

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, February 25, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Szymczak  
Mr. Vardaman  
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. Vest, General Counsel  
Mr. Young, Director, Division of Research and Statistics  
Mr. Solomon, Assistant General Counsel  
Mr. Cherry, Legislative Counsel

There was presented a request that Daniel H. Brill, Economist in the Division of Research and Statistics, be authorized to travel to Philadelphia, Pennsylvania, on March 10, 1953, to give a talk on moneyflows at a meeting of the Philadelphia Economists' Discussion Group.

Approved unanimously.

Governor Vardaman stated that he had declined an invitation to address a meeting of the American Industrial Bankers Association in Boston, Massachusetts, on June 18, 1953.

At Governor Vardaman's suggestion, the Secretary was requested to advise all division heads that use of the term "official leave" should be avoided in memoranda requesting approval of absences of members of the

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staff for official purposes and that if it were necessary to state specifically the nature of the absence, reference should be made to "absence on official business".

Reference was made to a letter addressed to Chairman Martin under date of February 24, 1953, by Mr. John J. Heimbürger, Counsel for the House Committee on Agriculture, stating that at an executive session of the Committee the previous day four resolutions dealing with stabilization of the current cattle market situation were adopted unanimously; that the first of the resolutions (quoted in the letter) had to do with steps that should be taken immediately to assist and strengthen existing credit sources or to provide a new source of emergency credit, if necessary, in order to assist the livestock industry through the present period of price readjustment and to prevent any unnecessary loss, disruption of orderly marketing, or decrease in production due to inadequate credit facilities; and that it would be extremely helpful to the Committee for its confidential use in deciding what action, if any, needed to be taken pursuant to the resolution if the Board would request the Federal Reserve Banks to conduct a spot survey among member banks based on five questions relating to cattle loans set forth in the letter.

In response to a question by Chairman Martin, Mr. Young said that Mr. Heimbürger visited the Board's offices yesterday and discussed with

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members of the staff the whole credit situation with respect to cattle, stating that the Committee was concerned, but uncertain as to what action should be taken, and that some feeling existed among the members of the Committee that there was need for some sort of credit relief action since the only facilities for making additional credit available are under the disaster loan authority of the Secretary of Agriculture which would be applicable only to areas that have suffered from drought. As the result of the discussion, Mr. Young said, it was understood that the Committee would request a spot survey by the Federal Reserve Banks along the lines now proposed in Mr. Heimburger's letter.

During the course of Mr. Young's comments, Governor Evans joined the meeting.

Following a discussion, unanimous approval was given to a telegram to the Presidents of all Federal Reserve Banks quoting the above-mentioned letter from the House Committee on Agriculture, requesting that the Reserve Banks make a spot survey among commercial banks in their respective districts which in their judgment would be effective in developing to the extent possible in the time available the information called for by the Committee's questions, requesting that the results of the survey be telegraphed to reach the Board not later than the afternoon of March 3, 1953, and stating that the replies should be in such form that they could be transmitted by the Board to the Committee and that in the circumstances no reference should be made to names of sources of information.

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At this point Mr. Cherry withdrew from the meeting.

At the meetings on February 6 and 13, 1953, preliminary consideration was given to: (1) an amendment to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, to clarify the applicability of the regulation to the financing of open-end investment trust shares; and (2) suggestions that the "subscription rights" privileges of Regulation U and Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, be broadened so as to apply to conversions of convertible securities, purchases under executive stock-option plans, and employee stock-purchase plans.

With respect to the financing of open-end investment trust shares, Governor Szymczak recalled that the Federal Reserve Bank of New York was in receipt of an inquiry from the Irving Trust Company, of that city, as to whether a bank might lend on unregistered shares of an open-end investment company to finance the purchase of such shares, and that the Board previously had expressed the opinion in an unpublished letter that the present provisions of Regulation U do not apply to such credit but that the Securities Exchange Act might well permit the Board to bring such credit under the regulation by amendment. He added that the New York Reserve Bank had stated in a recent letter that a number of banks were showing considerable

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interest in plans for developing a substantial volume of loans through their consumer credit departments to finance the purchase of open-end investment trust shares. Governor Szymczak expressed the view that, since there was a legal question involved as to the applicability of the regulation in its present form to the financing of open-end investment trust shares, it would be preferable to clarify the situation by means of an amendment to the regulation rather than by interpretation. He suggested, therefore, that the Board submit for publication in the Federal Register a notice concerning a possible amendment and that the Irving Trust Company be advised through the Federal Reserve Bank of New York that this course of action was being followed. He remarked that the placing of a notice in the Federal Register would afford interested parties ample opportunity to express their views on the subject.

During a discussion of the matter, Governor Vardaman said that he was not yet completely convinced of the advisability of bringing this type of financing under Regulation U, principally because he was not sure that there was a sufficiently large amount of credit involved to justify such action. He expressed himself as agreeable to the publication of a notice in the Federal Register, however, since he felt that if there were serious objections on anyone's part, they would be made known to the Board.

In response to a request by Chairman Martin for his views on the matter, Mr. Riefler said it was his impression that the purchase of open-end

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investment trust shares with bank credit was a device to get around the margin requirements, that it might lead to a situation where the securities would be dumped on the market suddenly, and that it would seem desirable to close the loophole by an amendment to Regulation U.

In further comments, Messrs. Riefler and Young brought out that money invested in open-end investment trust shares is call money in the sense that a person buying such shares has the contractual right to demand the return of his investment at any time on the basis of the current market prices of the underlying securities, less a discount for management services, that a large proportion of the shares are sold to small investors, often through high-pressure salesmanship, and that a pyramiding of credit could develop quite rapidly if the shares were purchased for speculation on thin credit margins.

Mr. Young, in response to a question by Governor Vardaman, said that he did not feel that an amendment to Regulation U of the kind proposed would make it difficult for sound investment trusts to sell their shares.

Following further discussion, unanimous approval was given to the submission for publication in the Federal Register of a Notice of Proposed Rule Making in the following form:

"Notice of Proposed Rule Making  
"Part 221 (Reg. U), relating to loans by banks for the purpose of purchasing or carrying registered stocks, issued by the Board of Governors of the Federal Reserve System pursuant to the authority cited at 12 CFR 221, prescribes the maximum

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"loan value of the collateral in the case of any loan by a bank which is secured by any stock and for the purpose of purchasing or carrying any stock registered on a national securities exchange.

"In view of the nature of 'redeemable securities' of open-end investment companies, it seems that in certain circumstances loans for the purpose of purchasing or carrying such 'redeemable securities' should be considered to be loans for the purpose of purchasing or carrying stocks registered on a national securities exchange which are in the portfolio of the open-end investment company. The Board is considering whether it would be desirable or appropriate to clarify the application of Part 221 in this respect by amendments thereto along the following lines:

1. By amending paragraph (b) of § 221.3 to read as follows:

(b) Except as provided in the next succeeding sentence, no loan, however it may be secured, need be treated as a loan for the purpose of 'carrying' a stock registered on a national securities exchange unless the purpose of the loan is to enable the borrower to reduce or retire indebtedness which was originally incurred to purchase such a stock, or, if he be a broker or a dealer, to carry such stocks for customers. A loan which is for the purpose of purchasing or carrying a stock which is a 'redeemable security' the issuer of which is an 'open-end company' as defined in the Investment Company Act of 1940 shall be deemed to be a loan for the purpose of purchasing or carrying a stock registered on a national securities exchange if the assets of such company customarily include stocks so registered.

2. By amending paragraph (c) of § 221.3 to read as follows:

(c) In determining whether or not a security is a 'stock registered on a national securities exchange' or a stock described in paragraph (b) of § 221.3 as a 'redeemable security', a bank may rely upon any reasonably current record of such stocks that is published or specified in a publication of the Board of Governors of the Federal Reserve System.

"This notice is published pursuant to section 4 of the Administrative Procedure Act and section 2 of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2). The proposed changes are authorized under the authority cited at 12 CFR 221.

"To aid in the consideration of the foregoing matters, the Board will be glad to receive from interested persons any relevant data, views, or arguments. Although such material may be sent

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"directly to the Board, it is preferable that it be sent to the Federal Reserve Bank of the district which will forward it on to the Board to be considered. All such material should be submitted in writing to be received not later than April 1, 1953."

Unanimous approval was also given to a letter to the Presidents of all Federal Reserve Banks enclosing a copy of the Notice being submitted for publication in the Federal Register, suggesting that the Reserve Banks bring the Notice to the attention of interested parties in their respective districts and give the Board the benefit of any further views and comments that they might have on the matter, and stating that such views and comments, together with copies of any submissions received from others, should be transmitted to reach the Board not later than April 8, 1953.

Unanimous approval was also given to a letter to Mr. Norman Davis, Assistant Vice President of the Federal Reserve Bank of New York, requesting that the Reserve Bank advise Irving Trust Company of the Notice to be published in the Federal Register and of the fact that the Board would like to have the benefit of any data, views, or arguments that the trust company might care to present on the subject.

At this point Mr. Thomas, Economic Adviser to the Board, entered the room.

There followed a discussion of the proposals for broadening the "subscription rights" privileges of Regulations T and U, during which it was suggested that the Board's action of February 20, 1953, reducing the



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margin requirements from 75 per cent to 50 per cent might have had the incidental effect of solving the problems involved in the requests to the extent that sufficient cause no longer could be demonstrated for expanding the privileges. It was further suggested that the Board might now want to consider rescinding the privileges that were granted in 1946 and in 1949.

It was brought out, on the other hand, that the current provisions have the desirable result of making it easier for corporations to obtain equity capital; furthermore, that the broadening of the privileges to apply to executive stock-option plans and employee stock-purchase plans would encourage the sale of new stock rather than the turn-over of outstanding shares.

Governor Mills recalled that in the replies of the Federal Reserve Banks to the Board's letter of January 14, 1953, requesting their views on subscription rights and purchases under executive stock-option plan proposals, several of the Banks expressed opposition to a broadening of the privileges on the grounds that troublesome administrative problems would be involved in further complicated amendments to the regulations. He suggested that further inquiry might reveal that the situations complained of were not sufficiently serious as to warrant amending the regulations in these cases, considering the attendant administrative complications that would be involved, and that it would be helpful in reaching a decision to have the benefit of any statistics that might be available.

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Chairman Martin expressed the opinion that the matter deserved further consideration by the Board before any decision was reached, and he suggested that Mr. Young might explore with his staff whether any statistics could be obtained within a reasonably short time and without too much effort as to the amount of credit that would be involved so that the Board might have this information as background for additional discussion of the proposals.

The Board then went into executive session, and thereafter the Secretary was informed by Governor Mills that during the executive session the following actions were taken:

The Board approved attendance by either Clayton Gehman, Chief of the Business Conditions Section, Division of Research and Statistics, or Lorman C. Trueblood, Economist in that Division, or both, at a meeting of industrial statisticians to be held at the Carnegie Institute of Technology in May of this year, it being understood that they would be asked to discuss the revision of the Board's index of industrial production.

Following consideration of an invitation extended by Mr. David Kennedy, Vice President of the Continental Illinois National Bank and Trust Company, Chicago, Illinois, to Mr. Young, Director of the Division of Research and Statistics, or Mr. Thomas, Economic Adviser to the Board, to participate in a conference of business economists to be held at the University of Chicago on April 16 and 17, 1953, to discuss the Federal budget and Federal expenditures, it was the view of the Board that the invitation

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should not be accepted because it was felt that the presence of an official representative of the Board at a meeting where there would be discussion of subjects that are not the Board's responsibility, even though the discussion were "off-the-record", might cause comment that would embarrass the Board.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 24, 1953, were approved unanimously.

Letter to Mr. Crane, Federal Reserve Agent, Federal Reserve Bank of New York, reading as follows:

"In accordance with the request contained in your letter of January 26, 1953, the Board of Governors approves the appointments of the persons named below as Assistant Federal Reserve Agents and Alternate Assistant Federal Reserve Agents for the Federal Reserve Bank of New York, effective upon the occurrence of an emergency disrupting the operations at the Head Office of your Bank.

<u>"Name</u>	<u>Title</u>
<u>At the Buffalo Branch:</u>	
Herbert W. Weber	Assistant Federal Reserve Agent
Frank Henderson	Alternate Assistant Federal Reserve Agent
Kenneth P. Mead	Alternate Assistant Federal Reserve Agent
<u>At the Federal Reserve Bank of Boston:</u>	
Ansgar R. Berge	Assistant Federal Reserve Agent
Clifford E. Morrissey	Alternate Assistant Federal Reserve Agent
Jasper A. Lane	Alternate Assistant Federal Reserve Agent
John F. Mooney	Alternate Assistant Federal Reserve Agent
George E. Wells	Alternate Assistant Federal Reserve Agent

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<u>"Name</u>	<u>Title</u>
<u>"At the Federal Reserve Bank of Philadelphia:</u>	
J. Frank Rehfuss	Assistant Federal Reserve Agent
Elwood J. Braker	Alternate Assistant Federal Reserve Agent
Glendon M. Burr	Alternate Assistant Federal Reserve Agent
Joseph R. Campbell	Alternate Assistant Federal Reserve Agent
Edward D. Kerns	Alternate Assistant Federal Reserve Agent

"It is noted from your letter that it is contemplated that the appointees named above will take their oaths of office upon the happening of an emergency."

Approved unanimously.

Letter to Mr. Meyer, Vice President, Federal Reserve Bank of Chicago, reading as follows:

"In view of the circumstances described in your letter of February 13, 1953, the Board of Governors approves effective October 1, 1952, the payment of salaries to the former and present employees listed in your letter at the rate of \$2,641.60 per annum, which exceeds by \$1.60 the maximum established for the grade in which their positions are classified."

Approved unanimously.

Telegram to Mr. Wilbur, Federal Reserve Agent, Federal Reserve Bank of San Francisco, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to Transamerica Corporation, San Francisco, California, entitling such organization to vote the stock which it owns of The First National Bank of Mountain View, Mountain View, California, at any time prior to June 1, 1953, to act upon proposals (1) to increase the capital

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stock of such bank, and (2) to amend the articles of association of such bank to conform to articles recommended by the Comptroller of the Currency, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.


Approved unanimously.

Memorandum dated February 19, 1953, from Mr. Sloan, Director, Division of Examinations, requesting that he and Mr. Berner, Assistant Director of that Division, be authorized to attend a conference of bank examiners of all agencies in the Tenth Federal Reserve District, to be held at the Federal Reserve Bank of Kansas City on March 23, and a conference of the Kansas City Reserve Bank's examination staff on March 24, 1953.

Approved unanimously.

Memorandum dated February 16, 1953, from Mr. Goodman, Assistant Director, Division of Examinations, requesting that he be granted leave on official business and allowed necessary transportation expenses and per diem within the Board's travel regulations in order to accept an invitation to speak at a seminar at the University of Wisconsin, Madison, Wisconsin, on July 1, 1953, in connection with a school for bank auditors and comptrollers being sponsored by the National Association of Bank Auditors and Comptrollers.

Approved unanimously.

  
Secretary