted to compute the securities positions in the original account on a 50% loan value basis. The effect of such a conclusion appears to operate to the prejudice of a broker in connection with further transactions with his customer. The customer may open

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"a new account with another broker by observing the 75% margin rule with reference solely to the new account. If he continues trading with the original broker he would appear to be required to put up additional margin in the first account to bring it up to 75% if he is to have the same privileges in connection with the new account as he would in connection with an account with another broker. Under these circumstances it is quite possible, if not probable, that in many cases a broker would lose a customer, and without the accomplishment of any intent of the Federal Reserve System with respect to the original account. (under-scoring supplied)

'We do not know whether consideration was given to this matter by the Board of Governors of the Federal Reserve System. We believe, however, that it should be considered and therefore are calling it to the attention of the Board, with the hope that the inequity of this situation may be corrected.'

"The sentence of your letter which we have under-scored above for convenient reference appears to be based on a misconception regarding the requirements of the regulation. The regulation does not require that additional margin be put up in an undermargined account to bring it up to the 75 per cent level. Even though old transactions in an account have less than 75 per cent margin, additional margin is required only in connection with the execution of new transactions, and in that event it is only required on the new transactions.

"Accordingly, the provision of section 3(a) to which you refer, and which has been in the regulation for many years, does not in practice result in any appreciable difference as between the trades permitted in an old account with one broker and a new account with a different broker.

"Of course, the question you raise as to differences between the margin required on accounts with two different brokers could not arise at all except for the fact that the regulation allows undermargined accounts to remain undermargined instead of requiring that they be brought up to the 75 per cent level. To extend the concession still further by permitting the general account to be

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"split up into many separate accounts would have many disadvantages -- among them the possibility that competitive pressure might force brokers to treat each transaction, or possibly even each individual share, as a separate account. It is evident that it could result in substantial clerical burdens on brokers, to say nothing of the reduced effectiveness of the regulation. These factors have been given careful consideration by the Board and, as indicated above, the present provisions of section 3(a) have been retained in the regulation for many years.

"Actually, the provisions of section 3(b) of the regulation relating to withdrawals and substitutions are unusually easy at the present time. In the event of the sale of a registered security in a general account -- even an undermargined account -- they permit withdrawal of the amount of margin required to purchase the security, that is, 75 per cent at present. (For simplicity we have assumed there are no margin calls outstanding and no other transactions in the account on the same day.) Under these provisions there is, of course, even less possibility of a new account having any advantage over an old one."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"In connection with the execution of guarantee agreements pursuant to Executive Order No. 10161, the following procedure, which is substantially the same as that in effect during the previous V-loan program, should be followed.

"In the case of guarantee agreements entered into between a Federal Reserve Bank, on behalf of any of the guarantors named in the Executive Order, with a financing institution, four signed copies of the agreement should be executed. After execution of the agreement by the parties, one signed copy will be available to the Federal Reserve Bank; one copy to the financing institution; and two copies to the guarantor.

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"In those cases where a Federal Reserve Bank is the financing institution, three copies of the guarantee agreement should be signed and forwarded to Washington to be executed by the guaranteeing agency, after which one copy will be returned to the Federal Reserve Bank for its files, the remaining two copies to be retained by the guarantor.

"Copies of the guarantee agreements intended for the respective guarantors should be forwarded to the Board's Division of Selective Credit Regulation for transmittal to the agency concerned.

"It will not be necessary to provide the Board of Governors with a copy of any of the executed guarantee agreements."

Approved unanimously.

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

"For your information in connection with the Program for Voluntary Credit Restraint we are enclosing herewith copies of letters which the Board is today addressing to the Attorney General, the Chairman of the Federal Trade Commission, the President of the American Bankers Association, and the President of the National Association of Securities Dealers. Letters similar to those to the American Bankers Association and the National Association of Securities Dealers have also been sent to the Investment Bankers Association of America, the Life Insurance Association of America, and the American Life Convention. We have also transmitted to the representatives who attended the meeting at your Bank on February 2nd copies of the letters which the Board is sending to their respective Associations."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"As you know, the Board has had under review a recommendation that its Regulation F be amended so as

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"to increase the amount which an individual trust may invest in a Common Trust Fund. After careful consideration of the circumstances involved and of the view submitted by the American Bankers Association and the several Reserve Banks with regard to the recommendation, the Board has amended, effective today, Section 17(c) of Regulation F so as to increase the limitation on investments in Common Trust Funds to \$100,000. Accordingly, the first paragraph of Section 17(c)(5) of Regulation F is amended to read as follows:

(5) Miscellaneous limitations. -- No funds of any trust shall be invested in a participation in a Common Trust Fund if such investment would result in such trust having invested in the aggregate in the Common Trust Fund an amount in excess of 10 per cent of the value of the assets of the Common Trust Fund at the time of investment, as determined by the trust investment committee, or the sum of \$100,000, whichever is less. If the bank administers more than one Common Trust Fund under this subsection, no investment shall be made which would cause any one trust to have invested in the aggregate in all such Common Trust Funds an amount in excess of the sum of \$100,000; and, if the bank administers Funds under both subsections (c) and (d) of this section, no investment shall be made which would cause any one trust to have invested in the aggregate in all such funds an amount in excess of the sum of \$100,000. In applying the limitations contained in this paragraph, if two or more trusts are created by the same settlor or settlors and as much as one-half of the income or principal or both of each trust is payable or applicable to the use of the same person or persons, such trusts shall be considered as one.

"The Board has also had under consideration a recommendation that the provisions of Footnotes 11 and 14, relating to Sections 10(c) and 12 of Regulation F, be amended to eliminate the applicability of Section 24 of the Federal Reserve Act to real estate loans in which the funds of two or more trusts may be invested. After consideration of the various aspects of this proposal, the Board has amended, effective today, Footnotes 11 and 14 to read as follows:

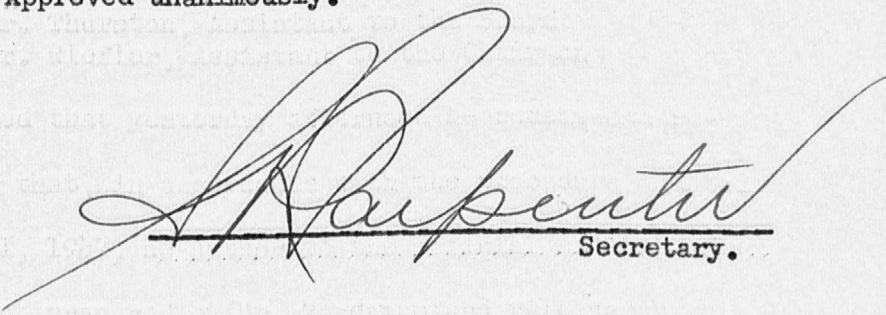
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"This does not prevent the bank from investing the funds of several trusts in a single real estate loan if the bank owns no participation in the loan and has no interest therein except in its capacity as fiduciary.

"In view of these and several other amendments made in recent years, the Board has decided to reprint the regulation. A supply of the revised regulation will be sent you within the next few weeks. In the meantime, will you arrange to give to member banks in your district such advice of the present amendments to the regulation as you consider advisable."

Approved unanimously.



Secretary.