

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 13, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Thomas, Economic Adviser to the Board  
 Mr. Leonard, Director, Division of Bank Operations  
 Mr. Vest, General Counsel  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Sloan, Director, Division of Examinations  
 Mr. Solomon, Assistant General Counsel  
 Mr. Youngdahl, Assistant Director, Division of Research and Statistics  
 Mr. Shay, Assistant Counsel  
 Mr. Pawley, Economist, Division of Research and Statistics

There was a continuation of the discussion commenced at the meeting on February 6, 1953, concerning suggested changes in 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 and Carrying Stocks Registered on a National Securities Exchange.

2/13/53

-2-

Following a brief additional discussion of the proposal that Regulation U be amended to clarify its applicability to loans for the purpose of purchasing open-end investment company shares, Governor Szymczak reviewed the requests that had been received for a broadening of the "subscription rights" provisions of Regulations T and U, as discussed in a staff memorandum of January 9, 1953, copies of which had been sent to the members of the Board prior to the meeting on February 6. Those provisions make special concessions for financing the purchase of securities by the exercise of stockholders' "subscription rights" that expire within 90 days of issuance; securities so purchased can be financed with a margin requirement of only 25 per cent.

Governor Szymczak brought out that as added to the regulations effective December 1, 1946, the privilege was limited to "subscription rights" exercised by the original stockholder to whom they were issued, the purpose being to protect existing stockholders by making it somewhat easier for them to maintain their proportionate interest in the corporation, and that effective May 16, 1949, the privilege was broadened to apply also to "subscription rights" after they were sold by the stockholder to whom they were issued, the purpose being to aid corporations in obtaining equity capital. Now, Governor Szymczak said, the Board

2/13/53

-3-

had been asked to broaden the privilege still further so that it would be applicable to conversions of convertible securities, purchases of stocks under executive stock-option plans, and purchases of securities under employee stock-purchase plans.

At the request of the Board, Mr. Shay summarized the comments made by the Federal Reserve Banks in response to the Board's letter of January 14, 1953, requesting their views on the "subscription rights" proposals along with the proposal to amend Regulation U to clarify its applicability to the financing of investment trust shares. He said that most of the Reserve Banks frankly admitted that they had not had much experience with "subscription rights". Two Banks, including New York, however, were definitely against any expansion of the existing provisions and two other Banks were inclined toward that view. Two Banks favored broadening the privilege and the remaining Banks more or less took the position that they saw no reason why these changes were necessary but if the Board should conclude that they were advisable or they appeared to be creating any real problem in other Reserve districts, they would interpose no objection. In general, there was practically no support among the Reserve Banks for extending the privilege of lower margin requirements to purchases made with conversion rights, while several, though not a majority, were inclined to favor extending the privilege to executive stock-option plans.

Chairman Martin remarked that he was impressed in reading the replies of the Reserve Banks by the absence of references to the

2/13/53

-4-

proposals in terms of their effect on the volume of credit, and Mr. Solomon said that practically the only references along those lines had to do with the fact that purchases of stocks under executive stock-option plans were not open market purchases of securities, involved no element of speculation, and involved no flow of credit into the market.

In response to a question by Chairman Martin, Mr. Young stated by way of comment on the existing stock market credit picture that the present situation was one of very little change, that it might be expected that the recent market reaction involved some decrease in credit which would show up after a little while, but that any such decrease probably would be relatively small.

Governor Robertson inquired as to what would result if Regulations T and U were repealed, to which Mr. Young replied that that would depend on many circumstances. He thought that there probably would be no immediate consequences of importance but that after a period of time it might be that with the prevailing atmosphere of general business optimism, there would be a lot of speculation in the market and a substantial increase in the volume of stock market credit outstanding. He added, however, that memories of the stock market developments in the late 1920's still had an effect on the attitude of the public toward investment in stocks and that this might tend to prevent any great flow of

2/13/53

-5-

credit into the market. Mr. Young expressed the opinion that a broadening of the "subscription rights" privilege in itself would not involve the use of a great amount of credit.

Governor Robertson then inquired on what theory the Board would be justified in making various exceptions to Regulations T and U for the benefit of various classes of people if the essential purpose of the regulations was that of credit control. During a discussion of Governor Robertson's question, it was stated that although the purpose of Regulations T and U was, as he had stated, to discourage large increases in the amount of credit based on speculative stock market activity, it must be recognized that there were some uses of credit in stock trading that are justified and that some of these are of a type where there is little danger of large speculative interests being built up. It was pointed out in this connection that the 1949 amendment broadening the "subscription rights" privilege was adopted on the grounds that it was always desirable to have equity financing and that the regulation was intended to be focussed chiefly on the turnover of outstanding shares rather than the sale of new shares. It was noted that problems such as those under discussion become much more important when margin requirements are raised to a relatively high level.

Chairman Martin then called upon Mr. Riefler for his views on

2/13/53

-6-

a proposal to establish fixed loan values for individual securities, using the lowest price of the security in some base period, as an alternative to the present uniform margin requirement and to the formula which was incorporated in the Securities Exchange Act of 1934. Arguments for and against these forms of regulation had been presented in memoranda from the Division of Research and Statistics dated January 8 and February 9, 1953, copies of which had been sent to the members of the Board.

Mr. Riefler, who was active in preparing the first drafts of the parts of the Securities Exchange Act of 1934 having to do with the regulation of stock market credit, recalled that the intent of those engaged in framing the legislation was in the direction of trying to eliminate the specific abuses of the 1920's whereby, when a speculative movement in the market got started, the mere fact that stock prices rose increased their loan value, which gave the basis for more buying and a resultant pyramiding of prices and loan values. He went on to say that if brokers had extended credit on the same basis on stocks as credit is extended against other assets, they would not have looked so much at the current market price of a stock as at its price over a period of time in deciding how much they would lend. Therefore, those working on the legislation sought an administratively feasible

2/13/53

-7-

formula that would embody the "prudent lender" approach, and they worked along the lines that the maximum loan value on a security should be its lowest price over the preceding three years. At that time, Mr. Riefler said, he lost contact with the framing of the law but he thought that certain considerations were thereafter introduced which resulted in a fairly complicated formula. He also thought that the formula eventually put into the law, while an embodiment of the original theory, was complicated because it reflected the specific situation which prevailed in the market at the time. He went on to say that in his opinion it was a mistake to have gotten away from that approach and to have gone over to a flat margin requirement, that he would favor reverting to a "prudent lender" formula, and that the fixed loan value plan seemed to be a simple yet fairly effective safeguard against speculative increases in prices which represent the principal problem from the point of view of credit control. Mr. Riefler said that a joint committee of the Federal Reserve and the New York Stock Exchange could rather easily assign maximum loan values for all securities, with a resulting formula which, while more liberal than the present requirement, would provide a fairly high margin requirement at the present time.

There ensued a discussion based on Mr. Riefler's remarks during which some members of the staff expressed considerable apprehension that the fixed

2/13/53

-8-

loan value plan, with different loan values for different securities, would introduce mechanical operating difficulties which would render it impractical. They felt that the desirable objective of preventing pyramiding and limiting loans to reasonable values could be achieved satisfactorily and with much less burden on business and customers by means of flat margin requirements, usually in the general vicinity of about 50 per cent, and applicable to all securities alike as at present.

Chairman Martin then inquired when the mechanics of such a plan had last been discussed with representatives of the Stock Exchange, and it appeared from comments made in reply to his inquiry that, while various aspects of the regulation of stock market credit had been discussed from time to time, there had not been specific discussions of the suggested plan. It was suggested that prior to any such discussions, consideration should be given to reducing the current margin requirements so that proposals for a reduction in those requirements would not enter into any exploration of the plan.

Governor Robertson raised the question whether banks have been interpreting Regulation U as applicable to the financing of open-end investment trust shares, and it was stated in reply that the idea of bank financing of the purchase of such shares was a fairly recent development, that it seemed doubtful that the question of the applicability of



2/13/53

-9-

Regulation U to such financing had been considered very much until recently, but that to the extent that it had, it appeared that banks might have taken the position that the regulation did not apply and the Board had also taken that position as to the present regulation in an unpublished letter, which added, however, that there probably was authority under the law to make the regulation applicable if the Board should so desire.

There were presented telegrams to the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on February 10, by the Federal Reserve Banks of Cleveland, Chicago, and Dallas on February 11, and by the Federal Reserve Banks of Richmond, Atlanta, St. Louis, Minneapolis, and Kansas City on February 12, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was presented a request that Dwight L. Allen, Director, Division of Personnel Administration, be authorized to travel to New York, New York, during the period February 26-28, 1953, to attend a meeting of the Retirement Committee of the Retirement System of the Federal Reserve Banks, to be held at the Federal Reserve Bank of New York.

Approved unanimously.

2/13/53

-10-

The meeting then adjourned. During the day the following additional actions were taken by the Board, with all of the members except Governor Vardaman present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 12, 1953, were approved unanimously.

Memorandum dated February 5, 1953, from Mr. Allen, Director, Division of Personnel Administration, recommending the appointment of Edward D. Rogers as Messenger in the Board Members' Section (Governor Vardaman's office) on a temporary indefinite basis, with basic salary at the rate of \$3,150 per annum, 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 the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated February 6, 1953, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Doris J. Selser as Clerk-Typist in that Division on a temporary basis, for a period of three months, with basic salary at the rate of \$2,750 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical

2/13/53

-11-

examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated February 10, 1953, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Charles A. Noell as Guard in that Division on a temporary indefinite basis, with basic salary at the rate of \$2,750 per annum, 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 the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated February 2, 1953, from Mr. Leonard, Director, Division of Bank Operations, recommending that the employment status of Theodore A. Veenstra, Jr., Analyst in that Division, who was employed November 7, 1950, be changed from temporary indefinite to permanent, effective February 13, 1953, with the understanding that, in accordance with the policy adopted by the Board on December 29, 1950, pursuant to Executive Order No. 10180, promotions effected since Mr. Veenstra's employment would continue to be regarded as on a nonpermanent basis.

Approved unanimously.

2/13/53

-12-

Memorandum dated February 5, 1953, from Mr. Allen, Director, Division of Personnel Administration, recommending that Fletcher E. Brown, Messenger in the Board Members' Section, be transferred to the Division of Administrative Services as Operator (Mimeograph), with no change in his present basic salary at the rate of \$3,150 per annum, effective February 15, 1953.

Approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective February 15, 1953:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
	<u>Memorandum from Mr. Carpenter, Secretary of the Board</u>		
1/19/53	E. Betz Poeppel, Chief, Files Section	\$6,740	\$6,940
	<u>Memoranda from Mr. Young, Director, Division of Research and Statistics</u>		
1/23/53	Verna Hodge, Librarian	4,035	4,160
2/5/53	Winfield S. Smith, Economist	4,580	5,060
	<u>Memorandum from Mr. Marget, Director, Division of International Finance</u>		
1/19/53	Florence R. Cox, Secretary	4,035	4,160

2/13/53

-13-

Salary Increase

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>From</u>	<u>To</u>
	<u>Memorandum from Mr. Sloan, Director, Division of Examinations</u>		
1/9/53	B. W. Metcalf, Assistant Federal Reserve Examiner	\$3,795	\$3,920
	<u>Memorandum from Mr. Leonard, Director, Division of Bank Operations</u>		
1/21/53	Caroline C. Reinke, Clerk-Stenographer	3,255	3,335
	<u>Memorandum from Mr. Bethea, Director, Division of Administrative Services</u>		
1/21/53	Ethelyn M. Palmer, Secretary	3,660	3,785
	Jean W. Myers, Clerk	3,110	3,190
	Benjamin L. Dinkins, Mail Clerk	2,990	3,070
	Abner Thompson, Messenger	2,632	2,712
	John H. Battle, Laborer	2,712	2,792
	Charles V. Carey, Messenger	2,872	2,952
	William Cobey, Cafeteria Laborer	2,792	2,872
	James E. Love, Laborer	2,632	2,712
	Aubrey L. Simmons, Laborer	2,712	2,792
	William R. Smith, Laborer	2,632	2,712

Approved unanimously.

Memorandum dated February 10, 1953, from Mr. Bethea, Director,  
Division of Administrative Services, recommending that additional

2/13/53

-14-

leave of absence without pay not to exceed 30 days be granted to Adam V. Hauser, Guard in that Division, beginning February 15, 1953.

Approved unanimously.

Memorandum dated February 11, 1953, from Mr. Sloan, Director, Division of Examinations, recommending that the action of the Board on December 30, 1952, relating to the appointment of certain named employees of the Federal Reserve Banks of Boston, Philadelphia, and Dallas as Assistant Federal Reserve Examiners while assigned temporarily to duty with the Board's field examining staff be amended so as to provide specifically for reimbursement to those Banks not only of the basic salary of such employees but also related payments such as retirement contributions, Blue Cross (hospitalization), group insurance, and Social Security.

Approved unanimously.

Memorandum dated February 6, 1953, from Mr. Allen, Director, Division of Personnel Administration, recommending that the following members of the Board's staff be granted leave and reimbursement for transportation and other expenses incident to their attendance at the 1953 resident session of the Graduate School of Banking at Rutgers University on the basis outlined in the Board's letter of June 18, 1948 (S-1024):

2/13/53

-15-

<u>Name</u>	<u>Title</u>	<u>Year of Attendance</u>
Dwight L. Allen	Director, Division of Personnel Administration	Second
J. N. Kiley, Jr.	Technical Assistant, Division of Bank Operations	First

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as executor and administrator. The exercise of these powers, in addition to that heretofore granted to act as trustee, shall 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 Mr. Quackenbush, Manager, Bank Examinations Department, Federal Reserve Bank of New York, reading as follows:

"As recommended in your letter of February 4, 1953, the Board of Governors has extended to October 16, 1953, the time within which The Marine Trust Company of Western New York, Buffalo, New York, may establish a branch in the Falls Boulevard Shopping Center, Incorporated, Town of Amherst, New York."

Approved unanimously.

2/13/53

-16-

Letter to Mr. G. W. Garwood, Deputy Comptroller of the Currency, Washington, D. C., reading as follows:

"This is in further reference to your letter of July 9, 1952, and its enclosures, concerning certain activities of Garvin, Bantel & Co., 120 Broadway, New York City, The First National Bank of Scranton, Pennsylvania, and possibly other national banks, reported by your examiner as indicating possible violations of Regulations T and U. By our letter of August 1, 1952, you were informed that the Board was taking steps to obtain additional information and that you would be advised further concerning the matter.

"We regret the delay that has occurred in this connection, but it was only recently that we received a reply from the Federal Reserve Bank of New York to which we had referred the matter. There appears to have been reluctance on the part of the parties contacted to supply voluntarily anything more than rather sketchy information, and it was considered to be doubtful whether any advantage would have been served by any further delay.

"On the basis of the information supplied by you, it appears to us that the transactions described probably involved violations of Regulation U; and such information as was supplied voluntarily to the Reserve Bank revealed nothing which would appear to negative any of the facts as developed in your letter and its enclosures.

"You, of course, will have recalled the procedure relating to matters of this kind outlined in the Board's letter of February 26, 1938, or it may be that you will wish to attempt to develop further clarification of the matter through your examiners. In any event, however, we hope that our delay has not been the cause of inconvenience to you in connection with such further steps with respect to the matter that you may deem appropriate. If you feel that we can be of further assistance to you in this connection, please let us know."

Approved unanimously, with a  
copy to Mr. Rouse, Vice President,  
Federal Reserve Bank of New York.



2/13/53

-17-

Letter to Mr. Schlaikjer, Chairman, Special Committee of Federal Reserve Bank Counsel Appointed to Consider the Proposed Commercial Code, c/o Federal Reserve Bank of Boston, reading as follows:

"This is to thank you for your letter of February 3, 1953, enclosing two copies of the Fourth Report to the Presidents' Conference by the Special Committee of Federal Reserve Bank Counsel regarding the Proposed Uniform Commercial Code drafted under the auspices of the American Law Institute and the National Conference of Commissioners on Uniform State Laws.

"It is noted that this Report reviews the history of the Special Committee's actions in connection with this matter and concludes with the recommendation of the Committee that the Federal Reserve System, if and when called upon to take any position with respect to the matter, should neither actively support nor actively oppose the enactment of the proposed Commercial Code in its present form. It is also noted that appended to the Report are summaries of the various articles of the proposed Code with particular attention to the extent to which each such article may be of special interest to the Federal Reserve System.

"We understand that the Report is being submitted to the Chairman of the Presidents' Conference for such consideration as the Conference may wish to give the matter at its next meeting."

Approved unanimously.

Memorandum dated February 12, 1953, from Mr. Sloan, Director, Division of Examinations, recommending for reasons stated, that an attached voucher covering expenses incurred by Arthur H. Lang, Chief Federal Reserve Examiner in that Division, during the period January 16-31, 1953, inclusive, be approved as submitted.

Approved unanimously.

2/13/53

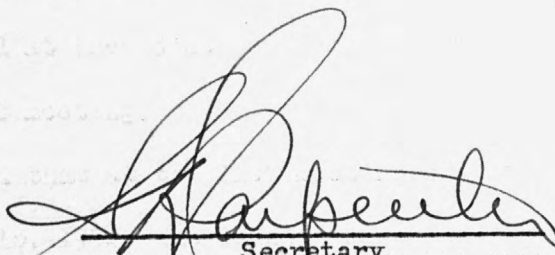
-18-

Memorandum dated February 9, 1953, from Mr. Sloan, Director,  
Division of Examinations, reading as follows:

"It has been the practice during the past few years to hold conferences of Auditors of the Federal Reserve Banks in Washington biennially, the last one having been held in May 1951. The Standing Committee of Auditors and the Board's Division of Examinations have made tentative plans to hold an Auditors' Conference on May 25, 26, and 27.

"The statement of principles adopted by the Chairmen's Conference in October 1942 provides that conferences of Auditors shall be called by the Chairmen's Conference, or the Chairman thereof, or the Board of Governors after consultation with each other. Accordingly, if agreeable to the Board, we shall accomplish the necessary clearance with the Chairmen's Conference preparatory to the issuance by the Board of a call for an Auditors' Conference in May."

Approved unanimously.



Secretary