FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7721

December 19, 1933.

SUBJECT: Directors of Federal Reserve Banks and Branches Affected by Section 8A of the Clayton Antitrust Act.

Dear Sir:

The Board has been informed that some of the directors of Federal reserve banks and their branches are serving as directors, officers, employees or partners of non-banking organizations which occasionally make loans secured by stock or bond collateral. As you know, such services are prohibited by Section 8A of the Clayton Act, and the Federal Reserve Board is without authority to issue permits in such cases, as its authority to issue permits with respect to the provisions of the Clayton Act is limited to permits covering the service of banking institutions. In this connection reference is made to the Board's letter of November 10, 1933, X-7677.

The very broad language of the statute has given rise to numerous difficulties; and the Board has decided to recommend to Congress when it convenes in January that this section of the law be amended as soon as possible so as not to apply to directors of Federal reserve banks and their branches, and also so as not to include organizations which occasionally make loans secured by stock or bond collateral only to their own officers or employees, and organizations engaged primarily in agricultural, commercial or industrial enterprises

which occasionally make loans secured by stock or bond collateral only to their own customers.

As you know, the statute does not take effect until January 1, 1934, and does not apply even then unless and until the other organization which the Federal reserve bank director is serving shall make new loans secured by stock or bond collateral, because the statute clearly refers only to corporations which "shall make" such loans after January 1, 1934.

In this connection, attention is also invited to the fact that other sections of the Banking Act of 1933 recognize a clear distinction between loans and other extensions of credit; and Section 8A refers only to organizations which shall make "loans" secured by stock or bond collateral. Of course, the question whether a particular transaction is a loan within the meaning of the statute, as distinguished from an extension of credit in some other form, is a question to be decided upon the facts of each particular case.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.