A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 25, 1940, at 3:00 P.m.

PRESENT: Mr. Eccles, Chairman
Mr. McKee
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Smead, Chief of the Division of Bank Operations

Mr. Draper stated that since the action taken at the meeting of the Board on October 14, 1940, the National Defense Advisory Commission had been working on a plan to increase the participation of small business enterprises in the national defense program and that this afternoon the Commission sent to the Board a letter signed by Mr. Sherwood as Acting Secretary of the Commission and a draft of a press statement on the subject. The letter, which was read by Mr. Morrill, was as follows:

"The National Defense Advisory Commission believes that small and medium sized business enterprises, along with the larger business enterprises, occupy a place of vital importance in the national defense program. So that these small and medium sized concerns may participate more fully in the program, the Commission has designated the Coordinator of National Defense Purchases as its Director of Small Business Activities.

"The office of the Director of Small Business Activities will serve as a clearing house of information for the
"National Defense Advisory Commission, the War and Navy Departments as well as for the smaller industries themselves. It will endeavor to assist the smaller enterprises in obtaining defense contracts and advise and assist them in obtaining such financial aid as may be required in the execution of defense orders.

"If this program is to be carried out successfully the Commission believes that the cooperation and assistance of the Federal Reserve System is desirable. In this connection it is thought that the Board of Governors might act as operating agent for the National Defense Advisory Commission, designating one of its Board members to have charge of this work and that the Board request each Federal Reserve bank to designate a senior officer in each Reserve bank and branch to serve as field and technical representatives.

"The Commission believes that the officers so designated can effectively participate in this phase of the defense program if they might assume the following duties:

1. To make confidential reports from time to time concerning business enterprises located in their respective districts desiring to obtain defense orders;
2. To acquaint local banks with the procedure to be followed in accepting assignment of claims against the government resulting from government contracts, as security for loans;
3. To encourage local banks to make loan commitments on condition that borrowers obtain government contracts and assign claims against the government resulting from such contracts as security for loans;
4. To furnish business enterprises with information on the procedure to follow and proper contacts to make relative to obtaining defense contracts;
5. To assist business enterprises which have obtained defense orders and are unable to obtain necessary credit from local commercial banks, to obtain loans from the Federal Reserve Banks or R.F.C.

"It is contemplated that Mr. Donald M. Nelson, Coordinator of National Defense Purchases, and Director of Small Business Activities, will meet in Washington with the designated officers of the Federal Reserve banks at a date to be announced shortly, in order to fully acquaint them with the details of this program."
"It will be appreciated if you will advise the Commission at your earliest convenience whether the facilities of the Federal Reserve System can be so utilized."

Mr. Morrill also read the draft of statement which the Commission proposed for immediate release to the press.

In connection with a discussion of the next to the last paragraph of the letter, the opinion was expressed and concurred in by the members of the Board present that representatives from the branches as well as the Federal Reserve Banks should be called to Washington for the meeting suggested in the Commission's letter and that care should be taken to select the officers of the Banks and branches best qualified to carry on the work contemplated by the plan.

It was agreed that Mr. Smead should prepare a list of officers of the Federal Reserve Banks and branches whom he would suggest be designated.

Mr. Davis raised the question whether it would be advisable to call a meeting in Washington of the Chairmen or other directors of the Federal Reserve Banks whose training in the industrial field would enable them to lend active support to the activities carried on by the Reserve Banks under the Commission plan. It was felt, however, that while it might become desirable to call such a meeting, it should not be arranged until after the meeting of the representatives of the Federal Reserve Banks and branches has been held.

At the conclusion of the discussion, Mr. Morrill was authorized by unanimous
vote to send by wire to the president of each Federal Reserve Bank a copy of the letter and press statement received from the National Defense Advisory Commission and to advise the presidents that the Board would communicate with them as soon as possible with respect to the steps to be taken by the respective banks and branches to carry out the plan.

By unanimous vote, Mr. Draper was designated as the member of the Board to work with the Commission and the Federal Reserve Banks in carrying out the plan.

By unanimous vote, Mr. Morrill was authorized to address a letter to the National Defense Advisory Commission advising of the actions taken by the Board in response to the Commission's letter.

Mr. Eccles stated that in accordance with the action taken at the meeting of the Board on October 9, 1940, he and Messrs. McKee and Morrill met with the Board's architect on October 17, 1940, and that following the conference the architect addressed a letter to the Board indicating a willingness on the part of his firm to follow either of two suggested courses of procedure. Chairman Eccles also stated that he thought that it would be desirable for the Board to act on the matter at its next meeting.

There was then presented a draft of letter to Mr. F. W. Hoover, General Manager of the Welfare and Recreational Association, relating to a proposed revision of the existing agreement between the Association and the Board covering the operation of the cafeterias and dining rooms in the Federal Reserve Building. The draft of letter was
considered in the light of a memorandum addressed to the Board by Mr. Nelson under date of October 19, 1940, both of which had been circulated to the members of the Board for their information before this meeting. Question was raised as to the desirability of retaining in the revised proposal the provision that the bonus paid the manager and assistant manager shall not exceed $75.00 and $37.50, respectively, in any one month. The members of the Board felt that there was little likelihood of the bonuses exceeding the stated amounts to any great extent and that the provision should be eliminated.

Accordingly, the letter to the Welfare and Recreational Association was approved unanimously in the following amended form:

"Consideration has been given to your letter of October 3, 1940, requesting a revision of paragraph 7 of the Agreement dated December 30, 1938 between the Welfare and Recreational Association of Public Buildings and Grounds, Inc., and the Board of Governors of the Federal Reserve System, in order to provide an increased management fee, and to your suggested methods of fixing such fees.

"At the time of the negotiations for the services of the Association as manager of the cafeterias and dining rooms, it was anticipated that the volume of business would be comparatively small, and, therefore, it was understood that the management fee of 10 per cent of gross receipts agreed upon was higher than the normal overhead charge applicable to other units operated by the Association. The volume of business handled in the cafeterias and dining rooms has grown steadily and while the present volume of business is abnormal due to the temporary housing in the building of the Advisory Commission to the Council of National Defense, it appears that under normal operations the gross cash receipts will average approximately $6,000"
monthly. It appears, therefore, that the factors taken into consideration in fixing a management fee at 10 per cent of gross receipts are no longer applicable.

It is understood that your present overhead charges to units wholly owned and operated by the Association are about 6 per cent of cash receipts. It is believed that this rate may be used as a basis for arriving at a management fee for our cafeteria, with an additional provision that the Association will share up to a certain amount in any excess of receipts over disbursements and expenditures. Therefore, it is proposed that the following changes be made, effective December 1, 1940, in paragraphs 7 and 9 of the Agreement dated December 30, 1938:

(a) Change the second sentence of paragraph 7 to read as follows:

This fee shall be 6 per cent of the gross cash receipts obtained from the operation by the Association of the cafeterias, snack bar, and private dining rooms above mentioned, subject, however, to the provisions of paragraph 9 hereof.

(b) Change paragraph 9 to read as follows:

9. In the event that there is an excess of gross receipts over expenses (including actual disbursements and amounts necessary for providing adequate reserves for the replacement of equipment) for any one month as disclosed by the Operative Statement which is submitted to the Board, 30 per cent of the amount of such excess for such month shall be payable to the Association in addition to the management fee provided in paragraph 7 hereof, provided, however, that the total amount payable to the Association pursuant to the provisions of this paragraph and of said paragraph 7 shall not exceed $500 in any one month; 13-1/3 per cent of the amount of such excess for such month shall be paid by the Association to its employee who is designated by it as Manager in charge of said cafeterias, snack bar, and dining rooms; and 6-2/3 per cent of the amount of such excess for such month shall be paid by the Association to its employee who is designated as Assistant Manager for said cafeterias, snack bar, and dining rooms. Any amounts which are paid or payable pursuant to the provisions of this paragraph shall be taken into account, after being audited and approved by the Board, in making the settlement provided for in paragraph 8, and shall be
"added to the amount otherwise payable by the Board to the Association or shall be deducted from the amount otherwise payable to the Board by the Association, as the case may be. By notifying the Association in writing, the Board shall have the right to require an increase or decrease in the aforesaid amounts payable to the Manager and Assistant Manager, respectively, or to require the discontinuance of such payments, but any such change shall be effective only as to calendar months subsequent to that in which the Board notifies the Association that such change shall be made. The Association shall not change the rate of compensation of said Manager or Assistant Manager without the prior approval of the Board.

"In view of the provisions now contained in the fourth sentence of paragraph 9, the proposed changes in the payments to the Manager and Assistant Manager may be made by merely notifying your Association that the Board desires the changes to be made, and a modification of the contract is not necessary. However, since it is proposed to revise paragraph 9 in other respects, it seemed convenient to include these changes in the revision.

"While the basis of computing the proposed management fee varies somewhat from the revisions suggested in your letter, it will result in a substantial increase in compensation for the Association and we hope that you will find the proposed revision satisfactory.

"The operating statements submitted by the Association pursuant to the Agreement have not been received promptly and in many instances these statements are delayed for a period of two months. It would be very helpful if we could obtain the operating statements within a short time after the close of a month's business as we feel that prompt reports of the operations are essential to the proper supervision of the unit. It will be appreciated, therefore, if you will give consideration to revising your accounting procedure in order that the operating statements can be made available shortly after the close of a month's business.

"In giving consideration to your request for a revision of the management fee we wish to assure you of our desire to arrive at an equitable basis for the services of the Association, and trust that our relationship with your organization will continue as satisfactory and pleasant in the future as it has been in the past."

At this point Messrs. Thurston and Smead left the meeting and
the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 22, 1940, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on October 23 and 24, 1940, were approved and the actions recorded therein were ratified unanimously.

Telegram to Mr. Olson, Assistant Secretary of the Federal Reserve Bank of Chicago, stating that the Board of Governors approves for the Chicago Bank, effective as of October 26, 1940, the following rates on industrial advances under section 13b of the Federal Reserve Act:

"Advances direct to industrial or commercial organizations: 3% to 6%"

"Advances to financing institutions:
On portion for which institution is obligated: 3% to 6%, except that in those cases where financing institution charges less the rate may be the same as that charged by the financing institution.
On remaining portion: 3% to 6%, except that in those cases where financing institution charges less the rate may be the same as that charged by the financing institution.

"Commitments to make advances: 1% to 2%"

The telegram also stated that the Board approves the establishment by the Bank without change of the other rates of discount and purchase in the Bank's existing schedule, advice of which was contained in Mr. Olson's telegram of October 24, 1940.

Approved unanimously.
Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Sanford and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 22, by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, and Dallas on October 24, 1940, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"The Board's staff understands informally from the staff of the Securities and Exchange Commission that the Citizens Bank and Trust Co., Charlottesville, Virginia, a nonmember bank that has not filed an agreement with the Board of Governors under section 8(a) of the Securities Exchange Act of 1934 and section 5 of the Board's Regulation T, has been making certain loans which may be in violation of these provisions.

"While the provisions of the statute are phrased as a prohibition against borrowing, the position of the lending bank as a participant in such a transaction cannot be overlooked and therefore it seems appropriate for the present question to be handled in a manner similar to that worked out with your corporation for handling possible violations of Regulation U, as outlined in the
"attached mimeographed letter (S-149). In the circumstances, we have not taken up the subject with the Citizens Bank and Trust Co., and have assumed that it would be convenient and satisfactory to you for your corporation to handle the matter in a manner similar to that worked out for similar questions under Regulation U.

"It will be appreciated if you will keep us advised with respect to the matter. Needless to say, the Board of Governors and the Federal Reserve Bank of Richmond will be glad to be of every possible assistance to you in disposing of the question in this manner, or will be glad to handle it in some other way if you should think it desirable."

Approved unanimously, together with a letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"For your information there is attached a copy of a letter addressed to the Federal Deposit Insurance Corporation regarding the fact that the Citizens Bank and Trust Co., Charlottesville, Virginia, has made certain loans which may be in violation of section 8(a) of the Securities Exchange Act of 1934 and section 5 of the Board's Regulation T.

"It will be appreciated if you will cooperate fully with the Federal Deposit Insurance Corporation in any way that may be of assistance to the corporation in working out the matter."

Memorandum dated October 14, 1940, from Mr. Dreibelbis, Assistant General Counsel, referring to a discussion which he had had with Mr. Koppang, examiner in charge, with respect to the question of confirmation of accounts maintained with the New York Bank by certain central foreign banks and foreign governments and to a conference which he and Mr. Koppang had had with Messrs. Logan and Tiebout of the Legal Division of the New York Bank, as the result of which it was concluded that the wiser course for Mr. Koppang to follow would be not to ask for confirmations in connection with the accounts
Maintained by De Nederlandsche Bank, the Royal Netherlands Government, Banque Nationale de Belgique, Narodni Banka Cesko-Slovenska, Latvijas Banka, Lietuvos Bankas, and the State Bank of the U.S.S.R.

The memorandum also stated that unless there was objection on the part of the Board, Mr. Koppang would make no effort to obtain the usual confirmation of the accounts referred to.

The members of the Board agreed that confirmation of the accounts should not be requested.

Thereupon the meeting adjourned.

Approved:

[Signature]

Chairman.

[Signature]

Secretary.