

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 8, 1952. The Board met in executive session in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Powell
Mr. Mills
Mr. Robertson

After the meeting Chairman Martin informed the Secretary that the following actions were taken during the executive session:

Unanimous approval was given to the recommendation contained in a memorandum dated May 7, 1952, from Chairman Martin reading as follows:

"In accordance with recent discussions, it is recommended that the Board approve the appointment of Robert H. Craft as Technical Consultant to the Board for a period of approximately four months beginning May 19, 1952, for the purpose of making a study of the organizational structure and functioning of the market for United States Government securities particularly with reference to the operations of the Federal Open Market Committee.

"It would be understood that Mr. Craft would remain on the pay roll of the Guaranty Trust Company of New York but that he would be reimbursed by the Board for actual necessary travel expenses incurred by him while he is in a travel status on official business in connection with his work as Technical Consultant in accordance with the provisions of the Board's official travel regulations applicable to members of the Board, except that it would not be required that his vouchers set forth such expenses in detail or be supported by hotel and other receipts. Inasmuch as Mr. Craft would return to his home for weekends, it would be understood that the travel to and from New York for this purpose would be regarded as official travel."

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Unanimous approval was also given to a recommendation contained in memoranda dated April 28, 1952, and May 7, 1952, from Mr. Young, Director of the Division of Research and Statistics, that, for the reasons outlined in the memoranda, the Board authorize participation with the Department of Commerce and the Economic Stabilization Agency in financing the collection and tabulation by the Federal Trade Commission and the Securities and Exchange Commission of financial statements of trade corporations, the cost of the program for another year to be approximately \$30,000 of which \$10,000 is to be supplied by the Board. The action was taken with the understanding that this additional expense was not provided for in the 1952 budget of the Division of Research and Statistics and that approval of the recommendation would not constitute a precedent for future action or an indication that the Board would be willing to participate in financing the program for a further period.

Pursuant to action taken by the Board on October 15, 1951, and as reported by Governor Powell at the meeting on November 27, 1951, there had been discussions by a committee representing the Federal bank supervisory agencies and the State bank supervisors of actions that might be taken with respect to certain supervisory matters such as the chartering of banks, approval of establishment of branches, examination of banks, methods of obtaining adequate bank capital, and methods of improving bank audit and control methods. A subcommittee had been appointed to draft a report on these matters for submission to the principal committee, and

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under date of April 28, 1952, Governor Powell distributed among the members of the Board a draft of report prepared by the subcommittee. Governor Powell's memorandum commented that, while the report was not in final form and had not been formally accepted by the full committee, it was understood that the scope and language were apt to be changed very little by the full committee, and that for his guidance in the final meeting of the full committee he would appreciate a discussion of the draft of report at a meeting of the Board.

The members of the Board agreed that, for the purpose of further discussion by the full committee, the report was in satisfactory form.

Unanimous approval was given to an informal request from Mr. Vernon L. Clark, National Chairman of the United States Defense Bond Program of the Treasury, that the Board pay the cost (approximately \$600) of a dinner to be given by the Treasury on Monday, May 12, for the State Savings Bond Chairmen and about 30 other key volunteer savings bond workers who would be in Washington on that day in connection with the formulation of plans for the sale of new savings bonds recently announced by the Secretary of the Treasury. The reasons for this action by the Board were the same as those which prompted similar action in 1951.

It was agreed unanimously that, subject to the receipt of an anticipated formal request from the Mutual Security Agency, the Board would make available to that organization, for a period estimated at approximately two months, but in no event more than three months, beginning the middle of May 1952,

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the services of Mr. Marget, Director, Division of International Finance, in order that Mr. Marget might serve as the United States representative on a five-man team of experts to conduct for the Organization for European Economic Cooperation a general examination of the internal financial situation of its member countries. In taking this action it was understood that Mr. Marget would remain on the pay roll of the Board during the period of the special assignment, but that all subsistence, travel, and other expenses would be paid to him direct by the Mutual Security Agency, and that, in carrying out this assignment Mr. Marget would serve as a technical expert under the direction of the Mutual Security Agency rather than in his capacity as an official of the Board.

In connection with the above action, the Board also agreed unanimously that, by arrangement with the Mutual Security Agency, Mr. Marget should attend the annual meeting of the Bank for International Settlements, at Basle, Switzerland, as a representative of the Board, with the understanding that if this attendance involved expenditures not connected with Mr. Marget's work for the Mutual Security Agency, those expenses would be paid by the Board in accordance with the Board's travel regulations, as supplemented by the standardized Government travel regulations.

Following the executive session, Messrs. Carpenter, Secretary, and Sprecher, Assistant Director of the Division of Personnel Administration, were called into the meeting and the following actions were taken:

In accordance with an informal request of the Board, Governor Mills had given consideration to the question whether further additions should be made to Federal Reserve Bank reserves for contingencies and

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before this meeting he had sent to each member of the Board a memorandum dated May 5, 1952, which set forth reasons for the conclusions that (1) there would appear to be no need at this time to resume additions to Federal Reserve Bank reserves for contingencies, it being understood that such additions could be made at such future date as policy might seem to dictate, and (2) there was no good reason to transfer to the surplus accounts of the Federal Reserve Banks any portion of the amounts now held in reserves for contingencies.

These conclusions were approved unanimously, Governor Powell stating that while he approved he felt it was important that the contingency reserves of the Reserve Banks be large enough so that if market prices on securities held in the System Open Market Account declined substantially, there would be no hesitancy to sell such securities when necessary to carry out System credit policy.

Governor Szymczak referred to discussions during the last few years of the problem of policy and procedure in connection with the investment of funds of the Retirement System of the Federal Reserve Banks and to the informal action taken by the Board in appointing a committee consisting of Governors Szymczak, Powell, and Vardaman to study the matter and make a recommendation to the Board. During one of the meetings of the committee, Governor Szymczak said, Governor Vardaman suggested that Governors Powell and Mills as two of the newer members of the Board make

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a new study of the matter and submit a recommendation to the full committee. Governor Szymczak added that in accordance with this request a report was prepared by Governors Powell and Mills under date of April 29, 1952, reading as follows:

"FINDINGS ON RETIREMENT SYSTEM OF THE FEDERAL RESERVE BANKS
AND THE BOARD OF GOVERNORS

The undersigned members of a special Board committee, with the counsel of Governor Szymczak, S. R. Carpenter, George Vest, Dwight Allen, and Gerald M. Conkling, have reviewed the Retirement System of the Federal Reserve Banks and the Board of Governors. The review has found that both the conditions of employee-employer participation and the operating methods now in use by the Retirement System of the Federal Reserve Banks and the Board of Governors are in keeping with the purposes for which it was established and the responsibilities of the Board of Governors and of the Federal Reserve Banks. The review did not examine the actuarial aspects of the Retirement System other than to validate the 'normal contribution' principle which is essential thereto. No change is presently recommended from the general practices that are now in vogue.

SPECIAL CONSIDERATIONS

Legal and moral basis for Retirement System

It is believed that there is adequate legal authority for the Federal Reserve Retirement System and, moreover, the legal basis of the System has been strengthened by the long history of its operation without challenge. The 'normal contribution' principle of the System's operation has similarly produced a 'built-in' moral responsibility for its continuance by the Board of Governors and the Federal Reserve Banks that must be respected. However, this moral responsibility does not extend to a continuance of the System in the face of uncontrollable circumstances. In such event, the Federal Reserve Banks and the Board of Governors hold adequate authority to discontinue their contributions to the System. In the case of such discontinuance of contributions or the termination of the Retirement System, reference is made to Section 9 of the Rules and Regulations for a specific definition of employee member rights as to previously

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"accumulated contributions and to the amount of any reserve held on his account in the System.

It is not believed that the Rules and Regulations need amendment further to disclaim responsibility by the Federal Reserve Banks and the Board of Governors. As long as the present policy with respect to the 'normal contribution' continues, it is very unlikely that under ordinary conditions there would be any substantial deficit in the reserves of the Retirement System. If, as the result of uncontrollable circumstances or a catastrophe there were a substantial loss or depreciation in the assets of the Retirement System or a deficit in its earnings, the Rules and Regulations make it clear that the Board of Governors and the Federal Reserve Banks, which already would have made the contributions called for by the Rules and Regulations, are not required to continue their participation in the Retirement System but could withdraw. They would then not be required to provide further contributions to make good the deficit or the loss and the members of the Retirement System would not be justified on the basis of the Rules and Regulations in expecting that the Board and the Banks necessarily would do so.

Lump sum contributions

Contrary to the recognized responsibility for continuing 'normal contributions' to the Retirement System fund, it is not believed that the same responsibility attaches to making any future lump sum contributions. Any new proposal for a lump sum contribution, whether arising from insufficient earnings, losses on System investments, or proposed increases in benefits, would be subjected to careful scrutiny at the time, especially as to whether such action could be construed as a proper use of Federal Reserve funds.

Employee-employer contributions

Adequate legal authority supports the present plan of employee-employer contributions to the Retirement System fund which is considered satisfactory and follows a pattern commonly used by private business. Unlike the Civil Service Retirement System, the Federal Reserve Retirement System is not based on a statute which prescribes set operating and investment practices. It is believed that the operation of our System as a private trust is desirable and should be continued in its present general form.

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"Investment policy

No change is recommended in the Retirement System's investment policy which vests management of its investment funds with a corporate trustee subject to the approval of its Investment Committee and Board of Trustees. Whatever question might be raised with respect to the advisability of vesting full discretionary investment authority in a corporate trustee in order to relieve the Investment Committee and Board of Trustees of arduous responsibilities is disposed of by the fact that final legal responsibility for the investment of the Retirement System's funds is reposed in these two groups and cannot be delegated.

Existing investment policy providing for reasonable diversification between U.S. Government securities, fixed-interest corporate obligations, preferred stocks, and common stocks is considered appropriate. Common stocks are looked upon as desirable investment media subject to a judicious investment program calculated to prevent an overconcentration of such investments.

An investment program limiting the investment of Retirement System funds exclusively to U.S. Government securities is not considered to be appropriate. Such a limitation, besides voiding the principles of investment diversification, would depress the fund's income yield to its actuarial disadvantage and would be contrary to the policy of operating the System as a private trust.

Opinion is against any policy of retaining a single investment expert or investment counsel, subject to the authority of the Investment Committee and Board of Trustees, to manage the Retirement System funds even though equipped with the necessary material and staff on which to base investment recommendations; and is in favor of the continued retention of the corporate trustee form for investment management of the Retirement System funds, in that it offers, besides the virtue of permanency, the advantages to be derived from the pooled investment judgment of a staff of trained investment experts.

(signed) Oliver S. Powell

(signed) A. L. Mills, Jr."

Governor Szymczak stated that suggestions had been made that (1) the report referred to above be sent to counsel for the Retirement System for the purpose of ascertaining whether he concurred in the conclusions

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reached on the legal questions referred to in the report, and (2) consideration be given to the questions whether, in the light of discussions of the matter by the Board and the Presidents' Conference, the report should be submitted to the Presidents of the Federal Reserve Banks, whether it should be submitted to all members of the Board of Trustees of the Retirement System, and whether some effective means should be found to convey to the members of the Retirement System, as confirmation of a point already understood, the substance of the conclusion in the memorandum that the Federal Reserve Banks and the Board of Governors were not legally bound to make good any substantial deficits that might occur in the reserves of the Retirement System.

It was agreed unanimously that the memorandum should be sent to counsel of the Retirement System for the purpose referred to and that Governor Szymczak would discuss with Mr. Earhart, Chairman of the Board of Trustees, or Mr. Williams, Chairman of the Executive Committee, of the Retirement System, the question of the distribution of the report and whether the members of the Retirement System should be informed of the conclusions in the report with respect to the legal responsibility of the Federal Reserve Banks and the Board of Governors to make good any deficits in the reserves of the Retirement System should such deficits occur.

Consideration was then given to proposed salaries for officers at the Federal Reserve Banks of St. Louis, Minneapolis, Kansas City, and Dallas for the year ending May 31, 1953, and letters to the Federal Reserve Banks of St. Louis and Minneapolis were approved unanimously as follows:

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Letter to Mr. Dearmont, Chairman, Federal Reserve Bank of St. Louis

"Reference is made to Mr. Weigel's letter of April 25, 1952, submitting proposed salaries for the officers of the Federal Reserve Bank of St. Louis and its Branches.

"The Board of Governors approves the payment of salary to Mr. D. C. Johns as President of the Federal Reserve Bank of St. Louis at the rate of \$25,000 per annum for the period June 1, 1952, through May 31, 1953, and to Mr. O. M. Attebery as First Vice President at the rate of \$18,000 per annum for the period June 1, 1952, to the date of his retirement on December 31, 1952, provided these rates are fixed by your Board of Directors.

"The Board of Governors also approves the payment of salary to the following officers at the rates indicated which have been fixed by your Board of Directors, for the period beginning June 1, 1952, through May 31, 1953:

| <u>Name</u> | <u>Title</u> | <u>Annual Salary</u> |
|---------------------------|----------------------------|----------------------|
| Frederick L. Deming | Vice President | \$ 13,000 |
| Dale M. Lewis | Vice President | 11,500 |
| Wm. E. Peterson | Vice President | 16,000 |
| H. H. Weigel | Vice President & Secretary | 11,500 |
| J. C. Wotawa | Vice President | 11,500 |
| Earl R. Billen | Assistant Vice President | 8,500 |
| John J. Christ | Assistant Vice President | 8,700 |
| J. H. Gales | Assistant Vice President | 10,000 |
| F. N. Hall | Assistant Vice President | 8,000 |
| G. O. Hollocher | Assistant Vice President | 8,300 |
| George W. Hirshman | General Auditor | 7,500 |
| <u>Little Rock Branch</u> | | |
| C. M. Stewart | Vice President & Manager | 12,000 |
| W. J. Bryan | Assistant Manager | 6,000 |
| Clay Childers | Assistant Manager | 5,800 |
| Clifford Wood | Assistant Manager | 6,800 |
| <u>Louisville Branch</u> | | |
| C. A. Schacht | Vice President & Manager | 12,000 |
| L. K. Arthur | Assistant Manager | 6,500 |
| Fred Burton | Assistant Manager | 8,000 |
| L. S. Moore | Assistant Manager | 6,000 |
| <u>Memphis Branch</u> | | |
| Paul E. Schroeder | Vice President & Manager | 11,000 |
| S. K. Belcher | Assistant Manager | 7,000 |
| H. C. Anderson | Assistant Manager | 6,000 |
| C. E. Martin | Assistant Manager | 7,500" |

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Letter to Mr. Peyton, President, Federal Reserve Bank of Minneapolis

"Reference is made to your letters of January 22, 1952, and April 28, 1952, submitting salaries for the officers of the Federal Reserve Bank of Minneapolis which have been approved by your Board of Directors for the year beginning June 1, 1952.

"The Board of Governors approves the payment of salary to you as President of the Federal Reserve Bank of Minneapolis at the rate of \$25,000 per annum and to Mr. A. W. Mills as First Vice President at the rate of \$18,000 per annum for the period June 1, 1952, through May 31, 1953.

"The Board of Governors also approves the payment of salary to the following named officers at the rates indicated for the period June 1, 1952, through May 31, 1953:

| <u>Name</u> | <u>Title</u> | <u>Annual Salary</u> |
|----------------------|--------------------------------|----------------------|
| H. C. Core | Vice President | \$ 11,500 |
| E. B. Larson | Vice President | 11,500 |
| Otis R. Preston | Vice President | 15,000 |
| H. G. McConnell | Vice President | 15,000 |
| M. H. Strothman, Jr. | Vice President | 11,000 |
| Sigurd Ueland | Vice President & Counsel | 13,500 |
| A. R. Larson | Assistant Vice President | 9,000 |
| Clement A. Van Nice | Assistant Vice President | 9,000 |
| K. K. Fossum | Assistant Cashier | 7,500 |
| A. W. Johnson | Assistant Cashier | 8,000 |
| William E. Peterson | Assistant Cashier | 8,000 |
| Chris Ries | Assistant Cashier | 8,000 |
| George M. Rockwell | Assistant Cashier | 7,500 |
| M. O. Sather | Assistant Cashier | 7,000 |
| M. E. Lysen | Operating Research Officer | 9,000 |
| J. Marvin Peterson | Director of Research | 11,000 |
| Franklin L. Parsons | Associate Director of Research | 10,000 |
| O. W. Ohnstad | Auditor | 9,000 |
| | <u>Helena Branch</u> | |
| C. W. Groth | Vice President | \$ 11,000 |
| H. A. Berglund | Assistant Cashier | 7,500" |

The proposed increases in salaries for officers of the Federal Reserve Banks of Kansas City and Dallas had been submitted by the Banks on an informal basis for the purpose of ascertaining whether there were any objections on the part of the Board before the proposed

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salaries were voted on formally by the boards of directors of the respective Banks. It was agreed unanimously that Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, would be advised by telephone that the Board would be willing to approve the salaries as proposed except that the \$7,300 of increases proposed under the 10 per cent formula would have to be reduced to not to exceed the \$6,000 still available under the salary stabilization regulations. It was also agreed unanimously that President Gilbert, of the Federal Reserve Bank of Dallas, would be informed by telephone that the Board would be willing to approve the salaries of officers as proposed except that it would not be possible under the salary stabilization regulations to regard vice presidents in charge of the branches as being in the same salary category as vice presidents located at the head office and that, therefore, the proposed increase of \$1,000 in the salary of Vice President Holloway, in charge of the Houston Branch, could not be approved at this time.

At this point Mr. Sprecher withdrew from the meeting.

The following recommendations contained in a memorandum dated April 28, 1952, from Mr. Bethea, Director of the Division of Administrative Services, were approved unanimously with the understanding that a notice would be sent to all employees of the Board in a form attached to the memorandum:

1. That the Board authorize additional income tax withholding:
 - a. Upon written request of the employee.
 - b. In a minimum amount of \$5 and multiples of \$1 above the minimum for each pay period.
2. That such additional withholding become effective with the first pay period which begins after receipt of the written request.
3. That either the Board or the employee, by furnishing written notice to the other, may terminate the agreement effective as stated in 4 below.

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4. That such additional withholding shall not be changed or cancelled except with the first payment of salary made on or after January 1 and July 1 of each year which occurs 15 days after date of written notice.

The meeting then recessed and reconvened at 3:00 p.m. with the same attendance as at the end of the morning session except that Mr. Townsend, Solicitor, was also present.

At the request of the Board, Mr. Townsend stated that there was an important question for determination by the Board as to the policy to be followed with respect to pending cases of violation of Regulation W, Consumer Credit, on which, except for the suspension of the regulation which became effective yesterday, some punitive action would appear to be called for. He said that he talked with a representative of the Department of Justice yesterday and was informed that the conclusion had been reached (which conclusion was confirmed in a further conversation today) that the Department would not take the position that the Board should not refer any further cases to the Department for possible criminal prosecution. He made the further statement that in addition to the cases already sent to the Department of Justice, there were in the Office of the Solicitor at the present time approximately 55 pending cases, that under the procedure followed in the past perhaps as many as 40 of these cases would call for punitive action, and that, since it was no

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longer possible to suspend a registrant's license or to seek an injunction to prevent further violation of the regulation, the only possible course of action was a reference to the Department of Justice, and the question was whether the Board would wish to follow that course. He went on to say that there was also the question whether the Federal Reserve Banks should continue their investigations of possible violations, whether they should suspend all further investigations including customer contacts, letters to registrants and conferences relating to possible violations, and whether they should send to the Board pending cases which in their opinion should be referred to the Department of Justice for criminal prosecution. He added that the simplest solution would be to terminate all enforcement activities, that provisions of the Defense Production Act gave the Board discretion as to whether it would refer cases to the Department of Justice, and that while the Board had responsibility under the law to see that the regulation was enforced, he did not think the Board would be severely criticized if it discontinued all enforcement activity, particularly in view of the fact that the alternative courses of injunctive proceedings and suspension of licenses were no longer available. He observed that with the suspension of the regulation it would be almost impossible to obtain a conviction for a violation which occurred before suspension and that the Board would be justified in

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weighing that situation in its decision whether to continue further enforcement activity.

Various alternative courses of procedure were considered during which a majority of the members expressed the opinion that in view of the position taken by the Department of Justice all pending cases which appeared to be of the kind that would be considered by the Department of Justice under the procedure now in effect should continue to be referred so the Department would be in a position to determine whether criminal prosecution should be instituted. A minority of the members felt, however, that considering all the circumstances the Board would be justified in terminating immediately all enforcement activities.

At the conclusion of the discussion it was agreed unanimously that the following telegram should be sent to the Presidents of all Federal Reserve Banks, that the Solicitor's Office should continue to prepare for submission to the Department of Justice cases now pending in that Office in the same manner as in the past, except that for a period of 30 days no cases would be submitted to the Department, that in the meantime Mr. Townsend would discuss the problem further with the Department for the purpose of ascertaining the more considered views of the Department as to how pending cases should be handled, and that at the end of the 30-day period the Board would determine in the light of developments what its policy should be:

"Board today decided that all investigations under Regulation W, at whatever stage they may have progressed

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"in individual cases, be terminated forthwith. No further conferences should be had with or letters sent to registrants respecting violations of the Regulation. However, enforcement cases already wholly or partially completed should be processed at the banks in the regular way, and such of those cases as would normally be referred to the Board in accordance with the Board's letter of January 18, 1952 (S-1130; W-179) should be referred to the Board as usual."

Mr. Townsend stated that in order to process expeditiously the cases of violation of Regulation W which were now pending in his Office and which would be received from the Federal Reserve Banks in accordance with the above action, it would be necessary for him to borrow an attorney from one of the Federal Reserve Banks and that he would submit a request to the Board shortly for authority for such an arrangement.

The following suggested topics for discussion at the joint meeting of the Federal Advisory Council and the Board of Governors on May 20, 1952, were approved unanimously:

1. What are the business and economic prospects over the next six months? What suggestions does the Council have with respect to System credit policies during that period?
2. What effect is Regulation X having in the economy at the present time and what, if any, action should the Board take with respect to liberalization or suspension of the regulation?
3. The Board would appreciate any comments that the Council might wish to make relating to the bank holding company legislation discussed in Chairman Martin's recent letter to Congressman Spence, Chairman of the House Banking and Currency Committee.
4. The Board will also be glad to consider with the Council any questions which the members of the Council might

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have with respect to the study of the check collection system being undertaken under the auspices of the Federal Reserve System with the cooperation of the American and Reserve City Bankers Associations.

5. What legislative or other actions might be taken to improve the capital positions of banks and encourage increases in bank capital including actions that might be suggested by the study of excess profits taxes of commercial banks? For example, what should be the attitude toward the issuance of preferred stock or capital debentures by member banks as a means of raising new capital?

6. Do the members of the Council have any comments on or suggestions with respect to the Patman hearings?

At this point Mr. Townsend withdrew from the meeting and the following additional actions were taken:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 7, 1952, were approved unanimously.

Telegram to Mr. McConnell, Vice President, Federal Reserve Bank of Minneapolis, reading as follows:

"Reurtel May 8. Board approves designation of Donald Keefe and Richard C. Timmerman as special assistant examiners for the Federal Reserve Bank of Minneapolis."

Approved unanimously.

Letter to Dr. James J. O'Leary, Director of Investment Research, Life Insurance Association of America, 488 Madison Avenue, New York, N. Y., reading as follows:

"In connection with the suspension of the Voluntary Credit Restraint Program, the National Voluntary Credit Restraint Committee recommended, and the Board of Governors approved, continuation of the special statistics reported

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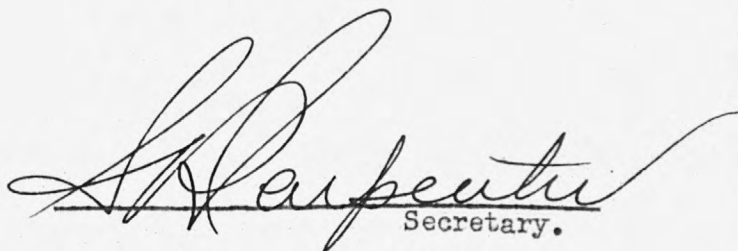
"in connection with the Program. The Board, accordingly, is requesting the further cooperation of your Association in collecting monthly insurance company commitment and acquisition data for the institutions presently participating in making such information available. We would appreciate your advising these institutions that the Board of Governors hopes that they will be willing to continue to provide this information. The Board is similarly requesting cooperating commercial banks to continue their weekly reporting of changes in outstanding business loans by broad industry grouping.

"In extending the collection of these data, some modification or simplification of reporting may be advisable. For instance, the classification of commitments and acquisitions by purpose might appropriately be dropped at this time. Your cooperating institutions may wish to offer still other suggestions, and it would be helpful to ascertain their views."

Approved unanimously.

Memorandum dated May 7, 1952, from Mr. Hooff, Assistant Counsel, recommending that there be published in the Law Department of the May issue of the Federal Reserve Bulletin a statement in the form attached with respect to the suspension of Regulation W, Consumer Credit.

Approved unanimously.


Secretary.