Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, November 26, 1951.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman

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

Memoranda recommending that the basic annual salaries of the following employees be increased, effective December 9, 1951:

Date of Memorandum	Name and Title	Salary Increase From	To
	Memorandum from Mr. Boothe, Assistant Director, Division of Selective Credit Regulation		
11/20/51	Theodore A. Veenstra, Jr., Analyst	$3,535	$4,205
	Memorandum from Mr. Williams, Assistant Director, Division of Research and Statistics		
11/21/51	Elva H. Townsend, Library Assistant	3,575	3,655
11/21/51	Vendel O. Jeffries, Messenger	2,712	2,792

Approved unanimously.

Memorandum dated November 23, 1951, from Mr. Sloan, Director, Division of Examinations, recommending that Messrs. Alfred Kirmss, John C. Calhoun, Albert C. Chase, William R. Mulligan, and Beekman C. Slack, of the staff of the Federal Reserve Bank of New York, be appointed by the Board of Governors as examiners for the purpose of participating in an examination of Bank of America, New York, New York, a corporation organized under section 25(a) of the Federal Reserve Act.

Approved unanimously.

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

"The Board of Governors approves the payment of salary to Mr. Otto W. Ten Eyck, Assistant Vice President for the period January 1, 1952 through April 30, 1952, at his present rate of $13,000 per annum, which is the rate fixed by the board of directors as reported in your letter of November 15, 1951."

Approved unanimously.

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

"This will acknowledge your letter of November 21 regarding certain expenses in the amount of $48.12 incurred by Mr. Crosse during his recent assignment in Puerto Rico which you feel should be borne by the Federal Reserve Bank of New York rather than being charged to the Insular Government.

"In view of the circumstances described in your letter, the Board will have no objection to the Reserve Bank's assuming these expenses."

Approved unanimously.

Letter to The Plymouth National Bank, Plymouth, Massachusetts, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, and guardian of estates, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Massachusetts, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the

"regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously for transmittal through the Federal Reserve Bank of Boston.

Letter to the Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

"Pursuant to the provisions of section 4(b) of the Federal Deposit Insurance Act, the Board of Governors of the Federal Reserve System hereby certifies that the Anthony State Bank, Anthony, Texas, became a member of the Federal Reserve System on November 7, 1951, 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 section 6 of the Federal Deposit Insurance Act:

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 the Federal Deposit Insurance Act."

Approved unanimously.

Letter to Mr. John A. Murphy, Resident Partner, Reynolds & Co., 1528 Walnut Street, Philadelphia, Pennsylvania, reading as follows:

"This refers to your letter of November 9, 1951, regarding the amount that may be withdrawn from an undermargined margin account under Regulation T when a short sale is covered.

"You give an illustration in which John Doe sells short 100 shares of X Corporation at $100. His account is undermargined. When he covers at $75 he can withdraw from the undermargined account 75% of the covering proceeds, that is, 75% of $7500. On the other hand, if he covered at $125 a share, he would be permitted to withdraw 75% of $12,500. It is assumed that after either such withdrawal the account would meet the maintenance marginal requirements of the Stock Exchange. You suggest that the regulation seems to be unfair in permitting more to be withdrawn from the account when the customer is unsuccessful in his short sale than when he is successful, and you ask for an explanation of the reason for this result.

"Actually, the operation of the regulation does not depend on whether the customer has been successful or unsuccessful in his trading. The rules of the regulation regarding withdrawals from undermargined accounts are based on the current status of the account at the time of the withdrawal, and the price at which the original position was taken does not affect the amount of the permissible withdrawal. To illustrate, in the example that you give, the customer would always be able to withdraw 75% of the covering proceeds, that is 75% of $7500 if he covered at $75 per share and 75% of $12,500 if he covered at $125 per share. This would be true not only if he originally sold short at $100 a share, but also if he sold short at $80 a share, $120 a share, or at any other price. It would also be true regardless of what had happened to the price of the stock in the meantime. For example, it would be true if the stock, before going to the price at which it was covered, had fluctuated upward or downward by $5, $10, $50, or any other amount. In other words, the thing that governs the amount of withdrawal permitted from an undermargined account is neither the price at which a position was originally taken nor intervening fluctuations in price, but rather the price at which the position is closed out. This is true of both short and long positions.

"There are two main reasons for this rule. One is in the interest of simplicity. In an account that contained a great many different positions that were taken at various times and in various securities, it could be an extremely complicated task to relate the amount of a withdrawal in connection with a particular transaction back to the price at which the commitment originated. The burdens placed on

"brokers by such a rule could be considerable. This would be true even if unrealized gains and losses on other positions in the account were disregarded -- but as a practical matter it probably would also be necessary to consider such gains and losses, and that would still further complicate the calculations that would have to be made by the broker. Regulation T avoids such complications by applying its rules at all times on the basis of the current market value of the securities long or short in the account. As you know, a somewhat similar principle applies under the maintenance margin rules of the New York Stock Exchange.

"Another reason for basing withdrawals from undermargined accounts on the current status of security prices is the fact that under this rule the amount permitted to be withdrawn when a position is closed out is the same as the amount that would be needed to restore the position. For example, in the illustration you give, if the customer covers 100 shares at $75 a share, the $7500 he can withdraw would enable him later to take a short position (or long position, if he preferred) in 100 shares of the same or any other security at $75 a share. When it is necessary, as at present, to have margin requirements as high as the current 75% level, there may be a real question as to whether it is desirable to permit as much as 75% of the proceeds to be withdrawn in such cases. It can be argued that only a smaller percentage should be withdrawable; and at times in the past no withdrawal at all has been permitted in such cases. In any event, however, it would not seem desirable to attempt to relate the amount of a permissible withdrawal to the amount of the customer's gain or loss on the individual transaction.

"We appreciate the opportunity to comment on this matter. The Board's regulations are administered on a decentralized basis through the Federal Reserve Banks, and if you should have further questions regarding Regulation T you may find it convenient to submit them through the Federal Reserve Bank of Philadelphia or the Federal Reserve Bank of New York, where they will receive careful attention."

Approved unanimously.

S R Carpenter
Secretary.