

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, December 7, 1940, at 11:00 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 6, 1940, were approved unanimously.

Memorandum dated December 2, 1940, from Mr. Nelson, Assistant Secretary, recommending that, for the reasons stated in the memorandum, Charlotte N. Mitchell and Elizabeth L. Carmichael be appointed as stenographers in the Office of the Secretary, each with salary at the rate of \$1,620 per annum, effective as of the date upon which they enter upon the performance of their duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated December 3, 1940, from Mr. Nelson, Assistant Secretary, recommending, for the reasons stated in the memorandum, (1) that William A. Steinacker be appointed as an operator, duplicating

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devices in the Duplicating, Mails, and Supplies Section of the Secretary's Office, with salary at the rate of \$1,620 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination; (2) that Mildred E. Todd be transferred as a clerk to the Duplicating, Mails, and Supplies Section, with no change in the salary at the rate of \$1,440 per annum, already approved for her to become effective December 16, 1940; and (3) that the salaries of Stanley J. Bloch and Rexford M. Kirkland, senior operator and foreman operator, duplicating devices, respectively, in the Duplicating, Mails, and Supplies Section be increased from \$1,800 to \$2,000 per annum, effective December 16, 1940.

Approved unanimously.

Memorandum dated December 2, 1940, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, the temporary assignment of Rifat Tirana, Foreign Statistician in the Research Department of the Federal Reserve Bank of New York, to the Board's Division of Research and Statistics, be extended for a further period of three months from January 7, 1941, the date upon which the present assignment expires, and that the Board authorize the continuation during the extended period of the arrangement for reimbursement of the New York Bank for Mr. Tirana's salary at the rate of \$4,000 per annum,

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the Bank's contributions to the Retirement System on his behalf, a subsistence allowance at the rate of \$5.00 per calendar day, and transportation costs between New York and Washington in accordance with the Board's travel regulations. The memorandum stated advice had been received from the Federal Reserve Bank of New York stating that it would have no objection to a three-month extension of Mr. Tirana's assignment to the Division of Research and Statistics. The memorandum also recommended that the amount in the miscellaneous expenditures classification of the 1941 budget for the Division of Research and Statistics be increased by \$1,500 to provide funds for reimbursement of the New York Bank for the three-month extension of Mr. Tirana's assignment.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"Enclosed for your consideration and comment is a proposed amendment to Regulation U, 'Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange', which has been prepared by the staff but not yet acted on by the Board. The proposed amendment grows in large part out of certain rules recently issued by the Securities and Exchange Commission relating to the hypothecation of customers' securities by brokers and dealers, a copy of which is also enclosed.

"The first section of the proposed amendment, section 3, would supply a mechanism by which the bank, without impounding any collateral needlessly and without waiving liens or cross liens by means of complex loan agreements, can observe the collateral requirements of the regulation with respect to a loan subject to section 1, particularly when the borrower has also a loan not so subject. It will

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"be noted that the requirement of proposed section 3(b) concerning the collateral which must be required in certain cases when making a loan does not require the bank, after the loan is once made, to obtain additional collateral because of declines in market values or credit ratings.

"Section 4 of the proposed amendment grows altogether out of the Commission's new hypothecation rules.

"In preparing this amendment, the staff has had the benefit of discussion with and suggestions from legal and other representatives of some of the large banks that will be most affected by it.

"In view of the fact that the Commission's new hypothecation rules become effective on February 17, 1941, and that the banks need plenty of time in advance of that date to revise their loan agreements and adjust their operations, the Board wishes to make the necessary changes in Regulation U as promptly as possible. It will be appreciated, therefore, if you will consider the proposed amendment at your early convenience, using your own judgment as to whether to consult persons outside your bank and if so to what extent, and let the Board have the benefit of any suggestions that you may wish to offer within perhaps a week, or at most within two weeks, after receipt of this letter."

Approved unanimously, together with  
the following letter to Mr. Lichtenstein,  
Secretary of the Federal Advisory Council:

"A substantial duplicate of this letter to you is going to each member of the Federal Advisory Council.

"Certain rules recently issued by the Securities and Exchange Commission, effective February 17, 1941, alter the conditions governing the hypothecation of customers' securities by a broker or dealer and make necessary some modification of the Board's Regulation U, 'Loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange'. A copy of the Commission's new hypothecation rules is enclosed, together with draft of a proposed amendment to the Board's Regulation U that has been prepared by the staff but not yet acted on by the Board.

"In preparing this amendment, the staff has had the benefit of discussion with and suggestions from legal and other representatives of several of the larger banks that

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"will be most affected by it. The amendment is being submitted at this time to all the Federal Reserve Banks for consideration and comment, each Reserve Bank to use its own judgment as to whether to consult persons outside the bank and if so to what extent.

"Some banks will be forced in consequence of the new hypothecation rules to make extensive changes in the forms of loan agreements, but they will not know just what they can do along this line until the amendment to Regulation U has been adopted and promulgated. The Board naturally wishes to act on the matter as promptly as possible. In case any members of the Council have any comments to make concerning either the form of the proposed amendment or its substance, these should be in the hands of the Board as soon as possible. The Federal Reserve Banks have been requested to have their suggestions in within perhaps a week or at most within two weeks."

Letter to Mrs. Valerie R. Frank, Secretary of the Retirement System of the Federal Reserve Banks, reading as follows:

"This is to advise you that the Board of Governors of the Federal Reserve System on December 7, 1940, approved the changes in Section 3, Subdivisions (3) and (7) of the Rules and Regulations of the Retirement System of the Federal Reserve Banks adopted by the Board of Trustees of the Retirement System by mail vote, as set forth in your letter of December 3, 1940. In taking this action the Board was mindful of the fact that it is not possible at this time to foresee to what extent it may be desirable to waive the reduction of disability allowances as authorized in the amendments to Subdivision (3) of Section 3 of the Rules and Regulations, and the suggestion was made that circumstances may arise making it desirable for the Board of Trustees of the Retirement System, the Federal Reserve Banks and the Board of Governors to cooperate in working out the policy to be followed in dealing with this matter.

"The Board at the same time approved the resolution regarding service credit in the Retirement System of employees reemployed after a period of service in the military or naval forces of the United States, which, as stated in your above mentioned letter, was also adopted



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"by the Board of Trustees of the Retirement System by mail vote.

"Copies of this letter are being sent to Mr. J. S. Sinclair, Chairman of the Board of Trustees, and to Mr. L. R. Rounds, Chairman of the Retirement Committee."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

J. S. Sinclair  
Chairman.