DIARY

Book 247

March 13 - 18, 1940
<table>
<thead>
<tr>
<th>Location</th>
<th>Book</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See Latin America</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arnold, H. H. (General)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See War Conditions: United States Committee</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**- B -**

<table>
<thead>
<tr>
<th>Location</th>
<th>Book</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eccles, now that Bank has accepted plan, tells HM Jr he feels everyone should be congratulated - 3/14/40</td>
<td>247</td>
<td>84</td>
</tr>
<tr>
<td>Delano discusses acceptance with HM Jr - 3/14/40</td>
<td>89</td>
<td></td>
</tr>
<tr>
<td>Foley reports that Cushing left in amicable mood - 3/15/40</td>
<td>161</td>
<td></td>
</tr>
<tr>
<td>Landis thanked for his assistance - 3/18/40</td>
<td>265</td>
<td></td>
</tr>
<tr>
<td>Business Conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hass memorandum on situation for week ending 3/16/40.</td>
<td>228</td>
<td></td>
</tr>
</tbody>
</table>

**- C -**

<table>
<thead>
<tr>
<th>Location</th>
<th>Book</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See War Conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaria Control Board - 3/14/40</td>
<td>119</td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See War Conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See Latin America</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customs, Bureau of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abolition of Surveyors and Comptrollers: Ways and Means Committee displeased at Treasury attempt to cut off appropriations; abolition will be included in next reorganization plan but Congress does not know this; Foley advocates in interest of harmony that provision be left over until next reorganization plan - 3/14/40</td>
<td>63</td>
<td></td>
</tr>
</tbody>
</table>

**- F -**

<table>
<thead>
<tr>
<th>Location</th>
<th>Book</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing, Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3/15/40:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Announcement of subscriptions and allotments - 3/13/40..</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See War Conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freight Shipments (Railroad)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See War Conditions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**- G -**

<table>
<thead>
<tr>
<th>Location</th>
<th>Book</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See War Conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Great Britain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See War Conditions: Purchasing Mission</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Indiana
See Tax Evasion

Italy
See War Conditions

Kidde and Company, Walter
See War Conditions: Closing Agreements

Latin America
Argentina: Monetary problems discussed by Cochran with Irigoyen, Financial Counselor of Embassy, after several months’ visit at home - 3/14/40.......... 247 134
Colombia: Request for $10 million long-term loan from Export-Import Bank discussed in American Embassy, Bogota, message - 3/13/40................. 5

Mail, United States
See War Conditions

Norway
See War Conditions

Portugal
See War Conditions

Securities and Exchange Commission
Investment Trust Bill:
    a) Copy.................................................. 326
    b) Senator Wagner’s (who will introduce the sponsor) statement - 3/18/40.......................... 318
    c) Foley memorandum................................. 316

Silver (Townsend bill)
Conference on procedure prior to H&WJr’s appearance before Senate Committee on Banking and Currency;
present: H&WJr, Foley, White; Senators Barkley, Wagner, Adams, Bankhead, and Pittman - 3/13/40................. 1
McNary tells H&WJr he need not testify on new legislation - 3/18/40................................. 259
H&WJr’s proposed statement.......................... 286
H&WJr’s statement as finally given - 3/19/40: See Book 248, page 6
(Reading copy, page 20)
    a) H&WJr tells Senator King “not a friend of silver was present” - 3/21/40: See Book 248, page 340
Statements by HMJr
See also Silver (Townsend bill)
Townsend bill - before Senate Committee on Banking and Currency - 3/19/40: See Book 248, page 6
Surplus Commodities
Wheat export sales, et cetera: Haas memorandum - 3/18/40... 247 221

-T-

Tax Evasion
Indiana:
Conference on possibility of proceeding immediately (civilly) in Keeler and Greenlee cases; present:
Foley, Helvering, Irey, and Sullivan - 3/13/40....... 8
a) Discussed at Treasury meeting................. 13
HMJr-irs, McAllister (Chairman, Women's Division of National Democratic Committee) as to persecution of McNutt - 3/13/40.................. 14
Graves to pinch-hit for Irey because of Irey's ill health - 3/13/40....................... 90
Conference (Drew-Pearson leak discussed); present: HMJr, Foley, Sullivan, Irey, and Schwarz - 3/14/40........... 103
a) Memorandum of Pearson conference with Sullivan... 118
Conference; present: HMJr, Graves, Helvering, Irey, Thompson, and Cairns - 3/15/40...................... 162
a) Helvering discusses actual securing of evidence b) Carpenter (member of Foley's staff) wanted by Helvering and Graves but Foley objects................ 168
Hoosier Democratic Club: Summary of record relative to inquiry relating to taxable status... 179
Foley agrees to release of Carpenter - 3/16/40......... 207

Townsend Bill
See Silver
Tyler, Royall
See War Conditions: Italy

-U-

U.S.S.R.
See War Conditions
United States Savings Bonds
Conference; present: HMJr, Bell, Broughton, Kilby, and Sloan - 3/14/40........................... 136
a) All publicity discussed
b) Future possible changes discussed

Regraded Unclassified
War Conditions

Airplanes:
Woodring to appear before Aviation Subcommittee of House Military Affairs Committee; Subcommittee believes error was made in original request for money for planes and that this rather than any other cost factors accounts for General Arnold's present request for supplemental funds - 3/13/40...

Status of French contracts as of 2/29/40 -
3/14/40 ......................................................... 75

Liaison Committee conference; also present: Brett (Army Air Corps), Burns (Assistant Secretary Johnson's office), MacMorland (Clearance Committee, Munitions Board), Lingle (Army Air Corps), Towers (Chief, Bureau of Aeronautics, Navy Department), Purvis, Sir Henry Self, Pleven, and Jacquin - 3/14/40 ....... 81

a) Towers-Collins conversation concerning availability to Allies of latest aviation material - 3/15/40............................................... 189

1) Edison, Stark, and Towers agree that Navy will discuss with Anglo-French Purchasing Board any aviation material in existence or in development which may be of use in proposed program
a) Collins so informs Purvis

Edison letter to House Naval Affairs Committee asserting that sale of aircraft to Allied governments has not interfered with Navy Department program - 3/18/40 ........................................ 249

a) Ed Jr congratulates Edison ............................... 252

Woodring asks to have conference postponed - 3/18/40...

a) Ed Jr tells Edison Alsup-Kintner's column gives reason for postponement .... 252

Canada:
War Supply Board to be represented in United States by Anglo-French Purchasing Board under chairmanship of Arthur B. Purvis - (3/5/40)................................. 95

Exchange Control Policy: Cochran memorandum after visit with Deputy Governor Gordon of Bank of Canada at Ottawa - 3/14/40 ........................................ 124

Closing Agreements:
Conference with Navy representatives on application of Walter Kidde and Company - 3/16/40 ................................ 202

a) Sullivan memorandum: "Retreat is so rapid song might be changed from 'Anchors Aweigh' to 'Anchors Away'”

Coal:
Edison asked to instruct Naval Attache, London, to inform Treasury on English-Italian-German coal arrangements - 3/15/40 ........................................ 149

(For report see Book 248, page 114)
<table>
<thead>
<tr>
<th>Book</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>247</td>
<td>43, 46, 144, 197, 218</td>
</tr>
</tbody>
</table>

**War Conditions (Continued)**

**Exchange market resume**: 3/13/40, et cetera

**Finland**:  
Reconstruction: HMJr discusses possibilities at 9:30 meeting - 3/14/40.  
- a) Tanner and Ryti could be invited to work out comprehensive plan of reconstruction: loan against their gold (practically entire supply in this country), et cetera  
- b) This plan could be used as pattern to be used later for other countries  
- c) Stability of present government may be helped if they have this constructive plan to offer  
- d) Stabilization Fund: HMJr would even be willing to go to the Hill regarding authorization for a loan from this fund.  

**Cochran memorandum**: 3/14/40  
Red Cross assistance - 3/15/40.  
See also Book 248, page 120

**France**:  
Freight Shipments (Railroad):  
- Report and chart showing receipts at New York and nine other North Atlantic ports - 3/18/40.  

**Germany**:  
Financial and monetary plans and problems reported on by American Embassy, Berlin, after conference with Puhl, Vice President and active head of Reichsbank - 3/14/40.  

**Italy**:  
Tyler (Royall) resumé of recent "curious exchange developments" - 3/13/40.  

**Mail, United States**:  
Transportation by Norwegian and Icelandic vessels:  
- Foley memorandum - 3/18/40.  

**Norway**:  
Resume of payments agreement between Norway and Great Britain - 3/12/40.  

**Portugal**:  
Collins' memorandum on desire to purchase heavy ordnance for coast defense purposes, et cetera - 3/13/40.
War Conditions (Continued)

Purchasing Mission:

Great Britain: Report on official sales of British-owned dollar securities under vesting order (effective February 19, 1940) as of March 18, 1940.

United States Committee: FDR's conversation of 2 1/2 hours on lack of cooperation described by HMwr to Treasury group - 3/13/40.

a) General Arnold trying to get Colonel Burns on committee instead of Quartermaster General; Arnold told those people who can neither control themselves nor the people under them will be sent to Guam.
b) FDR also tells Early and Louis Johnson that if General Arnold does not cooperate he will be removed as head of Air Corps.
c) HMWr considers Woodring, Johnson, and Arnold all liars.
d) Collins' memorandum on FDR's conference - 3/13/40.
e) HMWr discusses FDR's conference with Purvis - 3/13/40.

Shipping:

Harris resumed on West Coast situation - 3/14/40, 3/18/40.

Harris resumed on Port of New York - 3/18/40.

Strategic Materials:

Smokeless Powder:

HMwr tells Collins he is going to persuade Edison to tell duPont that the English may have the Navy's 600,000 pounds - 3/14/40.
a) Edison-HMwr conversation.

Woodring plan "so that English and French will get what they need": Collins explains plan to HMwr insofar as he understands it - 3/14/40.

U.S.S.R.:

Shipments to - 3/18/40.
MEMORANDUM FOR THE RECORD:

Conference in Senator Barkley's office, March 13, 1940.

Present: Secretary Morgenthau, Mr. Foley, Mr. White; Senators Barkley, Wagner, Adams and Bankhead; Senator Pittman dropped in later.

The conference was called at the Secretary's suggestion to ascertain what some of the Democratic leaders thought was the best procedure with respect to the Secretary's appearance at the silver hearings before the Senate Committee on Banking and Currency, for which Senator Townsend was pressing.

Senator Wagner stated that nobody seemed to be interested in supporting a continuation of the purchase of foreign silver and that unless there was strong assistance coming from the Administration his Committee was certain to vote out Townsend's bill favorably. He stated that were Secretary Hull to come out in favor of a continuation of the silver purchase program at this time on grounds of international political policy it would help a great deal in defeating Senator Townsend's bill in his Committee. Senator Wagner stated that he had spoken to Secretary Hull and Secretary Hull had taken the position that it was a matter of indifference to his Department how Congress acted on the bill, and that it was the Treasury that was chiefly affected, and that he (Secretary Hull) was disposed to let Secretary Morgenthau carry the ball so far as the State Department was concerned.

Senator Wagner said he knew that the President opposed Townsend's bill but that even the Senators from the silver states, who had fought so strongly for the continuation of domestic purchases of silver, seemed disinterested in what happened to the Townsend bill.

Secretary Morgenthau said he recognized the fact that the silver Senators seemed to be disinterested, and for his part if they were not interested in defending the bill he did not feel that he could do very much for it. It was his opinion that any defense of continued purchases of foreign silver should come from those Senators who had done so much to insist upon its continuation in the past.

The Secretary added, however, that he believed that under the circumstances the continued purchase of foreign silver at this time
was doing no economic harm and might even be doing a little good. He stressed the view that since there was a comprehensive examination of the monetary policy being undertaken he deemed it desirable to postpone any action on silver until the matter had been thoroughly canvassed along with the other portions of the monetary program in the monetary investigation. He thought it would be a mistake to consider silver a question separately from the total program, and hence he (Secretary Morgenthau) could not favor the Townsend bill.

Senator Barkley wanted to know just what could be said in favor of continued purchases of foreign silver and Mr. White indicated some of the reasons why there were on the whole some minor economic benefits that flowed from the continued purchase of foreign silver at this time. The Secretary stated that he much preferred not to appear before the Senate Committee on Banking and Currency to testify on the Townsend bill. Senator Wagner stated that Senator Townsend was very pressing on the matter but that possibly he might be induced to alter his mind. Senator Wagner wanted to know if Mr. White could appear before the Committee instead of the Secretary and could speak for the Treasury on the bill. The Secretary said that that was entirely satisfactory to him.

At that point Senator Pittman appeared and indicated that he was not concerned with the Townsend bill one way or the other. Whether it was desirable to repeal the purchase of foreign silver depended on whether "it was good or bad for our economy", and he had no view on that subject. That aspect of the problem was, he claimed, a matter about which the Treasury should have definite views.

When asked whether he was concerned lest a decline in the price of foreign silver might follow cessation of Treasury purchases of foreign silver and, by increasing the discrepancy between the world price for silver and the domestic price for silver, increase public dislike for domestic silver purchase program at current prices, Senator Pittman responded that they had the situation with regard to domestic purchases of silver well in hand, and that he didn't think it made any difference what the world price for silver was. Later on he said that he thought the world price was going to rise, much the same as it did during the last war. He went on to state that he was chiefly concerned with demonstrating the falsity of the statement made in some quarters that silver was not a valuable metal and that its use as money had decreased. He said he felt very strongly that silver was valuable and would become more valuable, and that its use as a monetary metal had increased.

Senator Wagner asked him whether he wouldn't like to appear before the Committee on Banking and Currency to be held that day to give his view on the Townsend bill. Senator Pittman said that he
would like to attend the hearings to testify on the utility of silver, but he didn't intend to say anything about the merits of the Townsend bill. Senator Pittman went on to say, however, that he couldn't attend Committee hearings that day but could if the hearings were postponed a day or two.

After Senator Pittman left, it was agreed that Senator Pittman could be the first one called at the Conference and if Townsend insisted on the Secretary's appearance the Secretary could appear after Senator Pittman had testified.

When the discussion on silver ended, the Secretary said he wanted a few minutes to explain to the men assembled just exactly what he had been doing in carrying out the specific orders of the President to promote increased production of planes for the Allies, and what the proposed Allied plane order meant for recovery and employment in this country. He stated that as a result of intensive efforts they now expected it would be possible to obtain the Allied orders for planes on conditions satisfactory to all concerned, and to expedite production of planes, engines and parts as to substantially heighten business activity within a few months. He said that he thought these additional orders would result in an increase in income-creating expenditures directly and indirectly of possibly $1 billion during the coming 12 months. The Senators each expressed themselves as being very favorable to the idea and were glad to learn about the details from the Secretary.
FOR IMMEDIATE RELEASE
Wednesday, March 13, 1940

Secretary of the Treasury Morgenthau today announced that reports from the Federal Reserve banks indicate that $718,098,200 of Treasury Notes of Series B-1940, maturing June 15, 1940, have been exchanged for 3/4 percent Treasury Notes of Series A-1945.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

<table>
<thead>
<tr>
<th>Federal Reserve District</th>
<th>Total Subscriptions Received and Allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>$19,564,900</td>
</tr>
<tr>
<td>New York</td>
<td>502,203,200</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>12,572,100</td>
</tr>
<tr>
<td>Cleveland</td>
<td>17,632,900</td>
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<tr>
<td>Richmond</td>
<td>43,978,100</td>
</tr>
<tr>
<td>Atlanta</td>
<td>7,710,300</td>
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<tr>
<td>Chicago</td>
<td>84,983,300</td>
</tr>
<tr>
<td>St. Louis</td>
<td>7,016,600</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>4,637,100</td>
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<tr>
<td>Kansas City</td>
<td>9,832,000</td>
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<tr>
<td>Dallas</td>
<td>5,781,400</td>
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<tr>
<td>San Francisco</td>
<td>3,423,400</td>
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<tr>
<td>Treasury</td>
<td>787,900</td>
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<td><strong>Total</strong></td>
<td><strong>$718,098,200</strong></td>
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Reference is made to the Department's telegram no. 46 of March 5, 1940.

A copy of a memorandum which is being sent to the Colombian Embassy in Washington was given to me today by Jaramillo. I will forward this copy to the Department by the first airmail.

Jaramillo said that the Government of Colombia wishes to obtain a long-term loan in the amount of $10,000,000 from the Export-Import Bank. Of this amount $5,000,000 would be apportioned to the Bank of the Republic, thereby reenforcing the Bank's reserves and easing exchange control restrictions. American exporters would be benefited through prompt payment and through increased exports to the United States.

Part of the loan would be used for agricultural development under strict supervision; $1,385,000 would be used for railroad construction; $1,715,000 would be used to purchase railway equipment; $1,006,000 would be spent for highway construction and $300,000 for equipment for the latter. As other countries repay their indebtedness
the Export-Import Bank, the Government of Colombia hopes that it may be possible for the Export-Import Bank to grant additional assistance to Colombia.

BRADEN
MEMORANDUM

March 13, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

Subject: Shall we immediately proceed civilly in the
(1) Keeler, (2) Greenley cases.

1. Messrs Foley, Helvering, Irey and Sullivan are in accord that proceedings may and shall be started at once. Tomorrow, March 14th, the deficiency notice in the Keeler case will be forwarded to the Collector in the district in which Keeler filed his return (either Louisville or Indianapolis) and Keeler will then have 10 days in which to pay.

2. On the subject of Greenley, Mr. Irey states that he believes that his men will recommend a criminal prosecution and that no civil proceedings should start before the criminal prosecution has been terminated. If Agent Sullivan leaves here tomorrow to return to Indianapolis he can forward in here within a few days the civil tax report but unless some court order is issued it is questionable that any witnesses can be made to talk so that the criminal prosecution of Greenley will be recommended unless there is some other source of information as yet undisclosed. Commissioner Helvering stated that any recommendation as to criminal prosecution of Greenley should be scrutinized carefully. General Counsel Foley has not been contacted since I have received this subsequent information from Mr. Irey. It is my opinion that no action on Greenley should be taken until the report from Indianapolis is received.

J-S
MEMORANDUM

March 13, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

Subject: Shall we immediately proceed civilly in the
(1) Keeler, (2) Greenlee cases.

1. Messrs. Foley, Helvering, Irey and Sullivan are
in accord that proceedings may and shall be started at once.
Tomorrow, March 14th, the deficiency notice in the Keeler
case will be forwarded to the Collector in the district in
which Keeler filed his return (either Louisville or Indianapo-
lis) and Keeler will then have 100 days in which to pay.

2. On the subject of Greenlee, Mr. Irey states that
he believes that his men will recommend a criminal prosecution
and that no civil proceedings should start before the criminal
prosecution has been terminated. If Agent Sullivan leaves
here tomorrow to return to Indianapolis he can forward in here
within a few days the civil tax report but unless some court
order is issued it is questionable that any witness can be
made to talk. Accordingly the criminal prosecution of Greenlee
will not then be recommended until there is some other source
of information as yet undisclosed. Commissioner Helvering
stated that any recommendation as to criminal prosecution of
Greenlee should be scrutinized carefully. General Counsel
Foley has not been contacted since I have received this sub-
sequent information from Mr. Irey. It is my opinion that no
action on Greenlee should be taken until the report from
Indianapolis is received.
On the whole, I felt Baldwin's story was as decent as could be expected. Certainly your talk with him neutralized much of the poison that had already been injected into him. Your attention is called to the start of his tenth paragraph: "Some army and navy officers are afraid," which doesn't sound very stalwart for military men. Felix Cotten hints about a controversy and then nowhere in his story does he really define a controversy. The Wall Street Journal story, following on their New York lead, treated you more fairly, I think, than any of the others. I have arranged for all the information that may be obtained at the conclusion of Rep. Harter's subcommittee session this morning and will relay same.

From: MR. SCHWARZ
GENERAL DISCUSSION ON  
PENDING MATTERS  
(Discussion on Bank of America  
took place during this meeting  
but was transcribed separately)  

Present:  
Mr. Bell  
Mr. Sullivan  
Mr. Foley  
Mrs Klotz  

H.M. Jr:  
There is something I wanted to tell you people.  
Did you get that message of mine?  What is the  
thing the fellow wanted, what is this resolution?  

Foley:  
Well, it is to determine whether or not military  
secrets by the third of September have been given  
up and whether or not what we are giving to for­  
eign governments affects in any way delivery on  
contracts to our government and prices that our  
government would pay for ammunition and airplanes  
and war supplies.  The resolution hasn't been  
printed yet and it has come to the Military  
Affairs Committee. It has been referred to the  
Military Affairs Committee. Now, that is Sheppard's  
Committee. It isn't an awfully good committee  
from our standpoint.  

H.M. Jr:  
Did you see that Barkley said word for word what  
we told them?  It was just perfect.  

Foley:  
It was a good thing you primed him, because he  
didn't know, apparently, that LaFollette was  
going to offer this at this time.  

H.M. Jr:  
It was just sheer Morgenthau luck.  

Klotz:  
No, that was no accident.  You planned it.  

Foley:  
Sure you planned it that way.  

H.M. Jr:  
Believe me, when Mr. Louis Johnson had a press  
conference today he was a very good boy. He said  
he liked the Coordinating Committee and went  
right down the line. Believe me, he got it yes­  
terday.  

Sullivan:  
Oh, he did?
H.M.Jr: The President spent two and a half hours on the airplane thing yesterday. Oh boy, did General Arnold get it. They are trying to put Colonel Burns on this committee in place of the Quartermaster General. He says he can be a liaison officer. He tried his best to get him on and the President said, "You know," looking at Arnold, he said, "When people can't control themselves and their people under them, you know what we do with those kind of people? We send them to Guam."

Klotz: He didn't!

H.M.Jr: Yes, he did, and he told Steve Early and he told me this morning that he told Louis Johnson yesterday that either Arnold cut it out or he would be removed as head of the Air Corps. The President took two and a half hours yesterday to go into this thing and I don't - oh, the lie that they did the other day in front of the President is wonderful. I just knew it. Between Woodring and Johnson and Arnold. My, what a bunch of liars.

Sullivan: Do you want all that on the record?

H.M.Jr: Sure, it is just for me. I may forget they are liars.

Sullivan: Did you say the diary?

Klotz: This is our diary.

H.M.Jr: This is mine. You ought to see it.

Sullivan: Autograph a copy, will you?

H.M.Jr: There is only one.

Bell: It will be good reading 20 years from now.

Klotz: I don't think we can wait 20 years. I may not be here. I would like to see it in print before then.

H.M.Jr: O.K.
Foley: Mr. Secretary, I am going over at 3:00 o'clock to see Sam Clark on that Perini and those other contractors up in Boston. We had a meeting this morning in John's office, the Commissioner and Elmer and his man Sullivan. Sullivan gave us a long --

H.M.Jr: Just a minute. When does Perini start and stop and Sullivan begin? Are they all the same case?

Foley: No, I am explaining that I am going over to Sam Clark's on another matter.

H.M.Jr: Perini?

Foley: Yes.

H.M.Jr: What is that trick they used to have, Peruna?

Klotz: Purina is wheat, isn't it?

Foley: Well, Sullivan has given us another memorandum now to substantiate the application for the order. It is a rehash of what they got in the letter that came in before and there is nothing in there that I can use very well. Suppose I give his letter to Elmer and this memorandum --

H.M.Jr: Whose letter to Elmer?

Foley: Sullivan's, in support of the petition, and this memorandum to Sam Clark and say that this is the additional material we have gotten from our agents and will they review it and see whether or not that makes any difference.

H.M.Jr: Fair enough. Now, is Sullivan in town?

Foley: Yes, sir.

H.M.Jr: Would you, or whoever has time - I want to know why we can't proceed against Mr. Greenlee.

Sullivan: Well, you don't need to talk to anybody about that.

Foley: Keeler, too.
H.M. Jr: Why not?
Sullivan: O.K.
Foley: Did you see the Clapper memo?
H.M. Jr: No. When was that?
Foley: Today, in the News. Want it?
H.M. Jr: No hurry. Have you got it in your hand?
Foley: It is on my desk.
H.M. Jr: Well, I will get it, don't worry.
Sullivan: It isn't that bad.
Foley: It is a crucifixion of Mr. McNutt.
H.M. Jr: That is all right. I will tell you something very interesting. I would like to have a report from Helvering and you two gentlemen and Elmer Irey, unanimous, if possible, why we shouldn't proceed against Mr. Greenlee and --
Sullivan: I will take care of that over the phone. I think they all agree that we should go right ahead, don't you, Ed?
H.M. Jr: Just to refresh my memory. As I remember, what we found originally was that Greenlee had collected something like $80,000 and had failed to report --
Sullivan: About $71,000 of it.
H.M. Jr: Isn't that a case?
Sullivan: Sure.
H.M. Jr: Why not go ahead with it?
Sullivan: We have that all along.
H.M. Jr: I know we have, that is what started the whole business. I told you this four or five days ago.
Now, on the thing about the persecution. Last night we were out at dinner and I happened to sit next to Mrs. McAllister. She is the Chairman of Democratic Women. A grand person. Do you know her?

Klotz: Yes.

Foley: In the Treasury here?

Klotz: No, Women's Division of the National Democratic Committee.

Foley: Oh, I know who she is.

Bell: She lives in Alexandria, doesn't she?

H.M.Jr: Yes.

Foley: I don't know her very well. She has asked me to go around a couple of times and I have never gone.

H.M.Jr: She is a grand person. Her husband was there. He is a Federal judge. I said, "Mrs. McAllister, I want to ask you a question and you can either answer me - I want the straight answer or none. Of the women that you have seen and the talk that you hear around, what is the talk about our persecuting McNutt?" She said, "Mr. Morgenthau, I haven't heard a word," and I said, "What about your women from Indiana?" She said, "They were just in recently. I had a group who came in from Indiana and not one person mentioned it." She said, "I have never heard it mentioned." She said, "Nobody has told me or criticized you or the Treasury and I have just recently seen a whole group of women from Indiana." She said, "I get the stuff, don't you think I don't, because --" and she started off with WPA and the work, and so forth and so on, and she is getting all kinds of criticism on that. I thought that was interesting, because she does get around, so I would like to start on Greenlee. What is the other fellow?

Sullivan: Keeler. You mean civil suit or criminal suit?

H.M.Jr: Whatever the crime is. I don't know. I would like to proceed. I don't know whether it is
a criminal or civil matter.

Foley: Civil, I think.

H.M.Jr: Whatever it is, let's go to town.

Sullivan: I will charge myself with that and report to you later in the afternoon.

H.M.Jr: Tomorrow morning will be early enough.

Foley: Look, can I go a further step with Sam Clark and say that we want the doubt that they have in their mind as to the granting of this order removed before we decide to go ahead and we are going to do it together?

H.M.Jr: Check and double check.

Foley: O.K., and if they don't think it ought to be done and there is still doubt, then we are not going to say they ought to do it.

H.M.Jr: It is the old story. If you don't want to, I don't want to.

Klotz: I never heard that before.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin
NO.: 633
DATE: March 13, 1940, 10 a.m.

My 2461, December 26, 10 a.m.

The German press is criticizing as discriminatory and injurious to Germany Rumania's new foreign trade regulations notably the recent decree that all foreign exchange derived from Rumanian exports shall be sold to the National Bank which will pay a fixed "valuta premium" of 50 percent of the official rate as compensation for the higher rates which exporters heretofore realized by the sale of their exchange in the free market.

In its March 8 issue the SUEDOST ECHO, a Vienna weekly devoted to Germany's economic relations with Southeastern Europe, asserts that by this decree Rumania not only converts the concealed premium hitherto paid for free currencies into an open one but has given the pound and franc an even greater purchasing preeminence in Rumania which will make British "nuisance purchases" cheaper. The SUEDOST ECHO points out that the question of fixing the reichsmark-leu exchange rate will again become acute. It will be recalled that on December 21, 1939, Rumania agreed to raise the selling rate for reichsmarks.
reichsmarks in the German-Rumanian clearing from 40.50 to 49.0 leu although as reported at the time the German Government demanded a greater increase.

The SUEDOST ECHO also criticizes the fixation of minimum prices for Rumanian exports of certain agricultural products to Germany as harmful to Rumanian sales to Germany since the Rumanian authorities refuse to grant export licenses for German purchases made at prices below those fixed by the Government and points out that the minimum prices introduced January last have not been published. In its complaint of the discriminatory effect of the new Rumanian minimum price and exchange regulations the SUEDOST ECHO claims that Rumanian exporters are allowed to sell a carload of oil cake to Denmark for $288 whereas Germany must pay 1418 marks per car equivalent at the official German rate of exchange to $592.

It was pointed out at the Rumanian Legation that these complaints were made by Germany immediately preceding the announcement of the quarterly periodical negotiations for which provision is made in the Rumanian Trade Agreement. They deny that there is any discrimination against Germany and assert that the actual purchasing-power parity of the mark is closely measured by the new exchange
exchange and (? ) price regulations. It was stated that
the nominal gold parity of the mark does not concern
Rumania; all Rumania is interested in is the amount of
products that can be bought with a mark in Germany. It
was stated that by means of the present regulations the
relative purchasing power of the mark, the dollar, the
pound and the franc are exactly expressed. However, it
was indicated that in the negotiations in Berlin some
concession to the German viewpoint might be made by the
Government of Rumania for reasons of political concilia-
tion and Rumania's need of certain kinds of armaments,
particularly artillery, which cannot be bought to advan-
tage in England and France.

Please inform Treasury. I have repeated this
message to Bucharest.

KIRK
Dr. Joao Antonio de Bianchi, Minister from Portugal, called this afternoon concerning the purchase in this country of certain heavy ordnance for coast defense purposes, as well as some anti-aircraft guns, anti-tank guns and machine guns.

After discussing the matter at length he stated that he was going to recommend to his Government that an Army mission, empowered to discuss their proposed program, as well as to give details of types and deliveries wanted, be sent to this country.

He further stated that he had discussed this question informally with Colonel MacMorland of the Clearance Committee of the Munitions Board, at whose suggestion he called upon me. He also said that he was sending a memorandum to me which would give, in as much detail as he could get, their expected requirements. When this memorandum is received it will be handled at a routine meeting of the President's Liaison Committee.
March 13, 1940.

MEMORANDUM FOR THE SECRETARY

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Chairman, President’s Liaison Committee.

HEC;GE
Secretary of State,
Washington.

635, March 13.
FOR TREASURY FROM BUTTERWORTH.

1. All British security markets were weak today on the news of the Russo-Finnish peace terms, the conclusion of which the city not only interprets as an Anglo-French reverse but also an indication that the contiguous neutrals fear Germany more than they respect the potential might of England and France. It remains to be seen what effect this situation had on the new three per cent war loan, the list of which closed tonight.

2. The Chancellor of the Exchequer moved a vote of credit in the House of Commons this afternoon for pounds 700 million towards meeting war expenditure in the coming fiscal year.

This method of authorizing expenditure is adopted because in place of the usual detailed fighting services’ estimates only token votes are now presented, neither totals nor details being given for purposes of secrecy. This is the second vote of credit since the war began, the first.
-2- #635, March 13, from London.

first in September being for pounds 500 million and Simon indicated that up to March 9 the amount which had been spent from this authorization was about pounds 300 million and that by the end of the fiscal year (April 4) "There would probably be short spending of something between pounds 70 million and pounds 100 million out of the pounds 500 million previously authorized.

KENNEDY

McL
Conference was held with the President this morning at which were present the Secretary of the Treasury; the Secretary of War; and the Secretary of the Navy; the Assistant Secretary of the Navy; the Assistant Secretary of War; General Arnold, Chief of Air Corps, Army; Admiral Towers, Chief of Bureau of Aeronautics, Navy Department; Admiral Spear, Chief of Bureau of Supplies and Accounts, Navy Department; and the Director of Procurement.

The President expressed his concern over the stories that are creeping into the press, particularly those which indicated a disagreement as between departments of the Government, and in definite terms stated that it must be stopped. He even went so far as to indicate punitive action in the event that there was not an immediate discontinuance of such newspaper publicity. General Arnold pointed out that he had been misquoted and stated that he did not say the things before the House Military Affairs Committee attributed to him. The President then gave him some advice as to the manner in which certain types of questions propounded by members of the Committee should be answered.

Assistant Secretary of War Johnson requested of the President that he be permitted to relieve the Quartermaster General as a member of the President's Liaison Committee. This question was discussed. Secretary Johnson strongly recommended the appointment of Colonel Burns of his office in place of General Gregory. The President pointed out, as he has done before, the purposes for which the Liaison Committee was created and stated that the fact that the Quartermaster General of the Army may not have a technical knowledge of aeronautics did not preclude his availing himself of such knowledge on the subject as exists in the War Department. The President finally concluded that Colonel Burns could act as liaison officer as between the Liaison Committee and Secretary Johnson's office.

The Secretary of the Treasury pointed out that the Liaison Committee would shortly receive from the Anglo-French Purchasing Board a request for airplanes and aviation equipment. It was indicated that representatives of the Bureau of Aeronautics of the Navy Department and of the Air Corps of the Army would be invited to be present when such meeting to discuss these requirements is held.

The meeting adjourned with further admonitions on the part of the President as to the manner in which questions should be answered which were not definite in their nature.
During the course of the conference Secretary Woodring presented to the President a letter written by Mr. Harter, Congressman from Ohio, which the President read and stated that he considered it entirely too general insofar as the information requested was concerned, and he suggested that the Secretary of War's reply thereto be drafted accordingly.

Meeting adjourned at 12:10.

Chairman, President's Liaison Committee.
H.M. Jr: Hello.
Operator: Here he is. Go ahead.
H.M. Jr: Hello.
Arthur Purvis: Hello. Hello Mr. Secretary.
H.M. Jr: Mr. Purvis. Morgenthau talking.
P: Yes.
H.M. Jr: I thought it might cheer you up a little bit to know about the battle of Washington the last twenty-four hours.
P: I'd very much like to hear it.
H.M. Jr: Well it got so bad, this sabotage I had to go to the President.
P: Yes.
H.M. Jr: And he gave me two and a half hours on the - just the question of planes yesterday.
P: Yes.
H.M. Jr: And result of which the meeting was held this morning in his office, Secretary of War, Assistant Secretary of War, Secretary of Navy and Assistant Secretary.
P: Yes.
P: Oh yes.
H.M. Jr: And there was some very plain talking.
P: Yes.
H.M. Jr: And I think for the next couple weeks it'll be a little easier.
P: (laughs)
H.M. Jr: May last for a couple of weeks.
P: That makes it important to move quickly.
H.V. Jr: But it got to a point where I explained to him that my usefulness was being ruined by this sabotage.

P: Yes.

H.V. Jr: And he got very much excited about it and put the whole White House back of it.

P: Yes.

H.V. Jr: So I think the atmosphere will be clear.

P: It was very delightful.

H.V. Jr: - Senator Barkley today, I saw him this morning, the Democratic leader in the House of Senate.

P: Yes.

H.V. Jr: And you may have seen, Assistant Secretary Johnson gave quite a statement out this morning.

P: Yes.

H.V. Jr: Yes.

P: I'll look for that.

H.V. Jr: So - saying it was Allies did not interfere with the price or deliveries.

P: Oh good.

H.V. Jr: And Mr. Barkley said the same thing and Mr. Stephen Early said the same thing.

P: Oh that's very good.

H.V. Jr: So they have all called General Arnold a liar in three different ways.

P: Yes.

H.V. Jr: So I think it'll be a little easier.

P: Oh I'm delighted to hear that. Captain Collins has suggested that we should suggest we would have an opportunity of meeting the air representatives of the Army and Navy and so on. We're arranging to do that tomorrow afternoon.
E.W., Jr.: Yes, I told them to get in touch with you.
F: Well, we settled that straight out of hand and I just told him we'd be most delighted to do it.
E.W., Jr.: Good.
F: And against this background that should give us a much better chance.
E.W., Jr.: Oh yes. They'll - we'll see how you get along and - but I suggested that meeting take place tomorrow and tell them what you want.
F: Yes, yes. We will.
E.W., Jr.: And - but the President put his shoulder to the wheel and the atmosphere is clear and I say it ought to last for a couple of weeks.
F: It's not the only shoulder that's been to the wheel, as far as I can see.
E.W., Jr.: Well it's been hard work because the sabotage down here was terrible.
F: It was getting alarming, of course we've been watching the papers with a little more worry.
E.W., Jr.: Well there's real cause for alarm.
F: Yes.
E.W., Jr.: And I didn't want to go through another Congressional investigation. I can't take it physically.
F: No, no.
E.W., Jr.: But I just wanted to let you know as of tonight the atmosphere on the horizon is all clear and I think the reception you get down here tomorrow will be quite friendly.
F: Thank you so much, I am grateful.
E.W., Jr.: And that's that.
F: Yes. Thank you very much indeed. We shall go down with a much better feeling of comfort into the -
H.V., Jr: Well you can. You'll get a good reception.
P: Thank you very much.
H.V., Jr: Good night.
P: I'm awfully obliged. Thank you. Good night.
March 13, 1940

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Schwarz

The Aviation subcommittee of the House Military Affairs Committee decided today to ask Secretary Woodring to appear before its members at 10:30 o'clock tomorrow (Thursday) morning to discuss the release for export of the P-40 airplane and generally to go into the War Department policy with respect to export of aircraft and all munitions. General Marshall and General Arnold may be invited later. It was apparent from the discussions that the subcommittee believes that the Air Corps erred in its original appropriations for planes and that such a mistake accounts for General Arnold's request for supplemental funds at this time rather than any added cost factors. The subcommittee seemed indifferent to the cost of military planes for this Government but was definitely curious about any possibilities that American military weapons might be too readily sacrificed to foreign nations.
Secretary of State,

Washington.

34, March 13, noon.

Legation's 25, February 26, 5 p.m.

In connection with the payments agreement concluded between Norway and England supplementing the recent trade agreement Norges Bank announced on March 12 "in order to insure under existing conditions that all payments to Norway from the British Empire (except Canada, Newfoundland, and Hong Kong) as well as areas under British mandate Egypt, British Egyptian Sudan, and Iraq in connection with trade, freight, insurance, commissions, travelling expenses, etcetera, as well as certain financial obligations will be employed to liquidate similar Norwegian obligations within the Empire, the following agreement has been reached: Effective on March 13, 1940 all payments of the classes above mentioned in pounds will be made in the form of 'special pounds' through 'special accounts' which Norwegian banks will open with their connections in London. Private persons and firms will not be allowed to have payments due to them from the Empire credited to their own accounts in England but they will receive such payments through their Norwegian banking concern.

Payments of debts expressed in kroner will be made in kroner.

'Special pounds' must be used only for payments in pounds within the British Empire (as specified above) and they cannot be used for other purposes. Accordingly they may not be purchased on the international foreign exchange market.

Goods imported into Norway from the British Empire through a third country must be paid for with 'special pounds'. These 'special pounds' can be made available to the creditor in the third country only upon his written declaration that the 'special pounds' will be used only for payments within the British Empire."
March 18, 1940 the officially quoted pounds rate on the Oslo exchange will refer only to "special pounds" and both buying and selling rates will be quoted.

HARRIMAN

NPL
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
NO.: 335
DATE: March 13, 1940, 7 p.m.

This morning I had a call from Royall Tyler, who mentioned "curious exchange developments" which have recently taken place in Italy. He said that not long ago Italian banks in Leghorn, Milan and Florence which are authorized to deal in foreign exchange "let it be known" that they would buy dollar checks at a "negotiated" rate. He said he knew personally of cases where, as a result of this practice, dollar checks were sold to Italian banks at a rate of 43.50 lire to the dollar while the official rate was 19.80 to the dollar; even for amounts under $1,000 he had heard of rates up to 50 lire to the dollar. One of the banks in question gave him an explanation to the effect that for the moment Italian importers needed dollar exchange and that this was only a temporary procedure and would in all probability be canceled before long. (Tyler said that the same "negotiations" with respect to rate were also applied to sterling, Swiss francs and presumably to other currencies.) Tyler added that Italian exporters continue under the obligation of using the official rate for turning
over their foreign exchange. Therefore for dollars importers must pay 43 lire plus, and exporters receive for them but 19.80, which is considerable annoyance to both. Tyler believes that exporters will prefer to wait in the hope that later on they will get a better rate, rather than submit to being "mulcted" as at present.

This situation Tyler thinks must indicate that for the present at least Italy needs foreign exchange more urgently than is believed generally. The practice of negotiated rates, he remarked, is indulged in only in the three cities mentioned above and not in Rome - seeming to indicate that there is a wish to keep the matter as quiet as possible; in this connection he said it was his impression that those who came in recently with the changing of the guard in Italy were not as efficient as their predecessors in the handling of affairs. Instances had come to his attention of Italian importers having to pay substantial "baksheesh" in order to get import licenses - "baksheesh" to the amount of 100 percent of the value of his cotton had to be paid by one cotton importer. He understood that under Guarneri such practices had not been tolerated.

The recent financial negotiations between Germany and Italy were also discussed by Tyler. Originally Italy had made an offer of 4 billion lire as the value of the property
property of those living in Altoadige who had opted for German residence, and a value of 16 billion lire had been placed on the property by Germany; a figure of 8 billion lire was finally settled on. However, Germany insisted that the clearing rate between Germany and Italy be revised from 8 1/2 lire per mark to 4 lire. Tyler remarked that this move, on the heels of pressure by Germany on Hungary in the opposite direction (to increase the mark premium) - reference, telegram of January 25, No. 124 from the Embassy - had caused some amusement among the magyars. The latter, he said, were perfectly confident that the old lira-mark rate would be reverted to as soon as the Germans had liquidated this lire credit.

The following may be of interest as an illustration of the distance France has gone since the Popular Front days, and also as an illustration of the growing objections in certain quarters to the limits placed both on wages and on industrial profits. Last Thursday in the Senate M. Francois de Wendel, who of course represents one of the most powerful groups in heavy industry in France, demanded encouragement for lagging national production in France through a relaxation of the limit on profits and also insisting that there be eliminated the present rule that overtime pay for labor must be at a rate 40 percent under
under normal rates - the said 40 percent is taken by the Government. M. de Wendel said that both factors have a tendency to reduce needed "personal incentive" - or profit motive - for increasing the output. The Socialist leader, Spinasse - who in 1938 was Budget Minister under Blum - had an article in LE POPULAIRE, the Socialist paper, in which he completely endorsed the views of de Wendel regarding the raising of the limits on profit. He asserted that the community's real interest is more in reducing costs of production than in limitation of sales prices, adding that this necessarily implies considerable investment in technical and operations research, in material, and in plant equipment, and that therefore higher profit margins are necessary. Such views would never have been published by the POPULAIRE as recently as a year ago, and Spinasse would presumably have been read out of the Socialist Party if he had publicly expressed such views.

Ardant, the Societe General's Managing Director had lunch with me at my house today, and I broached the above subject to him. He remarked that consideration was being given to this whole question of permitting larger profits, saying that it was strongly favored by the Armament Minister. He said that there was less enthusiasm for it on the part of the High Commissioner of National Economy, but that

Daladier
Daladier would now have to decide the question. He smiled and said that no strong views on the subject are being put forth by the Finance Minister. I gathered that Ardant himself thinks there is too severe a limitation on profits, which limitation is in fact acting as a brake on industrial output. He thinks that wages are high enough in armament and related industries, since these industries work up to 60 hours a week; however, he does not think they are high enough in other industries having a lower operating schedule, such as certain textiles, particularly woolen, where mills are operating only 32 hours. Of course, he said that frequently French employers and employees syndicates are in full accord on raising prices in the hope that they will reap greater profits and higher wages, respectively, at the public's expense—in particular he mentioned the coal industry as being guilty in this regard.

Ardant does not think France will be able to keep wages down much longer, in the face of a 15 percent increase in the cost of living, although it is his opinion that the Government has been well-advised and done "an excellent wartime job" so far. He added that if the white war (military inactivity) should continue for three months more it will not
not be possible to prevent an important wage increase.
Ardant is of course in an excellent position to take the pulse of popular feeling in view of the numerous contacts of the Societe Generale in the provinces; he feels that the weakening will to sacrifice would be stimulated by a military offensive somewhere. The recent restrictive measures he fully endorsed as a beginning, but it is his opinion that inevitably they must become stronger and regrets that they were not taken before.

Ardant called attention to the drop in the franc rate on the free market in New York yesterday, attributing it mainly to the loss of certain sources of demand for sterling in view of the new British exchange measures which require foreign currency delivery for exports of certain specified commodities. He remarked incidentally that during the last few days, for reasons he did not know, the day to day money in Paris has become slightly tighter.

Subscriptions to armament bonds, Ardant finds, are coming in at an "excellent rate". He thus confirmed the information which Couve de Murville and other French officials and American banking sources had given me. It is not at all urgent, he said, that a French long term loan be floated, that the matter is mainly one of timing — deciding, from the technical market and psychological points
of view, when is the best moment for putting it over. The Government has not yet reached any decision on this.

Ardant seemed to be pleased at the complete lack of difficulties or delays the Societe Generale had encountered in establishing its agency in New York, as contrasted with their similar move in Argentina. He remarked that they intended to go very slowly as a matter of policy so they would not get on anyone's toes. He understood confidentially that on the contrary the Swiss Bank Corporation had been rather brusque in its methods with a certain unfavorable effect.

END SECTIONS ONE TO TWELVE, INCLUSIVE.

MURPHY.
PARAPHRASE OF SECTIONS THIRTEEN AND FOURTEEN OF TELEGRAM NO. 335 FROM PARIS, MARCH 13, 1940.

Rueff also had lunch with me. With reference to the amount of gold which was recently turned over to the stabilization fund by the Bank of France, he remarked that there had been lengthy arguments back and forth between those who were of the opinion that larger amounts could better be transferred at this time without bringing about a ripple of anxiety and those who were of the opinion that public confidence in French currency was dependent on the size of the Bank of France's gold reserves and that for that reason no greater cession should be made at this time. He himself, Rueff said, had been strongly in favor of making a larger transfer. (Thus his opinion is contrary to Governor Fournier's. Reference is made to the last paragraph of my no. 320 of March 10, noon.)

Reference is made to my telegram no. 301 of March 7, 6 p.m. With regard to the forthcoming measures which are designed to increase the use in France of the check for making payments, both Rueff and Ardant seemed to be of the opinion that there might be some good results but they were not very optimistic that these measures would greatly increase the volume of bank deposits.
This morning's AGENCY ECONOMIQUE ET FINANCIERE reports that Reynaud has submitted a bill granting the necessary authorizations to contract national defense expenditures for the second quarter of 1940 and the opening of the necessary financial credits (see my telegram 3065, December 30, 6 p.m.).
RFP

GRAY
Paris
Dated March 13, 1940
Rec'd 7:17 p.m.

Secretary of State
Washington

335, March 13, 7 p.m. (SECTION FIFTEEN).
The bill carries the previous provision that the
Minister of Finance be authorized to cover such expendi-
tures through the flotation of short-term securities
or Treasury loans.

The securities market after firmness during
the previous two sessions turned weaker today with
the exception naturally of Scandinavian issues which
advanced on the news of the Finnish-Russian agreement
(which agreement is of course viewed here with deep
regret) changes in rente issues were small with
mixed advances and declines the 1937 dollar exchange
guarantee issue advanced 85 centimes.

(END MESSAGE).

MURPHY

RR
Secretary of State,
Washington:

633, March 13, 6 p.m.
My 325, February 7, noon.

TREASURY FROM HEATH.

With the publication of the amount of long term bonds which the government privately issues to savings institutions and insurance companies sold during November; complete figures for the increase of the disclosed debt of the Reich during November 1939 are now available. The Reich borrowed 1,548,000,000 marks on short term and 431,000,000 marks on medium and long term during November making a total of 2,030,000,000 marks (some 453,000,000 marks less than in October). The above figures concern only "disclosed borrowing" and does not include issuance of army promissory notes, et cetera.

KIRK
The reported turnover in sterling transactions was about the same as yesterday but the volume was more evenly divided between purchases and sales. Prior to the opening here, sterling fell from 3.78-3/16 to 3.75-1/2 in Amsterdam. The initial quotation in New York was 3.74 and within an hour, sterling had dropped to 3.71. During this period, there were heavy offerings of sterling with no interest showing on the buying side. Shortly thereafter, some demand developed and the rate recovered to 3.74-3/8 by about noontime. It then moved in a narrow range until late in the afternoon. A firmer tendency subsequently appeared and sterling rose to 3.77-1/8, the high in New York. It finally eased to close at 3.75-3/4.

Sales of spot sterling by the six reporting banks totaled £955,000, from the following sources:

- By commercial concerns: £260,000
- By foreign banks (South America, Europe, and Far East): £675,000
  Total: £955,000

Purchases of spot sterling amounted to £800,000, as indicated below:

- By commercial concerns: £452,000
- By foreign banks (Europe, Far East and South America): £348,000
  Total: £800,000

The following reporting banks sold cotton bills totaling £28,000 to the British Control on the basis of the official rate of 4.02-1/2:

- £17,000 by the Bank of Manhattan
- £4,000 by the Guaranty Trust Co.
- £4,000 by the National City Bank
- £3,000 by the Irving Trust Co.
  Total: £28,000

The rate for the French franc followed the course of sterling. After falling to a low of .0210-1/2 in the mid-morning, it recovered to close at .0213-1/2.

A slight improvement was registered in the quotation for the Canadian dollar but it was reported that little business was done in that currency. It closed at a discount of 17-3/4%.

The rates for the guilder and the belga showed a weak tendency around our opening, being quoted at .5310-1/2 and .1693 respectively. Some improvement took place during the day, however, and the closing rates for these units were .5312 and .1695. The Swiss franc moved off slightly to close at .2241.

CONFIDENTIAL
We sold the following amounts of gold to be added to the earmarked accounts of the banks indicated:

- $3,000,000 to the Bank of the Uruguayan Republic
- 800,000 to the Central Bank of the Argentine Republic
- $3,800,000 Total

We purchased $350,000 in gold from the earmarked account of the Bank of the Colombian Republic.

The Federal Reserve Bank of New York reported the following shipments of gold:

- 139,000 from Canada, shipped by Barclays Bank, Montreal, to the Guaranty Trust Co., New York, for account of the Amsterdamsche Bank, Amsterdam.

$4,461,000 Total

The disposition of the two shipments from England is unknown at the present time and the Canadian shipment will be sold to the U. S. Assay Office at New York.

The State Department forwarded to us a cable stating that the following gold shipments were being sent from England:

- $562,000 shipped by the National City Bank, London, to its head office at New York.

$1,022,000 Total

The above shipments will be sold to the U. S. Assay Office at New York.

On the report of March 6 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of $20,566,000, a decrease of $359,000 in the short position. The net changes in the positions are as follows:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>SHORT POSITION FEBRUARY 26</th>
<th>SHORT POSITION MARCH 6</th>
<th>DECREASE IN SHORT POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>$9,319,000</td>
<td>$10,059,000</td>
<td>$740,000 (Increase)</td>
</tr>
<tr>
<td>Europe</td>
<td>6,560,000</td>
<td>6,156,000</td>
<td>404,000</td>
</tr>
<tr>
<td>Canada</td>
<td>68,000</td>
<td>369,000 (Long)</td>
<td>437,000</td>
</tr>
<tr>
<td>Latin America</td>
<td>579,000</td>
<td>699,000</td>
<td>120,000 (Increase)</td>
</tr>
<tr>
<td>Japan</td>
<td>2,735,000</td>
<td>2,892,000</td>
<td>157,000 (Increase)</td>
</tr>
<tr>
<td>Other Asia</td>
<td>1,065,000</td>
<td>1,186,000</td>
<td>121,000 (Increase)</td>
</tr>
<tr>
<td>All Others</td>
<td>1,000 (Long)</td>
<td>37,000 (Long)</td>
<td>63,000 (Increase in Long Position)</td>
</tr>
<tr>
<td>Total</td>
<td>$20,925,000</td>
<td>$20,566,000</td>
<td>$359,000</td>
</tr>
</tbody>
</table>
The quotation for silver in Bombay worked out to the equivalent of 40.67¢, off 1/8¢.

In London, the prices fixed for spot and forward silver were both 20-5/8d, off 3/16d. The U. S. equivalents were 35.06¢ and 34.87¢ respectively. Selling of new production silver continued to dominate the market and Indian interests were reported as buyers.

Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made three purchases of silver totaling 600,000 ounces under the Silver Purchase Act. Of this amount, 350,000 ounces represented a sale from inventory and the remaining 250,000 ounces consisted of new production from foreign countries, for forward delivery.
CONFIDENTIAL

The reported volume of sterling transactions today reached the highest figure recorded this year. The feature in the turnover figures was the great increase in foreign bank orders to sell sterling, which were approximately double those of yesterday. The demand for sterling was considerably reduced, with the result that the sterling rate again was weak. Before the opening in New York, sterling declined sharply in Amsterdam from 3.76 to 3.72-1/16, then partly recovered to 3.74-3/8. After an initial quotation of 3.74 in New York, the rate rose to 3.75-1/2 during the first hour of trading. It then moved off to 3.74-1/4 by noontime. Until mid-afternoon, the rate fluctuated within a narrow range, following which it underwent a sharp decline to close at a low of 3.71-1/2.

Sales of spot sterling by the six reporting banks totaled £1,379,000, from the following sources:

- By commercial concerns: £155,000
- By foreign banks (South America, Far East and Europe): £1,224,000
  Total: £1,379,000

Purchases of spot sterling amounted to £598,000, as indicated below:

- By commercial concerns: £355,000
- By foreign banks (Far East, Europe and South America): £243,000
  Total: £598,000

The following reporting banks sold cotton bills totaling £64,000 to the British Control on the basis of the official rate of 4.02-1/2:

- £36,000 by the Bancrofs Trust Company
- £11,000 by the Chase National Bank
- £11,000 by the Bank of Manhattan
- £6,000 by the National City Bank
  Total: £64,000

The rate for the belga improved to reach 1.1700 by noontime. It closed at .1697.
The other important currencies closed as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>French francs</td>
<td>.0210-3/4</td>
</tr>
<tr>
<td>Guilders</td>
<td>.5311</td>
</tr>
<tr>
<td>Swiss francs</td>
<td>.2242</td>
</tr>
<tr>
<td>Canadian dollars</td>
<td>18% discount</td>
</tr>
</tbody>
</table>

During the past few days the Cuban peso had a weak undertone and today it was quoted at a discount of 9-7/8%, the low for the current downward movement. The Mexican peso has remained unchanged at .16725 since January 3.

We sold $1,700,000 in gold to be added to the earmarked account of the Central Bank of the Argentine Republic.

The Federal Reserve Bank of New York reported the following shipments of gold:

- $4,062,000 from Canada, shipped from Vancouver by the Bank of Canada to the Federal Reserve Bank of San Francisco for account of the Bank of England. This gold, which will be sold to the U. S. Mint in San Francisco, was originally exported from India.
- $153,000 from India, shipped by the Comptoir National d’Escompte de Paris, Bombay, to the Guaranty Trust Company, New York.
- $54,000 from Canada, shipped by the Canadian Bank of Commerce, Montreal, to its New York agency, for account of the Rotterdam Bank, Amsterdam.

$7,317,000 Total

The last two shipments listed above will be sold to the U. S. Assay Office at New York.

The State Department forwarded to us cables stating that the following gold shipments would be made:

- $114,000 from Hong Kong, shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco, for sale to the U. S. Mint.

$128,000 Total

The equivalent of the Bombay silver quotation was 40.56¢, off 1/8¢.

In London, the spot and forward silver prices were both fixed at 20-11/16¢, up 1/16¢. The U. S. equivalents were 34.75¢ and 34.56¢ respectively.

Bandy and Earmen’s and the Treasury’s prices were unchanged at 34-3/4¢ and 35¢ respectively.
We made eight purchases of silver totaling 510,921 ounces under the Silver Purchase Act. Of this amount, 260,921 ounces were purchased on a spot delivery basis and were of the following types: inventory silver - 200,000 ounces, trading silver - 31,000 ounces and new production - 29,921 ounces. The remaining 250,000 ounces consisted of new production from foreign countries, for forward delivery.

Mr. Knocks told me by telephone yesterday of the following changes in Russian balances with the Chase Bank from February 28 to March 8. Deposits of the Russian State Bank with the Chase rose from $2,200,000 to $2,700,000. Letters of Credit of the Russian State Bank declined from $7,000,000 to $6,000,000. The Amorg's cash balances remained fixed at $1,700,000; Amorg's Letters of Credit rose from $2,200,000 to $2,500,000. The largest in-payments into the Russian State Bank account resulted from transfers made by the Swiss Bank Corporation, totaling $3,700,000 (which may perhaps be accredited to Russian gold sales in Switzerland); $175,000 was paid in by Amorg. On the debit side, $1,650,000 was paid out by the Russian State Bank to Amorg. There were also two payments to the Rotterdam Bank totaling $475,000; a transfer to the Letters of Credit account amounting to $990,000; and one payment of $150,000 to the Besti Bank.
March 14, 1940.
9:30 a.m.

GROUP MEETING

Present:  Mr. Gaston
Mr. Foley
Mr. Cotton
Mr. Harris
Mr. Thompson
Mr. Cochran
Mr. Graves
Mr. White
Mr. Sullivan
Mr. Schwarz
Mr. Bell
Mrs Klotz

H.M.Jr: I have got an idea and I would like you all to listen closely. It seems to me that with this peace in Finland that we here in the Treasury have got an opportunity of really doing a constructive piece of work. In the first place - what I am going to say is very confidential - as far as I know, I think we have the whole gold supply of Finland here, haven't we?

Cochran: Yes, sir.

H.M.Jr: Now, there is all this talk about gold and what is going to happen if and when there is peace. Well, here if they have peace we have got the gold and they have got a 20 million dollar loan which, I take it, they haven't spent. It seems to me there is a possibility, maybe, of getting Mr. Tanner over here or Mr. Ryti and sit down and work out a comprehensive plan of reconstruction for Finland, not only possibly with the loan against their gold, or something working out a pattern which might be followed later on for these other countries and showing them what we are willing to do as a reconstruction matter, and I think it is a challenge to the best brains, not only in the Treasury, but the best brains anywhere in this country, particularly in view of the fact that we have got practically the whole gold supply of Finland in this country, and I would like you all to think about it. I don't expect you all to spout at one time, but if between now and tomorrow - naturally, Procope is in no shape to do any talking at this time. The fellow is most likely too down and out, but I would like to
see him in a day or two if he has a suggestion. Both Tanner and Ryti are people who are financially minded and they know this thing and I am sure they haven't spent the loan yet on the Export-Import Bank.

Cotton: Very little of it.

H.M.Jr: And if we could get word to them now, don't just go ahead and spend this thing without a plan. Whatever they had in mind must be different now. I think it is a real challenge. Now, over in the State Department they are working on a purely theoretical basis of what they are going to do after - and here it seems to me is really an opportunity to demonstrate to the world what we are willing to do to help the country reconstruct itself. We could certainly lend them money against their gold, couldn't we?

Cochran: That could be done, yes.

H.M.Jr: I would like to see the gold go back to Finland, that is what I would like to see, have it move out, go back. If they have enough confidence when the war is over, the gold can go back to the origin where it belongs, and I think that would have a good effect.

Cochran: Of course, they didn't keep all their gold in Finland at any time.

H.M.Jr: We certainly could make them a loan against it.

Cochran: Yes, but that doesn't do them a great deal of good, that loan.

H.M.Jr: Well, I am asking for ideas. Here is a chance. Everybody sits around and nobody did much of anything to help them when they were fighting. Now, how about our helping them when there is peace?

Cochran: I think there may be a chance in a number of countries to use much bigger funds than we have available now. Export-Import Bank hasn't much to go on with Latin America, for instance, now; and there will be other countries to help out.
E.M.Jr: Well, the Latin American thing just doesn't interest me at this time, but this thing is a challenge.

White: I think that is a very excellent idea, not only for what you may be able to do for them, as what we may be able to do, as you say, set a pattern and hold out a promise to other countries as to what may be done and also make Congress a little more minded in that direction. It should be easy to work out something there, because it takes very little money. It is a very small country with a few million people and they start with a good credit and with peace that looks as though it might be sustained. I think it has excellent prospects.

E.M.Jr: Let me throw out an idea. One of the biggest things that they have is their Consumer Cooperatives which are a well-run, going concern. Supposing they wanted a loan of 25 million dollars for reconstruction. I mean, the whole Consumer Cooperative is a wonderful, going concern. I am a little confused - I think that this fine building - I think it was in Helsinki. Does anybody here know? It is the finest building in Helsinki. It is that liquor monopoly, isn't it?

Cochran: That is right.

E.M.Jr: Am I right?

Cochran: Yes, sir.

E.M.Jr: Supposing that wonderful building, say, which they had was destroyed and the liquor monopoly wants to rebuild that building. It most likely was bombed and they want to borrow a couple of million dollars to reconstruct that and pledge part of their taxes against it. There are so many things which can be done. That great big building was done by the same architect that did the railroad station, wasn't it?

Cochran: I am not sure. It looks like the same style.

E.M.Jr: It is the man who won the --
Saarinen.

Gaston: That is it. Why, it just covers blocks, you see, that liquor monopoly building.

Gaston: It would be a fine idea to get them over here if they are willing to come, just to talk the situation over.

White: I think that far more important and the thing which suggests great responsibilities lies in a different aspect of it, which I am sure lies in the back of your mind, and that is that that can be the one big ray of hope that you can throw on the whole of Europe, that they know that when this thing is over, they know that America is interested in a disinterested way, as far as medium long interests are concerned. She has enormous capital and she has the opportunity of setting the kind of pattern in this small country which can completely change - not completely, but will go a long step toward changing their outlook as to what they may expect after this war is over.

H.M. Jr: That is what I said, Harry. You are just repeating.

White: Well, if I am, I merely --

H.M. Jr: Then, it is repeated twice more. The point is --

White: That is the best form of flattery.

H.M. Jr: Well, thank you.

White: I didn't mean to say it was original. I was thinking aloud.

H.M. Jr: Well, don't think. I mean, that they are groping over here in the State Department for something, but here you can demonstrate and as I say, partly private capital, and so forth and so on, but I would love to get a plan and get either Wyti or Tanner or both of them over here on a mission.

Gaston: I should be inclined to wait a little bit from that point of view, Mr. Secretary, until the
Government is a little clearer - it is a little clearer as to who is going to be the Government. I don't know to what extent we are getting a clear picture of the social changes there.

M.M.Jr: Wait a minute, if you can hold out something to Ryti and Tanner, it gives them a chance to stay in.

Schwarz: The one you --

M.M.Jr: I can't give myself to illustrate what I mean. This Welles mission has so upset the people of France that Daladier for the first time is shaky and the same thing, if Tanner and Ryti come over to meet our reconstruction people, they can stay in and I know those men and they are damn good men.

White: I wasn't thinking of their personal competence, I was merely thinking - I can see where a request can go to the Government but to go to any individuals until there is a little more assurance as to what is going to emerge from what must be a very considerable political destruction which must be going on --

M.M.Jr: If these fellows are licked, have got nothing to offer the people, they go down. Then the next group that will come in will be Soviet-minded and I won't want to do business with them, but if these kind of people say yes, we did the best - the United States is going to come now and give them a chance to carry on, if they don't, the people who go in will be people who are close to the Soviet Government. There is another reason why we should make the loan.

Cochran: There is one more reason, may I suggest. In this morning's paper is a story about the possibility of constructive help from Sweden. Did you see that, about funds coming from Sweden to help the Finns in the reconstruction?

M.M.Jr: Look at it from another angle. All the people of the United States are looking for a place to invest. Well now, if they sold three, four,
five, ten million dollars to reconstruct the warehouses of the liquor monopoly in Finland and they want to sell those bonds in this country against that thing and they have paid five percent for the money, it ought to be a very good investment.

Cochran: Their bonds jumped about 12 points yesterday.

E.M. Jr: And 18½ the day before. That is 30 points.

White: What I would like to see included in that, not because of its importance to Finland at all but because of its importance to us and its importance of the possible pattern, is a monetary gold loan which by the very conditions which we will set up the gold will not be likely to be used but will be there presumably and actually to strengthen and buttress their currency, which is very different from the ordinary loan which will be spent and the gold doesn't leave this country. That is the gold along with the other, not by itself, but as part of a program. If we could get that concept of a monetary loan in which the gold will not be spent except seasonal movements and cyclical slight amounts, it can be worked out so that we can have a pattern for lending our gold and earning assets on it and exporting other currencies, increasing the prestige of gold and eliminating all this talk about its future uselessness.

E.M. Jr: I think it is an opportunity and I am tickled to death that I happened to think of it. That is being human, isn't it?

Gaston: Yes.

Schwarz: One unanimous reaction yesterday that cut through all shades of opinion was that chagrin on the part of the Americans that we had done a lot of talking and got tied up on the Hill.

E.M. Jr: Well now, you people know how I guard this stabilization fund and how I feel about it, being trustee of it, but on a thing like this,
I would be willing to go up to the Hill and talk about it, making a stabilization fund loan, provided that Congress would pass an Act authorizing it.

White: That is just what it should be used for, under those conditions.

H.M.Jr: I would be willing to go up and say to Congress, "Now, here is the thing and this is the kind of thing that I think it could be used for."

White: As a part of the larger program, merely as a part of the larger program.

H.M.Jr: As a part of the whole thing.

White: I think something can be worked out very well.

H.M.Jr: Well, get busy, everybody.

White: Well, everybody isn't going to get busy, Mr. Secretary, unless you specifically want us to.

H.M.Jr: It falls under your branch, Harry.

White: Well, supposing we do this. Supposing we get draw up some kind of a preliminary plan and I will call a meeting of those who are apt to be interested in it and then see if we can push it a little bit further and then we will bring it to you and keep bringing it back and forth.

H.M.Jr: I would like to do something before Sunday.

Gaston: Why not have the Minister to Finland get us a good report about the reconstruction needs through the State Department?

H.M.Jr: I don't want to tip my hand.

Gaston: We haven't anybody there.

White: We have got a very rough idea of what they may need without knowing the individual losses. I think the pattern wouldn't make much difference as to whether the amount is a few million more
or less and whether the construction is in one part of the country or another, but I think that will be an essential part of the picture after we see what can be worked out here. We know enough about their finances, I think, to proceed on a preliminary basis, but only on a preliminary basis. But I think we need a little more information, unless you have it, Mr. Secretary, on what the Government set-up is, because it seems to be pretty shaky.

H. M. Jr.: Anyway, Harry, I will hold you responsible. Go to it and we will work on it Saturday and Sunday.

White: All right.

H. M. Jr.: Let's get something constructive around here.

Dan, the other memo I got is, we must have pretty well sold all our Government bonds that you have on order.

Bell: Yes, I think there is about $300,000 left.

H. M. Jr.: I want to see you today.

Bell: I have got on my agenda --

H. M. Jr.: You are coming in at 11:30, unless you have a meeting?

Bell: No.

H. M. Jr.: Have you got a meeting?

Bell: No. That is for what, this?

H. M. Jr.: This, baby bonds. And then those people who are working on Bank of America, if they will stay behind I want to talk to them about it.

Norman?

Thompson: I have a report from Mr. Harris of the shooting down on the Mexican border. Apparently a Mexican tried to cross the river. Two Customs Inspectors saw him and went back to question him and the
man dropped down below the river bank and opened fire. They returned the fire and the Mexican was wounded. That seems to be about all there is to it.

H.M.Jr: Two Customs Guards only could wound one Mexican? Somebody ought to get fired.

Klotz: He started firing first.

H.M.Jr: What is the matter with your boys, Basil?

Harris: I guess that is all there were in the vicinity.

Gaston: We ought to give them hand grenades when they get down in the trenches.

H.M.Jr: I am surprised. Border patrol. Two against one poor little Mexican and they only wounded him.

Thompson: It doesn't say.

Foley: What evidence have you got that the Mexican opened fire first?

Gaston: We say so. Isn't that enough?

Thompson: The Treasury Appropriations bill is moving along a little further. The conferees yesterday agreed on appropriating three million dollars for strategic materials rather than the five million dollars immediately available under a proviso. They didn't cut the appropriation originally provided, but they cut the five to three, the amount of money available.

H.M.Jr: Dan?

Bell: The only thing I have is the copy of the telegram which Giannini sent Delano this morning.

H.M.Jr: Right after this meeting. I don't know about it.

Bell: All right.

H.M.Jr: Is it juicy?

Bell: It is very good. I will read it if you want me to.
H.M.Jr.: Let's wait.

Harold?

Graves: Nothing.

H.M.Jr.: Harry?

White: We have this foreign economic development semi-weekly thing (March 12).

H.M.Jr.: Send it up to the house, will you?

White: I will, and this estimated impact of foreign transactions on domestic activity. (March 9) You didn't take that up.

H.M.Jr.: I want you (Cotton) to get in on this thing, too, on this Finnish business.

Harry, I want Joe in on this thing.

White: This Consulate dispatch on Russian gold to Germany (January 26) is the reaction of the people in Switzerland and in France and their explanation of this indicates that they are slightly worried lest anyone interfere with the efficacy of gold, so they are always eager to point out that you can't distinguish between one gold and another and therefore there is no reasonable hope of discriminating against it and the same thing is true of the more complete discussion of gold which appeared in the French medium. Those articles are an attempt to strengthen the prestige of gold. The few articles that we have seen coming out of Germany are to the contrary.

H.M.Jr.: Are you giving me something to read on that?

White: Well, you gave it to me, some Consulate dispatches which you asked me to comment on.

H.M.Jr.: All right. Well, it is just the flow in that thing to get ready for that statement we are going to give out.

White: Oh, I see.
H.M. Jr: I just read it and I don't know what you get and what you don't get and hurry up on that gold statement, too, will you?

White: Well.... There is information that London is making a 20 million dollar loan to the Canadian Government. Sterling, free market, as you know, has dropped way down. I don't know whether it rose again this morning or not.

Cochran: It came back a little bit.

White: What is it now?

Cochran: It opened at 3.73 and it has come back to 3.74½.

White: Again the question is raised. This time there are more comments in the paper, as that is an interesting device to promote those exports in which they compete with other countries and demanding dollar exchange for the things which they don't compete. Now, I am in favor of examining a little more carefully the total amount of transactions which may be taking place here and elsewhere.

H.M. Jr: Take this, Harry (handing clipping to Mr. White). You may not have seen it.

White: This matter of the Vandenberg trade bill is coming up and they have asked the Treasury to comment on it. It is an extremely important bill. I didn't know whether it has any chance or not, but it has a lot of good points. It has some undesirable ones. They have asked the Treasury to comment on it. Is it your thought that you want to get in that at all?

H.M. Jr: No.

White: Just give a noncommittal reply?

H.M. Jr: Trade bill?

White: It is called a bill creating a foreign trade board. It means the abolition of the tariff.
H. M. Jr.: I don't want to get in on it.

White: Then you want a noncommittal reply except where it affects Treasury activities?

H. M. Jr.: Yes.

White: There is this note that Chick called my attention to. It is rather interesting. Apparently somebody is trying to start an American Investment Trust to buy bonds of Latin American countries, securities of Latin American countries. According to this report the intention - one of the objectives is to buy securities of the British - which the British Government now hold and thereby give them foreign exchange. In other words, we buy their securities through the investment trust. This matter of the Inter-American Bank and the comments of the Federal Reserve Bank. I take it, it is your thought that we don't have to comment on that, it is up to the State Department.

H. M. Jr.: Yes. I think somebody pulled a Louie Johnson on me yesterday. When I left - I want you to back me up on this, Ed - when you and I left that meeting yesterday with Harry White and the others, who was to testify?

White: Secretary Morgenthau, wasn't it?

Foley: Harry White.

H. M. Jr.: You bet your life, and five minutes after we left there it is out on the ticker that by a telephone call arrangement, I am to testify. Now, who pulled a Louie Johnson on me?

Schwarz: Mr. Townsend.

White: I should say that is a proper appreciation of who should testify.

Foley: Have you heard from anybody?

H. M. Jr.: No, but here it is. The telephone call was supposed to have been made. When you and I left there, they all agreed as to the wisdom and clear-sightedness and constructive suggestions that the one person in Washington to
testify was White and Pittman. Now I read in
the paper I am to testify. What I want to know
is, who pulled a Louie Johnson on me.

White: I slipped out of Pittman's bed and made room
for you.

H.M.Jr: Here is the thing. What about this? My under-
standing was that it was Harry who was the goat.

Foley: That was my understanding, too. I think they
had a little trouble with Townsend and I under-
stand that Townsend said that Harry would be
nice but that they would like to have you, too,
but that certainly wasn't the understanding and
I figured that unless you heard directly from
Wagner they didn't expect you would personally
come down.

H.M.Jr: Well, we have got to do something. We have got
to do something in this way, that when it comes
to be Tuesday I have got to be busy and then
Thursday night I get on the train and that gives
us another ten-day breathing spell.

Foley: That is right, and Harry goes down in the mean-
time.

H.M.Jr: That is the idea.

Schwarz: Are you going to tell the boys this morning?

H.M.Jr: I will just say I haven't heard anything.

White: I suspect that won't satisfy them. What Town-
send wants is a statement out of you.

Foley: I think that is probably true, but we can try
it anyway.

White: An alternative may be in the way to get out of
it if they insist on that is for the Secretary
to send up a prepared statement which can be -
and then if there are any explanations the rest
of us can go up --

H.M.Jr: Well, we will just have to do a little more
kidding around and kind of postpone the thing.
You are pretty good on silver, Herbert.

Gaston: That is a secret.

H.M.Jr: You used to be pretty good. You used to hold up Oliphant's hand on this thing. Why don't you go up? Didn't you? You used to believe in all that stuff.

Gaston: Well, I don't think I should go up myself.

Foley: The record is very funny on that. When the bill came up originally, you (H.M.Jr) made a prepared statement or read a prepared statement and then you excused yourself and left Mr. Oliphant down there and he and Pittman had had conferences before that and Pittman thought he could give a clearer explanation in the use of silver than anybody in town. You left him there and they began to ask him questions.

H.M.Jr: Who?

Foley: Mr. Oliphant. All he would say is, "I am not a technician." "The technicians will have to answer that." "That is not legal, I don't know the answer to that," and "That is a policy question and I have nothing to do with policy." He never said a word. He just fenced.

H.M.Jr: Well, what did Harry call you yesterday?

Foley: A finagler.

H.M.Jr: Well, do a little of that.

Basil?

Harris: Nothing.

H.M.Jr: Chick?

Schwarz: I might call attention to the death of Seymour Lowman. He is a former Assistant Secretary.

Bell: Former Lieutenant Governor, too, wasn't he?

H.M. Jr: I knew Seymour.

Schwarz: The story is in the morning paper.

H.M. Jr: What should we do? Shall I send the letter, form letter LLOA?

Schwarz: That is right.

H.M. Jr: Anything else?

Schwarz: No.

H.M. Jr: Joe?

Cotton: On this Finnish thing, it may be interesting that this 20 million dollar additional credit of the Export-Import Bank is a firm commitment. It was done in such a way - I think Mr. Jones didn't want to - it is an allocation, so the character of it could be changed quite easily and it may fit in with something we could work on.

H.M. Jr: Merle?

Cochran: Nothing.

H.M. Jr: Ed?

Foley: Now that Basil is here, I think I had better bring up again this question of the abolition of the Surveyors and the Comptrollers of Customs. As Basil knows, the Ways and Means Committee is quite irate about our attempt through the Appropriations Committee to cut off the appropriations for those jobs. They said that when years ago we attempted to abolish the jobs by the direct route, they opposed the legislation and killed it in committee and they expect Treasury to contact them on matters of that kind and not go down in back to the Appropriations Committee. Part of this next reorganization plan is the abolition of those positions by Executive Order. They don't know anything about that.
The Executive Order is over in the Director of the Budget's office now. I think we are going to have an explosion when they find that out. Perhaps in the interest of harmony, it might be best to withdraw that provision in the next reorganization plan at this time.

H.M.Jr: Maybe Mr. Harris could find as good a reason for withdrawing this as he did in the Tennessee matter.

Foley: I think he has got a better one. He hasn't got just McKellar here, he has got the whole committee.

H.M.Jr: What do you think, Basil?

Harris: I think there is a lot in what Ed says. I think it is loaded with dynamite, all right, but on the other hand, what I am afraid of, Mr. Secretary, is if it ever gets out that these men are being paid large salaries and in some cases they haven't even been in their offices for three and a half years, I think you are going to be leaving yourself in a very unenviable position and I just don't know quite how to proceed on it. The record is very, very bad. In one case, one man for seven years has been in the office once a month where he comes to draw his pay.

H.M.Jr: Well, that could be handled as an individual case.

Foley: May I make a suggestion?

Harris: There are seven of these fellows.

Foley: It might be helpful if you talked with Cullen and McCormick and Dingell and these other fellows who represent districts --

H.M.Jr: May I interrupt? You and Basil get together and keep Norman Thompson posted, see, and the two of you handle it. Any way you handle it, I will okay it. I don't want to be bothered with it. You fellows handle it and whatever you do, I will back you up. That is fair enough, isn't it?
Foley: O. K.
H.M.Jr: Just handle it. It is a matter involving - just go ahead and handle it and keep Norman Thompson posted and whatever you do, it is okay with me.
Foley: What I would like you to do now is get you to sign this letter to Smith recalling the Executive Order.
H.M.Jr: See him afterward and fix it up.
Foley: O. K.

I talked with Sam Clark about the Maney and Perini cases in Boston and they are going ahead. There are political implications involved and I think you ought to know about them.

H.M.Jr: Must I?
Foley: Well, I think you ought to.
H.M.Jr: You want me to share it with you?
Foley: You may hear about it first. Maney and Perini were a couple of thugs.--
H.M.Jr: That is marvelous, Maney and Perini.
Foley: They are contractors in Boston.
H.M.Jr: I am against them, just because I don't like the names.

Foley: Starting out immediately after the Jackson Day dinner in 1936, they began to take out of the corporation funds which they have accumulated and eventually donated to the National Committee. They claim they gave it to Forbes Morgan. The records of the Committee don't reveal the receipt of the contribution. They jiggled the books in such a way to show that this was a business expense and truck hire and they deducted it from their income tax returns for that year. It is quite obvious that what they were trying to do was to make up this campaign contribution by a method which would exempt it from tax and I think it is a pretty
clear case and it is one that we have to go
ahead on and that is what we have decided to
do. Now, Forbes Morgan is dead.

H.M.Jr: Is that right? Is he dead?

Foley: We have got a Collector of Customs up there
in Boston who isn't dead.

Harris: He is half dead.

Foley: In the case involved here, he is supposed to
have suggested to these fellows this method
for arriving at it.

Harris: I don't think he has been in for three and a
half years, that fellow.

Foley: And they claim that they talked to Steve Gib-
bons about it, also. I think unless there is
some kind of a fix that we will get a con-
viction without any difficulty at all, but it
is possible that you may hear about it from
the politicians.

H.M.Jr: Now, you talked to me about this once before,
you know. You told me all about it at the
time and you said you thought that they were
trying to keep the department - scare the
Department of Justice off by telling them
that they made a $50,000 contribution to Forbes
Morgan. My answer at that time was to go ahead
and my answer now is the same.

Foley: The case is going back to Brandon --

H.M.Jr: I know all about it and if anybody wants to
come around and see me, I am here. O. K.? That is what you want, isn't it?

Foley: That is right.

H.M.Jr: All right. What else?

Foley: Nothing else.

H.M.Jr: Does Bob Jackson know that?

Foley: I assume he does.
H.M.Jr: I hope so.

Foley: And so does Jim Farley and he may not be too pleased about it. There is nothing we can do.

Gaston: We held a large meeting yesterday on the weather ships and I can give you a memorandum about it if you like.

H.M.Jr: You are handling it?

Gaston: Yes, we expect to appear jointly before the Budget and ask them if they can find some way to recondition some ships that can be used on that service in place of the cutters. Everybody is together on the thing except possibly Civil Aeronautics. They are a little bit sulky about it.

H.M.Jr: What did you do for Professor Nelson?

Gaston: I had a very nice scientific chat with him. He is very anxious to reinstate that magnetic and geologic expedition to the South Seas and all I told him was it was clearly impossible until we got our cutters relieved from the weather service and I didn't know if it would be possible then, but I would go into it and it looked like a very good thing and if we could spare a cutter for the purpose we would like to do it, but I didn't know whether we could or not.

H.M.Jr: All right, gentlemen, thank you.
March 14, 1940.
2:20 p.m.

Operator: Captain Collins.
Captain Collins: Hello Mr. Secretary.
H.W. Jr: Collins?
C: Yes sir.
H.W. Jr: Edison and Woodring were here for lunch.
C: Yes sir.
H.W. Jr: And Edison says he won't move on this powder, until he got it from the President and from me.
C: Yes sir.
H.W. Jr: Now what is the situation on that six hundred thousand they were to release from, I don't know - was it DuPont or Hercules?
C: DuPont.
C: They were to return their six hundred thousand to the Navy.
H.W. Jr: Who was?
C: The Army.
H.W. Jr: That's happened.
C: Uh?
H.W. Jr: That's been done.
C: Well that's all there was to it.
H.W. Jr: Yes, but Edison won't release it to the English.
C: Oh well, no. I know - that's another deal again probably.
H.W. Jr: Oh you aren't in on that?
C: No, I wasn't in on that release.
H.M.Jr: Well I've got it here in writing.
C: Yes.
H.M.Jr: I mean the Army has released all credit.
C: Yes. For one million two, wasn't it?
H.M.Jr: That's right. And they had, so to speak, an option on the Navy, six hundred thousand.
C: That's right.
H.M.Jr: But now I want the Navy to tell DuPont that the English can have that six hundred thousand.
C: All right, I'll go after that.
H.M.Jr: No, no, you'd better let me do it.
C: All right sir.
H.M.Jr: Because Edison won't take it from anybody but from me.
C: All right.
H.M.Jr: I just wondered if he'd said he wouldn't.
C: Yes sir.
H.M.Jr: So he said he wants it direct from the President and from me.
C: Yes sir.
H.M.Jr: Now I'll get hold of Watson and tell him to ask him once more, call Edison and say that that six hundred thousand now belongs to the English.
C: All right sir.
H.M.Jr: And I had a good lunch with Woodring and he says he's working on a plan to - whereby the English and French can get what they need, but he said he can't tell me about it until next week.
C: All right, I've got the inkling of that, and I want to talk to you about it some time at your convenience. Arnold and Brett were down here today.
M. W. Jr.: Yes.

C: And of course I had to swear I wouldn't break it. Well I'm not breaking it when I talk to you about it.

M. W. Jr.: No.

C: So, it's about ninety per cent logical.

M. W. Jr.: 'Tis. What is it anyway. This wire is all right.

C: All right. Well, the deal is simply this that if they could recover, the Army could recover the development costs that they have put up, why that would give them a basis for conversation with the people on the Hill and with anybody else who might be critical.

M. W. Jr.: I see.

C: Now the effect of that is this. It would be a three way agreement. The agreement would have to be with a manufacturer who would agree to accept a change order and credit you see and some succeeding model with the amount of what should be charged by him to the foreign Governments buying the released plane.

M. W. Jr.: How much does the development money amount to?

C: Oh well, that runs all sorts of figures with different people and different contracts.

M. W. Jr.: Well I mean what would be an outside figure?

C: Mr. Secretary, you've asked me a question there, because there's approximately two million five I believe in this Allison 17-10 alone.

M. W. Jr.: Well that isn't much.

C: Oh, of course, no. In consideration of the total amounts from signed contracts the amounts of money are small.

M. W. Jr.: Two and a half million's nothing as far as -

C: Oh no, well I cite that. That's only one case. That's on the 17-10.

M. W. Jr.: Yes.
C: The effect of that would be also this. I think it can be worked out by formula, mathematically, so as to relieve the manufacturers of the big sums of money which they've put in the development of a new plane for instance, which runs anywhere from four-fifty to nine hundred thousand dollars.

W.M. Jr: Well that would please the manufacturer.

C: It would tickle him to death. At the same time it would give these people, give the farmers access to what's existent now, and the only catch to it would be a promise on the part of the manufacturer that he would give out something better than what being released from a restricted item.

W.M. Jr: Well Woodring wants to get this straightened out before Wednesday, before he testifies, and he's coming back to see me, with Edison, at quarter of nine on Tuesday.

C: Tuesday, next week.

W.M. Jr: And he sent for three men from Dayton.

C: Yes sir.

W.M. Jr: And they're talking it over, see?

C: Yes sir.

W.M. Jr: Now, of course this is all between you and me.

C: That's right.

W.M. Jr: The thing that Woodring told me which amused me. It may be true, that it was he who worked out the idea last year that they could have these planes off the drawing board because they were not in the competition for the Army.

C: That isn't so.

W.M. Jr: Well that's what he said.

C: Well that isn't so because we know that Douglas entered his plane in competition and we know that the first plane that was turned out - the first Martin 7-B flew right from the plant to Dayton, for the company.
M.W. Jr.: Well I'm just telling you what he said.
C.: Yes, sir. Well I'm just telling you the other side of it.
M.W. Jr.: He said it was his idea.
C.: Yes sir.
M.W. Jr.: O.K. Now I'll handle the powder thing once more with Watson.
C.: Yes sir.
M.W. Jr.: And tell him that it's back again in the hands of the Navy and please tell the Navy to tell DuPont that the English can have it.
C.: Aye, aye, sir.
M.W. Jr.: It is DuPont isn't it?
C.: That's right.
M.W. Jr.: Okey doke.
C.: All right, sir.
M.W. Jr.: Thank you.
C.: And listen, any time you want to go in a little further with this, they've promised to talk to me in forty-eight hours. I wanted to get word to you that I was sitting down with Arnold and Brett.
M.W. Jr.: Good.
C.: So this is on a take down your hair basis, see? And I was pulling my shots and let them do the firing.
M.W. Jr.: Yes.
C.: And he said, "You agree to that do you", and I said, "I agree to anything that'll promote the World Fair, the Air Corps, the Army, yes". I said, "If this is the done, then I'm thoroughly in accord with it."
M.W. Jr.: Good.
C: So he said, "Well now, that's what we wanted to know".

H. W. Jr.: Yes.

C: "Well," I said, "You know that". I said, "Now when do we sit down". "Well," he said, "this matter has come up the line, this Woodring deal, has come up from somebody down the line and Bret has been toying with this idea, but didn't know how to get it down into words".

H. W. Jr.: I see.

C: So they're going back now. They talked about an hour on this thing this morning.

H. W. Jr.: Good.

C: And Arnold was very pleased, and he said that he feared that there was only one other step of it, he said that the Treasury might step in and ruin them. And I said, "How".

H. W. Jr.: Who would ruin them?

C: The Treasury. I said, "How?" "Well", he said, "if there's a case of passing money back, then the Treasury may want to impound that in miscellaneous receipts". "Well", I said, "My God, you're not passing any money back". I said, "These people here will have to, the manufacturers will have to finance it and the moment they accept the change order, why that's that".

H. W. Jr.: Yes.

C: So he said, "Well that's a swell idea". So they're working the thing up now.

H. W. Jr.: Good.

C: And I hope to hear something from them, say by Saturday.

H. W. Jr.: Well now are they meeting this afternoon with the Allies?

C: Oh they're all outside in my office, outside office now, the meeting takes in at two-thirty.
H.M. Jr: And does Arnold sit in on that?

C: No, he's - Brett's going to bat for him. Of course Arnold had to go back up on the Hill.

H.M. Jr: I see.

C: General Brett.

H.M. Jr: I see. Incidentally Woodring says he thinks Brett, he's a good man.

C: I think that's true.

H.M. Jr: O. K.

C: All right.

H.M. Jr: Thank you.

C: You're welcome. Thank you sir.
March 14, 1940

MEMORANDUM FOR THE SECRETARY

There is attached hereto a statement showing the status of the French contracts as of February 29th with reference to airplanes, engines and miscellaneous equipment.

The above equipment represents contracts aggregating $308,899,360.00 of which amount $171,075,652 has been paid. This amount represents both advance and delivery payments.

Chairman, President's Liaison Committee

att.
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Feb. 29, 1940 (F)
MEMORANDUM FOR THE SECRETARY

As a matter of information there is attached hereto a copy of a memorandum forwarded to the President, Via Mr. McReynolds, concerning meeting held this afternoon at which meeting the proposed program of the Allies in connection with airplanes was discussed.

Chairman, President's Liaison Committee

att.
MEMORANDUM FOR THE PRESIDENT

Via: Mr. McNamara

March 14, 1940

At a meeting this afternoon of the President's Liaison Committee at which were present, in addition to the Committee, General Brett of the Army Air Corps; Colonel Burns of Assistant Secretary Johnson's Office; Colonel MacMorland of the Clearance Committee, Munitions Board; Major Oxford of the Army Air Corps; Admiral Towers, Chief, Bureau of Aeronautics, Navy Department; Mr. Purvis, Chairman of the Anglo-French Purchasing Board; Sir Henry Self; M. Plevan; and Colonel Jacquin the wishes of the Allies concerning their pending airplane program were presented.

Briefly, M. Plevan explained that, conditions being as they are in Europe, they are not interested in the further purchase of planes of such types as are at present under contract for their respective governments; that the engine situation being the controlling factor in the purchase of any appreciable number of planes, the consumption of their program will be prevented until the fall of 1941. Therefore, it is desired that the latest planes possible and those which will be produced in 1941 be made available to them; that the French had, in their first program, bought planes off the drawing board for which no prototypes had, up until that time, been produced, and that they are equally anxious to do likewise concerning the latest planes and engines that might be available to our Government in 1941.

A clearance was specifically requested on the following items which are at present on the restricted list of the Joint Aeronautical Board of the Army and Navy:

(a) General Electric turbo compressors on the Allison engine 1710 and on the Pratt & Whitney engine 1830

(b) Two-stage two-speed superchargers on the Pratt & Whitney engine 1830 and on the Pratt & Whitney engine 2800.

(c) The Allison engine V1710-35, specification 1308 dated December 18, 1939

(d) Pursuit airplanes
   - Lockheed interceptor P.38
   - Bell P.39
   - Improved Curtiss
   - Generally any other type of fighter which would be serviceable in 1941

(Note: Present indications are that war conditions in 1941 will involve a speed for fighters of not less than 400 miles per hour)
Concerning bombers, they indicated the belief that new types have been developed and stated that they would like to have information on such developments, with particular reference to the big four-engine bombers and dive bombers.

Copies of their request have been delivered to the Army and Navy representatives on the President's Liaison Committee, with the request that they be immediately transmitted to the proper authorities in their respective departments and the Chairman of the Committee informed as soon as any action thereon is taken.

Chairman, President's Liaison Committee
March 14, 1940.
9:21 a.m.

Operator: Mr. Hinckley.

Robert H. Hinckley: Yes sir.


H: Mr. Secretary, how are you?

H.W. Jr: Fine. Mr. Hinckley, you said something the other day at the White House about wanting to see me and also about that the airlines are having trouble getting deliveries, etc.

H: Yes.

H.W. Jr: I'd be glad to go into that with you.

H: Well I'll be very happy to have a visit with you, Mr. Secretary.

H.W. Jr: Do you want to come over tomorrow?

H: That would be fine.

H.W. Jr: How's eleven o'clock?

H: Eleven o'clock is good.

H.W. Jr: And would you bring any figures that you have showing what the airlines need and can't get.

H: Yes, I'll bring the latest figures I have.

H.W. Jr: Will you do that?

H: Yes sir.

H.W. Jr: Thank you.

H: Thank you, I'll be there Mr. Secretary.
March 14, 1940
3:40 p.m.

Operator: Chairman Eccles.
Marriner: Henry?
E: On this Bank of America, I just wanted, I understand that it's just about over.
H.M.: So I heard this morning. I've heard nothing since this morning.
E: Well, I understood from - that they had held a meeting and had accepted, that the Board of Directors did adopt the program and had agreed to the press release for tomorrow morning as indicated.
H.M.: Good.
E: So that I just think maybe we all need to congratulate ourselves.
H.M.: Well, I said to Delano this morning, it's too early to say anything but it looks as though congratulations are in order.
E: As I understand it you - the President hasn't done or said anything on this yet.
H.M.: No. Just as soon as they have agreed, you see.
E: Yes.
H.M.: I'm going to take a letter over to him which I'll sign and ask him to approve to Jones. That's the next move.
E: You don't anticipate any question on his point or trouble, do you?
H.M.: No, I'm taking full responsibility, I'm sure that he'll go along.
E: Yes.
I know what's in his mind and I'm quite — ninety-nine per cent sure that he'll approve.

Well -

I didn't want to bother him, but I'm just taking the responsibility.

Good. What I would like to suggest is this, if I may.

Please.

If there is any question, I mean if the program — his question, it would be modified, I hope that he would give me a chance to be heard before he does it.

O.K.

But I feel that we worked like the devil and I am sure that he possibly would want to accept the recommendation of all of us, but if there should be some question, I -

You want your day in court.

Yes, I would like a damned court on it.

Well I'll promise you that, but I've gone out, I mean I figured that - without talking to him recently - that I knew what he wanted as to the principles and I feel that you men have gotten everything that he could ask for.

Well I tell you we've got a practical program.

Yes.

Now when you get right down to it the Bank will be an awful lot better off and when you look at the sanctions that we have together we look at the weakness of our position when you get really down to the practical end of the thing and that's what you've got to look at. I think that we've got a damned good program. What we really need is some legislation really to deal with situations like this.

You're right.
E: And inasmuch as we haven't got it, I think we're smart to try to take the best thing we've got until we can get something better.

H.W. Jr: You're right.

E: That's the practical thing to do.

H.W. Jr: You're right.

E: And it was with that in mind that we worked - tried to work this thing out and get the most we could, knowing that after all we weren't in such a strong position ourselves with reference to our statutory powers.

H.W. Jr: You're right.

E: Well, now, I suppose if there was any question on the case of the RFC that the President would take that up with Jesse, wouldn't he?

H.W. Jr: I should think he would.

E: Don't you think it may be well to mention that to him tomorrow that it's got to go over to Jesse and if there's any, that he may not be through yet.

H.W. Jr: All right, I'll mention that to him, but I don't look for any trouble.

E: Well I don't either, but damn it, it's just as well to anticipate and let the President know while you're seeing him that this thing after all is only over with after Jesse agrees to put up this money.

H.W. Jr: That's right, but of course and in this case, I mean that's between Jesse and the President.

E: Well I know that but if you indicate to the President -

H.W. Jr: Oh yes.

E: That that is something that may have to be done and so he doesn't think that he's completely out of it -

H.W. Jr: Bell has told Jesse the last twenty-four hours all about this.

E: Well I don't think there'll be any trouble with Jesse. I think he was a little peeved at first, but
I think he's, I think he's practical enough to
know that there's nothing else for him to do but
go through with the program and he won't try to
write a ticket that would upset it.

E.: I don't think he will.

E.: I think he wants it.

E.: I tell you, if there's any trouble I'll let you
know.

E.: Fine.

E.: I'll let you know.

E.: Now the SEC of course you know, that they're taking
this without setting that fixed up.

E.: That's right.

E.: And I think that that is the practical thing to do
and I'm delighted that, personally, that they did it
because it looked for a time that they may not do
it.

E.: Well we couldn't solve the SEC.

E.: No we couldn't solve it, but at the same time, they
could throw this program over on the ground that
they were unable to get that settled at this time.

E.: Well I understand, no, I understand, unless I'm
wrong, that the Bank of America is agreeing to this
unconditionally.

E.: That's right. There's no condition whatever. The
Bank of America is agreeing to this program but they
did have some discussions with the SEC and they
were treated very well and the SEC, as I understand,
indicated that if they'd go through with certain,
- with certain - making amended statement and so
forth, that it was likely that that this thing could
be dismissed at some later date when everything
was complied with and the record was complete and
gave them a reason, you see. And I talked - Cushing
called me up after that, and said that it was the
best they could do and that he felt, in spite of
the fact that it could be settled entirely that
they ought to go ahead.

H.M. Jr: Well, let's see, I don't - I certainly don't expect any trouble from the President, I think he'd have every reason to be highly pleased.

E: Well I would think so. Gosh yes.

H.M. Jr: And I think everybody did a swell job.

E: Well I'm glad you feel that way.

H.M. Jr: Oh yes. Well I think everybody did a swell job.

E: We - my god, I never got such a burn by the tail in my life, but it's been worth it all, it's really been worth the effort to get a mess like this cleaned up.

H.M. Jr: Well when they've signed it and take the capital, why I think I'm going to give a party.

E: Well they have signed it you know.

H.M. Jr: No but I mean when they've taken - the RFC has loaned them the money.

E: Yes.

H.M. Jr: I mean when it's all finished.

E: Well that's right. I - the only possible difficulty could come of course in the articles of association between the Comptroller's office and Jesse and I told Preston and Dan that we still felt that the agreement wasn't completed until that was completed.

H.M. Jr: That's right.

E: That that's still part of the agreement and that we were going to be interested in it and they said "Well, the committee hasn't been dismissed until the money is turned over".

H.M. Jr: O. K. so long.

E: All right then.

H.M. Jr: Cheero.

E: Goodbye.
March 14, 1940
3:50 p.m.

Preston
Delano:  Mr. Secretary.

H.V. Jr:  Yes.

D:  This is Delano talking.

H.V. Jr:  Yes Preston.

D:  I just wanted to tell you that I have just received
    word that the Board of Directors, out there in
    San Francisco, approved this program.

H.V. Jr:  Swell.

D:  And the publicity will be in the papers tomorrow
    morning, not in the afternoon papers.

H.V. Jr:  Well I'll tell the President now. I'll get word
    to him. I'll ask him whether he won't see us
    tomorrow.

D:  All right. Have you any idea what time that would
    be, Mr. Secretary.

H.V. Jr:  It will have to be in the forenoon.

D:  I just wanted to be banded up on my night work here,
    so that I'd have the - could answer any questions,
    that was all.

H.V. Jr:  Well it will be sometime in the forenoon I hope.

D:  All right.

H.V. Jr:  O.K.

D:  Righto.

H.V. Jr:  Congratulations.

D:  Well I hope it works. I just can't see why it
    won't now. I think they're putting themselves on
    record here and I hope it turns out that way.

H.V. Jr:  I think everybody has done a wonderful job.

D:  It's been hard work, but I think it's worth it.

H.V. Jr:  Well congratulations.

D:  Thank you sir.

H.V. Jr:  Goodbye.
Operator: Mr. Helvering.

H.V.Jr: Hello.

Guy Helvering: Hello.

H.V.Jr: Guy?

H: Yes.

H.V.Jr: Henry Morgenthau.

H: Yes.

H.V.Jr: On this so-called Indiana case, I kind of put a little pressure on Elmer Irey today.

H: Yes.

H.V.Jr: And the poor fellow isn't physically well enough to take it.

H: Huh huh.

H.V.Jr: Therefore if it's agreeable to you I'm going to ask Harold Graves to sort of step in on this thing for me and for me, if you're agreeable.

H: Yes.

H.V.Jr: And sort of try to clean this thing up one way or the other.

H: Yes.

H.V.Jr: Is that agreeable to you?

H: Absolutely.

H.V.Jr: Well then, beginning tomorrow, I'm going to ask Harold to give his undivided attention to this.

H: Huh huh.

H.V.Jr: And work under you and me.

H: I see.

H.V.Jr: And nobody else. Well I mean keep you and me informed and be responsible to the two of us jointly.
H: Yes.
H.V. Jr: But nobody else.
H: Yes, all right.
H.V. Jr: Is that all right?
H: Fine.
H.V. Jr: And when could you see him tomorrow so he can come over and start with you first?
H: Well I'll see him any time on that so as to - I think it's -
H.V. Jr: Well what time?
H: Nine-thirty.
H.V. Jr: Well I'd like him at my nine-thirty meeting. Could he be there at ten-thirty?
H: Yes, oh yes. Yes.
H.V. Jr: Well he'll come to you and you send for Elmer also, see?
H: Yes.
H.V. Jr: So Elmer - I told Elmer I was going to do this, see?
H: Yes.
H.V. Jr: So supposing - Harold is sitting here now.
H: Yes.
H.V. Jr: And he and Elmer come to your office at ten-thirty tomorrow.
H: Yes. All right.
H.V. Jr: And then he'll get how you feel about it, anything that you have, but I want Harold to give his undivided attention to this.
H: Yes, all right, I'll be glad of that.
H.V. Jr: You'll be glad of that?
H: Yes, indeed.

H.M., Jr.: Well then he'll start with you tomorrow at ten-thirty, and he'll stick with this thing until it's cleaned up.

H: Yes, fine.

H.M., Jr.: Because Elmer is not well enough.

H: Well I thought he looked awfully haggard yesterday.

H.M., Jr.: Right. Thank you.

H: All right.

H.M., Jr.: And any time you want to see me on this with Harold, I'm available.

H: All right.

H.M., Jr.: Because I – I've just got to get in and we've got to clean it up one way or the other.

H: I think that's right.

H.M., Jr.: Either we have something or we haven't.

H: That's it.

H.M., Jr.: Right.

H: Yes.

H.M., Jr.: O. K.

H: All right.

H.M., Jr.: And any time you want to see me, I'll see you and Harold.

H: All right.
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Cockran read and retum to Mr. Brady.
The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his information a copy of note no. 82 dated March 5, 1940 from the Canadian Legation, stating that the Anglo-French Purchasing Board, under the Chairmanship of Mr. Arthur B. Purvis, is acting for the Canadian War Supply Board in respect of purchases in the United States for Canadian defense services.

Enclosure:

From Canadian Legation, March 5, 1940.
No. 82

Sir,

I have the honour to state that I am in receipt of instructions from the Canadian Government which enable me to inform you that the Anglo-French Purchasing Board, under the Chairmanship of Mr. Arthur B. Purvis, is acting for the Canadian War Supply Board in respect of purchases in the United States for Canadian defense services.

I have the honour to be,
with the highest consideration,

Sir,
Your most obedient,
humble servant,

LORING C. CHRISTIE

The Hon. Cordell Hull,
Secretary of State of the United States,
Washington, D. C.
MEMORANDUM FOR THE SECRETARY:

March 14, 1940.

West Coast Shipping Situation

Further sales and chartering of ships formerly engaged in the intercoastal trade served to make the intercoastal space situation more critical than ever. Cargoes both eastbound and westbound were going begging, as the lines with reduced fleets were completely deluged with offerings. Because of the nature of its commodity, the lumber industry was suffering the worst from the shortage, although their demands for space were having a compensatory effect upon general cargo space at California ports. Low-grade and low-rate commodities were finding it increasingly difficult to get accommodations, if any, under present conditions.

The intercoastal lines have announced general rate increases. A vessel was taken under charter for a voyage in the intercoastal trade at undisclosed terms.

The offshore trades were quiet, especially that to Europe. Cargo was not offering in very good volume. The let-down in the European route was ascribed to lack of interest in Pacific Coast agricultural products. The British lines continued to operate in secrecy, and little or nothing of consequence could be reported in this direction. Other routes were quiet and lumber rates remained at approximately $50 per M. The steamer WEST NILES was taken under time charter for four to six months for Atlantic trading; the steamer PETER KERR was chartered for two to four months on a time basis for general trading on the Atlantic at $4.50. These vessels were taken out of the intercoastal trade.

Except for the animation caused by shippers getting cargoes moving before tax day, the Oriental range was not particularly active. Demand for space was fair, and the lines were having no difficulty filling. Scrap, which continued to offer in good volume, was being booked by the berth lines at between $10 and $11 for rails and between $13 and $14 for No. 1 melting. There were no charters for scrap reported, but a vessel was taken on a time basis at $5, delivery in the Far East and redelivery on the U.S. Atlantic. Lumber to the Orient appeared to be quiet, and no new business was reported for Vladivostok, which had been somewhat active several weeks ago.

Business, especially general cargo, to Australia and New Zealand was hampered by Government restrictions on certain American imports.
Secretary of State,
Washington.

644, March 14.

FOR TREASURY FROM BUTTERWORTH.

The negotiations for an Anglo-Norwegian payments agreement referred to in my III, January 12, 7 p.m., resulted in the conclusion of an arrangement between the Central Banks of the two countries similar to the Anglo-Swedish arrangement reported in my 34, January 5, 7 p.m. The agreement is valid until June 17, 1940, and can be denounced thereafter on one month’s notice. The following notice was issued by the Bank of England to all banks.

"Norwegian banks and certain private Norwegian holders of sterling will shortly open 'special accounts' with their banking correspondents in the United Kingdom. These accounts are to be regarded as domestic accounts for the purposes of exchange control and balances standing to their credit may only be used for payments within the sterling area.

"Transfers
"Transfers from one Norwegian 'special account' to another will of course be permitted but any payment from such an account for the credit of a foreign account should be refused and referred both to the Bank of England (Trade and payments section) and to the Norwegian principal concerned for reference to Norges Bank.

"The same conditions will apply to Swedish 'special accounts' certain of which have already been opened except that in the case of these accounts payments may also be made to Belgium and Brazil without reference.

Three post-war payments agreements have now been concluded providing for temporary blocking of sterling balances insofar as they accrue from unbalanced trade and periodic settlement by gold payments namely with the Argentine, Sweden and Norway.

The British Treasury expects that an agreement with Denmark will in due course be reached. Since Denmark has an unfavorable balance of trade with Germany it is anxious to keep Denmark short of foreign exchange and therefore it is somewhat concerned lest the Export-Import banks credit to Denmark be of a character to permit the Danes now to buy in the United States for credit that which before they had to pay for in cash. If however the credit merely permits the Danes to buy from the United States on credit that which they previously bought in Germany, the British Treasury would be correspondingly satisfied.

The
The British Treasury states that the Dutch have to date shown "no interest" in making a payments agreement and the Swiss to date have not shown "a desire to play".

The British Treasury states in strict confidence that the negotiations with Spain have now resulted in an agreement along the lines reported in paragraph 2 of my 71, January 9, 6 p.m. This was to have been signed this week but the Italians have now represented to the Spanish Government the importance of an Italo-Spanish agreement being signed before an Anglo-Spanish agreement. The British have been making a conscious effort throughout these long drawn out negotiations to be patient and it is likely that this will be just too much.

In the negotiations with Italy for a large scale commercial interchange (which in the main meant coal for armament manufactures) the question of a clearing agreement was not mentioned. The British Treasury states that it expects shortly to begin conversations with Italy on this question which will perhaps lead in time to the conclusion of a modified commercial arrangement; its position is that insofar as the Italians want coal they must pay for it with pounds or goods that Great Britain requires.

As indicated in No. 378, February 13, discussions are taking place with Rumania.

KENNEDY

HPD
The Bank of France statement published today shows the changes resulting from the recent gold revaluation and the gold cession to the stabilization fund. Gold reserves now total 84,000,000,000 francs. The revaluation added 17,338,000,000 francs to the previous 97,275,000,000 to a total of 114,613,000,000. The cession of 30,000,000,000 reduced that figure to 84,613,000,000. Sight assets abroad and short-term bills negotiable abroad were likewise revalued rising from 79 to 92 millions. (END SECTION ONE).

MURPHY

CSB
Secretary of State,
Washington.

346, March 14, 7 p. m. (SECTION TWO)
The statement also shows repayment of the 1938 advance to the state of $20,473,000,000. The state has drawn $300,000,000 further on its original war time authorized advance to a total of $20,350,000,000. Current accounts and deposits are reduced 3½ billions to 13,393,000,000 (resulting from the approximately 3½ billions required of the stabilization fund for the aforesaid reimbursement of the 1938 advance) gold coverage is reduced from 55.75% to 49.52%.

MURPHY

WWC
Secretary of State,
Washington.

346, March 14, 7 p.m. (SECTION THREE)

During the period February 1-15 deposits in the National (Postal) Savings Banks totaling 209,000,000 francs and withdrawals 18,000,000. From January 1 to February 15, 1940 deposits in such banks exceeded withdrawals.

A decree published in today's Journal Officiel gives the Minister of Public Works and Transportation the authority to requisition the personnel of road transport enterprises.

My telegram No. 335 of yesterday. The national defense credits requested by the second quarter of 1940 total approximately 55,000,000,000. (END MESSAGE).

MURPHY

CSB
RE INDIANA INVESTIGATIONS

March 14, 1940
2:30 p.m.

Present: Mr. Foley
         Mr. Sullivan
         Mr. Irey
         Mr. Schwarz
         Mrs Klotz

H.M.Jr:  I take it, Sullivan, that what you sent me about Drew Pearson isn't confidential.

Sullivan: No.

H.M.Jr:  There's a leak around this place somewhere.

Sullivan: That is what disturbed me. Now, at that conference I think there was also Kades and Leming. Sullivan wasn't in, was he?

Irey:    No, not at the conference you were referring to.

Sullivan: By itself. Now, you (Irey) didn't see me either Friday or Saturday, did you?

Irey:    No, I understood you had gone up to New Hampshire Friday or Saturday.

Sullivan: I went up Saturday.

H.M.Jr:  Have you fellows rehearsed this before you came in?

Irey:    I just got the memorandum before I came in.

Sullivan: I asked Elmer if he had got the memorandum and he said no and he came in the office and I handed him a copy of it.

H.M.Jr:  It looks to me as though they had rehearsed it. They have got it down too pat.

          Seriously, where do you think this thing could be coming out.

Irey:    I haven't the slightest idea. I just glanced through this before I came in. I just got it. In the first place, it says that he had information that Irey had conferred with you (Sullivan). It doesn't say Irey told him that, by the way, or did he say that?
Sullivan: No, he didn't say that.

Irey: It just says he had information that Irey conferred with you. In the second place, there is a statement to the effect that Irey had discussed starting grand jury proceedings in Indianapolis on March 12. Let's see, did I discuss that on March 7? I don't know just what you mean. In the conference report in my memo to you on Thursday of March 7, "Irey had discussed starting grand jury proceedings in Indianapolis March 12."

Sullivan: That is right.

Irey: I don't know what that is all about. I haven't discussed any such thing or made any comment on grand jury proceedings at any time.

Sullivan: You did that day.

Irey: I beg your pardon. I didn't discuss anything like that. If you say I did, you must have been mistaken. I have had no thoughts of any grand jury proceedings, Mr. Secretary, and that is all I have to say and I haven't made any comment in that respect.

H.M.Jr: I am full of airplanes and what each person said. The only thing that disturbs me is that Drew Pearson should know at the drop of a hat what is going on.

Sullivan: Well, it disturbed me, too.

Irey: As far as Drew Pearson is concerned, I think I have met the man once or twice but he doesn't say in there that I told him.

Sullivan: Oh no, he didn't say that.

H.M.Jr: This isn't an accusation meeting, this is just a meeting to put our heads together. Looking at all four of you, there is too damn much talking about the whole case anyway. Everybody knows the business. They have it before I know it, beginning with Ray Tucker. He was the first fellow to have this thing. He was the first
fellow to break it and starting with Ray Tucker right on down the line, there has just been too much — they know every single movement we make. I think I am correct. He was the first fellow.

Schwarz: Ray tells me that he had mentioned it to you at the time of the press club dinner, that was on December 7, that far back.

M.M. Jr.: Did you say gratefully?

Schwarz: No, he didn't say gratefully, but gleefully. He felt like he had a scoop or something. He was gloating. He said you wouldn't tell him. He said, "I told your boss and he didn't deny it."

M.M. Jr.: I haven't denied it. There is just too much talk, talk, talk on this case.

Foley: Well, there are three columnists who knew about it, Clapper, Drew Pearson and Bob Allen, and Ray Tucker. I don't remember seeing anything in Joe Alsop's and Bob Kintner's column.

M.M. Jr.: But Tucker started it.

Sullivan: Harlan Miller was in yesterday afternoon.

Foley: Yes, he has written about it.

Irey: Well, Drew Pearson and Bob Allen have written a number of times about it, but of course there is one explanation of that and the only one I can make is that they must have known there was an investigation going on, because there have been too many people interviewed for them not to know that, but for them to know the facts of the investigation is another matter.

M.M. Jr.: Well, Elmer, I am getting to the point myself, now, after reading Clapper's column yesterday, either you have got a case or you haven't. Now, my God, you have been on this thing — when you go in, if you did, according to Clapper, interview judges and the American Legion people and all the rest of the thing, either now you have got a case or you haven't and this fellow,
as far as I can find out, this man that has come down here, this agent Sullivan, again he is down here and has he produced anything new?

Irey: Well, I think he has, Mr. Secretary.

R.M.Jr: Well, what? What the hell have you got now? Let's get down to brass tacks.

Irey: Well, one particular item --

R.M.Jr: You have been at this thing for months and turned the whole thing upside down and what have you got?

Irey: The particular item, answering your question, is the item of $117,500 which is recorded as having been received in the Hoosier Democratic Club and their records show it having gone to the Democratic State Central Committee. The Democratic State Central Committee records do not show the receipt of it. Bowman Elder was asked about it and he said he was mistaken, his records were wrong. He gives no statement as to the disposition of it except that it was spent for the benefit of the party.

R.M.Jr: Have you any reason to believe that McNutt got this personally?

Irey: No, sir, I haven't any reason to believe he got it.

R.M.Jr: Well, the point - are you agreeable to go ahead with the Greenlee case?

Irey: Why, yes, sir. I am agreeable. I have already told them to get a report in as quickly as they could and as soon as Sullivan can get back there, the report will be sent in within 24 hours.

R.M.Jr: What kind, civil or criminal?

Irey: Well, I don't know what he will recommend. He is going to recommend civil action. He is going to recommend the assessment of taxes,
but whether it is sufficient to recommend prosecution, I don't know.

H.M.Jr: Well, how old is the Greenlee case?

Irey: The Greenlee case was the first case we started on in August, 1930.

H.M.Jr: Exactly. Hasn't that been closed?

Irey: No, sir, it hasn't because we have been trying to get the information out of Greenlee to support other cases out there, so we haven't closed it as a matter of strategy.

H.M.Jr: Well, are you ready to go ahead with Greenlee?

Irey: I would say just as soon as the report comes in. When he gets back there tomorrow, I will have the report in by Monday.

H.M.Jr: This thing doesn't say that.

Sullivan: Oh, I think it does.

H.M.Jr: Let me read it.

"In the conference reported in my memo to you on Thursday, March 7, Irey had discussed starting grand jury proceedings in Indianapolis March 12."

We don't even know we have got a case against Greenlee.

Irey: No, sir, we do not.

H.M.Jr: Well, you know, I always have to take this. You don't; I do. Now this thing has been knocked around all over the state, inside, outside. I never have had a thing like it in my life and everybody knows more about it than I do. A fellow comes in and he knows what happened this day and that day and this thing and that thing. I don't think you have got anything, Elmer. I thought the Greenlee thing was all settled last August. I don't see that agent Sullivan has got anything. I read that report. I told you that - did he bring in anything new since then?
Irey: He brought in another report in which he emphasized the things that he had said.

H.M.Jr: But have you got anything on Mr. McNutt?

Irey: No, sir, we have not.

H.M.Jr: Then let's say so.

Irey: Any time, Mr. Secretary. I certainly have no desire to continue this case another day. I have simply been carrying on because of instructions to go out and go into the whole situation and we have been trying to go into it, that is all. I have no desire to continue the investigation.

H.M.Jr: Well, either we have something or we haven't. Now, if it has been since last August, we either ought to know by now that Mr. McNutt has taken money which he has not reported or he hasn't. Now, it is seven or eight months, and if we have to hang the whole thing on this agent Sullivan, I don't think the case is worth that (snapping finger) and I don't see why you don't say so. Either you say the man is right or he is wrong. It is up to you to say one thing or the other. He is your man.

Irey: Mr. Secretary, we have been delayed since December trying to get an order to bring Bo Elder into court. We have thought all the time if we got him into court we would get him to do talking which would force other people to talk. That is one of the reasons for the Greenlee case. We thought we could get other people to talk when we got the order against Elder.

H.M.Jr: You certainly can't, on what you have got there, take this man into court. Mr. Jackson says so and of what I have read, I say so, and it is the other thing which I think ought to be cleared up, and you have got to clean this thing up. Now, we are talking right here in this room. These men say that they read agent Sullivan's report and the references that he made, the chapters and verses, just
aren't so. And that is the report that you gave me to read, the 12 pages. Either it is or it isn't.

Irey: I certainly want to clean it up. I don't agree with them. I mean, I don't get the same conclusion they get out of it, but I want to go into it and find out whether that is true, of course.

E.M.Jr: Foley told me and I know he is right, because everything in here is my business, that if that man worked for him and put him in the position he did you and if that was a lawyer and he gave me - Foley gave me a full page report of recommendation and I read it and the misstatements in that, he said he would fire that man and either that is a fair statement or it isn't.

Irey: Well, I would like to find out whether it is a fair statement or not. I have had Mr. Holvering go over the report and he has agreed with me that it is not that type of report.

Foley: Well, Elmer, I analyzed the testimony for you and I showed you what he said in his letter and I showed you what the testimony was.

Irey: Yes. Have you analyzed it in the light of the additional information which he has furnished?

Foley: I am only talking about the letter which he sent you on the 13th of February.

Irey: Let me make this statement with respect to that letter: This letter came over from Sam Clark on one morning. About noon, I think, I got a copy of it. I telephoned to this man and told him to have a report in to me by air mail that afternoon. He wrote it up in about three hours, so if there is a slight discrepancy --

Foley: It isn't slight. There are gross inaccuracies.

E.M.Jr: The whole thing depends upon this man's veracity. Now, here is Foley - I don't know whether you (Sullivan) went over that or not, but Foley

RegardedUnclassified
went over that thing, item by item, and I might as well say what you said, you said the man lied.

Foley: Well, I said it is inaccurate.

H.M.Jr: And he said it is an outrage to give me a report like that. Now, I have defended you and continue to do so, right or wrong, but my God, I want something I can put my teeth into.

Irey: But needless --

H.M.Jr: And if I have got to depend upon the man who is in charge who isn't truthful, it leaves you and me in an impossible situation. Now, here is Foley, who has my interests at heart just as much as you have, and he tells me that this statement is full of inaccuracies and either - and if that is so, then it is up to you to do something about it.

Irey: It is, of course, and it is up to me to review --

H.M.Jr: But that statement was made over a week ago. That statement - and Foley said, "I am not saying anything to you, Mr. Morgenthau, that I didn't tell to Irey." He said, "I made exactly the same statement to Irey that I am making to you."

Irey: And I had this man come in and write a 15-page report in further explanation of his report and submitted that to Mr. Foley. I thought that further report of his explained everything. Now, if it doesn't, I want to go through it and find out. I have been waiting for this conference which we had just yesterday.

H.M.Jr: Here is Foley right here.

Foley: Well, it didn't --

Irey: I mean the delay of this thing has not been due to - it has been due to - we were ready Thursday or Friday for the conference on the thing and
I have been waiting until today for it.

Mr. Jr.: Now, you and I and Mr. Helvering and everybody else are depending upon a person by the name of Agent Sullivan. On Mr. Helvering's recommendation, I took the lawyers out of there, so I am solely dependent upon Agent Sullivan. Now, I am told by my General Counsel that Agent Sullivan gave you and you gave it to me - and I take it that you read it before you gave it to me.

Irey: I did.

Mr. Jr.: ....a 12-page report and Mr. Foley says it is full of inaccuracies. Now, I don't care about anything else and I am depending on you and the only thing that I have got, if I have got to go before the Joint Committee on Taxation, what am I doing, is a report by Agent Sullivan that my General Counsel said is full of inaccuracies. Where does that leave me? Now, you have got to take care of me on this thing.

Irey: I am going to take care of you, Mr. Secretary.

Mr. Jr.: I will take care of you publicly, but in the office you have got to take care of me.

Irey: I am going to take care of this matter. Just as soon as I go out of here - as I say, I am not convinced of what Mr. Foley has said.

Mr. Jr.: What I want you to do, over your own signature, and today is - and I give you until Monday morning. I want a summary from you, what have you got on anybody, without any grand jury investigation or anything more, what have you got on anybody who has withheld paying their income tax in the State of Indiana. I want a report from you on Monday. Is that fair?

Irey: Yes, sir, that is entirely fair.

Mr. Jr.: I want to know Monday that you have or haven't got any facts that you can prove, that you are
75 percent sure of, against any individual, man or woman, in the State of Indiana. Now, I want it Monday. I want to know - and I just want it over your signature to me.

Irey: Very good.

H.M.Jr: And not this, that, or the other. Just what you think and then what you have to back it up.

Irey: All right.

H.M.Jr: Now, the thing that I have been waiting for, this life insurance policy, the premiums of which are paid for by this political machine, to whose order is that life insurance made out, to whose benefit?

Irey: I couldn't answer that to you right now.

H.M.Jr: I have asked it for over a week. I have asked for it for over a week.

Irey: Mr. Secretary, I don't remember any such question as that.

H.M.Jr: I asked somebody.

Irey: Was it asked of me?

Klotz: You (HMJr) and I talked about it.

H.M.Jr: Well, I asked about it. The first question is, anyway, whether I asked for it or didn't ask, I asked somebody, and if I did or didn't, the whole thing depends upon it, if it was made out to the Hoosier Democratic Club, it is perfectly legal and proper. Whose benefit is it made out to? If it is the Hoosier Democratic Club who wants to insure McFutt's life, it is all right, but if it is paid out to Mrs. McFutt it is something else. I should think you would have that, because that is the only thing you have got. I should think that would be the first question you would ask.

Irey: We have deposits of five thousand dollars each at two different times in two different bank
accounts in addition to the life insurance policy.

H.m.Jr: But to whose benefit is the life insurance policy made out?

Irey: I will let you know that.

H.m.Jr: I want to leave it now until Monday and inside the Treasury, you have got to take care of me. Outside of it and toward the rest of the world, I will take care of you. That is a fair division, but I want to know where I stand on that thing. It is getting impossible and everybody else knows every move that we make. Now, let me have something Monday, will you?

Irey: All right, sir.

H.m.Jr: And everything in this room here is absolutely in the room, please. You haven't fallen down on me yet in six years. I don't see why you should now.

Irey: I don't either.

H.m.Jr: Let's take an inventory of the thing and you have it for me Monday.

Irey: Of course, if Mr. Helvering had been here I think he would have had some views to present as to his conclusions, also.

H.m.Jr: I will have him here at 10:30 Monday. These same gentlemen Monday. Mr. Helvering isn't investigating this case, you are, Elmer.

Irey: I have consulted with him in regard to his advice. I am not trying to shift responsibility, but I haven't failed to consult my superior.

H.m.Jr: When I called you in here, I wasn't going to start - I didn't call in for that. I called you in because I was bothered to think that Drew Pearson knew every single move that is going on.

Schwarz: His column last week is still part of the same picture, too.
Sullivan: Chick, you are not making any effort to find out where Pearson got that?

Schwarz: Oh, yes.

E.M.Jr: It doesn't do any good. You will never find out.

Sullivan: He said, "Oh, yes."

Schwarz: I will make an effort, but I shouldn't expect --

Sullivan: That won't get us anywhere.

Schwarz: The very worst thing for public relations is to try too strenuously. He may next week come in and tell me in order to - I haven't seen the fellow for weeks.

E.M.Jr: The best public relations that can happen is if there is anything, let's prosecute to the limit. If there isn't, let's say so. That is the best kind of public relations.

Schwarz: We can't say so even officially. We have never officially admitted --

E.M.Jr: That there is an investigation going on?

Schwarz: And the only way we can say so is - the next question is to refer people to Justice and let them say they have got no case.

E.M.Jr: Well, we can't do that.

Foley: No, I don't think we can do that, either.

Schwarz: There is no obligation on our part to say --

Foley: I think in fairness to McNutt - and I hold no grievance for him - if we have gone all over the State of Indiana and we have asked everybody questions and everybody out there knows that we are investigating this situation - he is a responsible member of this Administration. The least we can do for him, if we have no tax case against him, is to say so, that we
have investigated the reports that have come in here and we have found them to be groundless.

Schwarz: We will say the investigation is closed?

E.M.Jr: I agree with Ed and I will have the pleasant task of doing that.

Schwarz: That is what I am trying - I think it is unfair to you where you have not at all been responsible for the situation that has developed to expect to put you in --

E.M.Jr: I am responsible at the beginning, when this Greenlee matter came in I said let's go ahead and look how much more there is and let's make a complete study of this situation. I am responsible when I heard about it - read the investigation of our Collector of Internal Revenue. I said, "It smells to heaven. Let's investigate," and we did and I think at that time Harold Graves was in on it.

Irey: Right.

E.M.Jr: I started it, but as to - but the fact remains --

Schwarz: Then I will agree with Ed that it might be in fairness - you might have to admit --

E.M.Jr: I still want Irey to tell me --

Schwarz: Of course, that was --

E.M.Jr: ....whether this man, Agent Sullivan, is or isn't a reliable person and I can't - it is hard for me to understand when Foley made the statement he did and that statement is a week old that you haven't made up your own mind.

Foley: I gave Elmer an analysis of the letter and the transcript. It showed the statement made in the letter, it showed the reference to the questions and answers in the transcript and showed what was said in the letter wasn't borne out by the references in the letter to the transcript, the questions and the answers.
H.M.Jr.: It is a pretty stiff statement he is making.
Irey: It is that.
H.M.Jr.: What is the answer?
Irey: I am going to give you the answer Monday on it.
MEMORANDUM

March 14, 1940,

TO: The Secretary

FROM: Mr. Sullivan

RE: Conference with Drew Pearson at 10:15.

After a long general discussion about the New Hampshire politics and New Hampshire affairs, Pearson said he wished to ask a few questions about the Indiana and McNutt situation not from the point of view of writing a news story, but to give himself background.

He said he had been advised that last Friday or Saturday Irey had conferred with me about the advisability of instituting grand jury proceedings in those cases and he wondered what decision we had arrived at. (In the conference reported in my memo to you on Thursday, March 7th, Irey had discussed starting grand jury proceedings in Indianapolis March 12th). I told him that the Treasury Department was determined that no man, because he happened to be a public character, should receive either preferred treatment or be persecuted; that it was difficult to give to a man in the public eye the same impartial treatment that is given the average taxpayer; that it is hard not to lean over backwards in either direction, but that we have concluded that until whatever investigations that are in process are completed, we would refuse to deny, confirm, or comment in any way on those cases other than to say that whatever investigations were being conducted would be accelerated as much as possible.

He then wanted to discuss the degree of acceleration possible and in the course of his remarks on this subject he said: "I know that these cases have not yet been sent to the Department of Justice and I am wondering how long will take after they are over there." I said that I thought we would be able to conclude whatever work we were doing in three weeks and told him I would be glad to let him know if there was a change in the time scheduled if he would call me within a week or ten days.

COPIES TO:

Melvering
Foley
Irey
TO: The Secretary

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FEDERAL SECURITY AGENCY
WASHINGTON

March 14, 1940.

Mrs. Henrietta S. Klotz,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

Dear Henrietta:

You may be interested in the attached
copy of a telegram to Dr. Parran from Dr. Williams
in China.

Sincerely,

Mary E. Switzer
Assistant to the Administrator.

Enclosure.
R A D I O G R A M

CHUNGKING, CHINA
MARCH 7, 1940

FOR PARRAN PUBLIC HEALTH

NATIONAL HEALTH ADMINISTRATION WILL CONTINUE MALARIA CONTROL
WITH STAFF WE TRAINED PERIOD PROPOSED CONTROL AT CITIES ON LOWER
ROAD AND LABOR CAMPS PERIOD GOOD SET UP IF FOLLOWED THROUGH PERIOD
LARVACIDES JUST ARRIVING, ESSENTIAL SUPERVISE LARVACIDE FORCE FEW
WEEKS UNTIL SWEET ESTABLISHES ROCKEFELLER RESEARCH STATION CHEFANG
PERIOD RECOMMEND BUSH REMAIN UNTIL END APRIL PERIOD REQUEST
AUTHORITY MY DEPARTURE ABOUT MARCH EIGHTEENTH

WILLIAMS

COPY
In this morning's group meeting, the Secretary announced that he desired an immediate study made of the question of granting financial assistance to Finland. He envisaged the use of the Stabilization Fund, subject to specific approval by Congress. The Secretary thought of asking Ryti or Tanner to come to this country at an early date for a discussion of what could be done. He would have a preliminary talk with Minister Procope within the next few days. The following first thoughts on this subject are respectfully submitted.

There is no question but that Ryti and Tanner are the two outstanding men of Finland. They have been responsible for a large part of the development of Finland, both through handling of Government finances and through fostering private undertakings. Ryti is an exceptionally capable central banker. Tanner has constructive ideas on banking, in addition to a reputation for success in private business, including the development of cooperatives in a way that achieved good results without developing extreme socialism or preventing business initiative in Finland. Since these men have been the two most responsible members of the war cabinet in Finland, it is now conceivable that one or both of them might drop out of the Government, following the acceptance of the peace treaty. It is to be hoped that Ryti will continue as head of the Bank of Finland, but this cannot be positively expected.

This morning's press reports indicate that Sweden and Norway have agreed to negotiate a defense alliance with Finland and that Sweden is prepared to provide Finland immediately with credits, loans and public subscriptions, to an estimated total of from 48 to 72 million dollars, for reconstruction. It was indicated that part of the funds would be used for fortifications along Finland's new frontier with Russia. The outlook is thus for a defensive alliance between the three Scandinavian countries, since Norway and Sweden must necessarily be alarmed over the demands which Russia achieved in the peace pact, insofar as railway connections between Scandinavia and Russia are concerned, particularly. Do we desire to enter into Scandinavian defense plans? Anything may still happen in that area during this confused war. We have no definite information as to how much assistance the Swedish Government, Swedish industry and Swedish subjects have given to Finland during recent months, but it is understood that this is very large. From our knowledge of the Bank of Finland account in New York, we can conclude that the Sveriges Riksbank has made foreign exchange available to the Bank of Finland considerably beyond the gold resources of the latter which might have been held in Sweden.

Is this a proper time and occasion for the Treasury to take the initiative in a foreign credit, especially one involving use of the Stabilization Fund in any manner not heretofore contemplated? My personal view is that, irrespective of our sympathies, we must handle the Stabilization Fund with absolute coldness, and not go in for philanthropy. As guardians of this Fund, responsible for formulating our
monetary policy in the future, I am convinced that we should not even recommend to Congress the idea of utilizing this Fund for credits to rebuild foreign countries.

The funds now available for foreign loans, consisting almost exclusively of Export-Import Bank capital, will by no means be sufficient to meet bona fide demands for loans from this country to assist in economic reconstruction after the war. Sometime we will be obliged to face the question as to what, if any, role the Government itself should play in providing such capital.

Convinced that there is no necessity now for us to make such loans as that under reference for the purpose of assuring the continuity of the monetary use of gold, I think we should husband our resources until such time as the world situation may be viewed more dispassionately and clearly than in this present very uncertain period. We do not even know what our own status may become as this war continues.

The Stabilization Fund could buy Finn marks and hold them, with or without a gold deposit guaranteeing repayment. The Treasury's policy heretofore has been to demand gold or silver security for such a transaction. Considering the insignificance of the Finn mark in international payments, I do not favor making some unduly large arrangement with Finland on the basis of monetary stabilization. To give Finland a credit against gold, whether this be in the form of a credit from the Federal Reserve to the Bank of Finland, against earmarked gold in this country, or through the purchase of Finn marks by the Stabilization Fund, holding gold as security, really provides Finland little help, keeps their limited gold supply tied up, and even reflects upon their credit rather than constitutes a friendly gesture.

I feel strongly that this Government should not now lend funds to Finland for constructing new fortifications, any more than we should have loaned funds for armaments and munitions during the war.

I approve the idea of our Export-Import Bank making the allocated $20,000,000 available as needed, and even increasing this amount further, if Congress is willing, and actual opportunities for the export of American commodities exist.

I feel that borrowing for military purposes on the part of Finland should be on the markets of those countries which will in the future support her in a military crisis. These markets would be Stockholm and perhaps London. I am not at all of the idea that the United States desires to make any political or military commitments to Finland. Stockholm has in the past acted to a considerable extent as Finland's banker.

With the recent quick recovery of Finnish bonds, there is the possibility that a Finnish loan could be raised on the American market, through the usual banking channels. This I would heartily favor.

I believe we would be taking quite a risk, both for our Finnish friends and the Treasury, if we invited Ryti or Tanner to come to this country without absolute assurance on our part that we could do something concrete for them after their arrival. A visit by either of these men to the United States in the near future would attract a tremendous amount of international attention. If Ryti as a central
banker seeking assistance should desire to come over on his own responsibility, and not on the invitation of this Government, this would be a logical move and could be explained. He already has his banking friends in this country who have helped Finland float loans in the past.

If Congress may on its own initiative desire to refund payments which Finland has already made on its so-called war debt to the United States, that should be left to Congress. The character of the assistance which should be given Finland was studied at such length by Congress, that I hesitate to recommend that any new suggestions be made. After all, $30,000,000 of export credits is a considerable assistance to be given by our Government to a country the size of Finland. As the war is now ended, private capital could be obtained much more easily than heretofore.

The above rather dampening suggestions are made with considerable reluctance, but indicate my honest belief. As the Secretary is aware, I have known Ryti for many years, have visited him at his home, along with Tanner, and consider him one of the finest public officials whom it has been my pleasure to meet in Europe. My personal sympathies with Scandinavia, and Finland in particular, are very strong. I know of no area in the world where the Governments as well as the people have ideals and aspirations so completely in common with our own. At the same time, I feel that in our handling of the Stabilization Fund we must think primarily of our own interests, without charity or emotions entering into the consideration.

[Signature]

Regraded Unclassified
TO Secretary Morgenthau

FROM Mr. Cochran

There is appended a copy of a letter which I today received from Deputy Governor Gordon of the Bank of Canada at Ottawa. In this letter Mr. Gordon has reduced to writing the substance of remarks which he made to me on his recent visit.

I am particularly pleased to have at this time such a clear explanation of Canadian exchange control policy. In recent days the unofficial Canadian dollar has been discounted as low as 20% in New York, as compared with the official rate of 10 to 11%. The answer simply is that Canada so completely controls the payment for exports of Canadian products that there are few purposes for which unofficial Canadian dollars can be utilized. The demand for the latter is consequently small, and when holders thereof decide to get rid of them the price paid therefor may drop precipitately on a thin market.

The business done in unofficial Canadian dollars is very small and has no significance in Canada's trade. The considerable discount on the unofficial market is an evidence of strength of Canadian control rather than of weakness of the Canadian dollar. Mr. Gordon told me, however, that there was so much misunderstanding in the public mind of the low rate for the Canadian dollar in New York, that his people had thought for some time of creating a small loophole in their regulations which would permit a sufficient use of unofficial Canadian dollars to absorb the small quantity floating in New York and thus keep the unofficial rate more nearly the official rate.

In this connection, reference is made to Mr. White's remarks in this morning's meeting in regard to the depreciation of sterling. The shifting in sterling rates and the volume of transactions in sterling on our market have been covered in my daily reports to you. In addition, we have been assembling from official telegrams, conversations with Federal Reserve Bank in New York and through that bank data from private banks in New York, with respect to the working of the new British exchange regulations. It is too early to come to any conclusion upon which we should take any action via-d-vis the British.

With it now being required that the specific important exports from the British Empire be paid for in certain foreign currencies or in sterling acquired at the official rate, much of the support for the unofficial sterling will be reduced. Consequently the market has interpreted the new regulations accordingly and the unofficial rate has weakened. It is not yet known whether the British Control will limit still further the use of free sterling so that the payment for exports to the United States in other than United States dollars or official sterling will be practically prohibited. During this waiting period the unofficial sterling rate is likely to fluctuate sharply.
For the present it would appear that free sterling may be used for insurance premiums, freight payments and certain minor imports. The point which we shall have to watch is that of the minor imports. So far, I think we would be quite hasty in deciding that the British policy has been inspired by any desire to dump British manufactured goods on the American market. The whole plan is to acquire foreign exchange more extensively for British exports. It is conceivable that the British Control may follow the Canadian plan and practically eliminate the use of free sterling for British exports. In such case we would have no basis for complaint against the depreciated unofficial rate. It remains to be seen whether the depreciation in free sterling may cause the British to keep open certain uses therefor. It is not likely that the British would be willing to utilize their dollar resources to clean up the unofficial sterling on our market in present circumstances.
My dear Cochran,

You will no doubt recall our brief chat on the subject of the unofficial rate for Canadian dollars, quoted in the New York market, and that I promised to send you a note explaining some of the reasons for the differential between this rate and the official rate of the Canadian Foreign Exchange Control Board. The recent New York quotations have made me rather guilty aware that I have, since my return to Ottawa, allowed pressure of other matters to delay my letter.

Since the establishment of Foreign Exchange Control in Canada, it has been the policy of the Board to require that all exports from this country shall produce foreign exchange. The system installed to ensure that this policy be made effective has been, generally speaking, based on a provision that no export is allowed to leave Canada unless a suitable declaration is made by the exporter of the amount of foreign exchange he is to receive, with the date on which it is payable, and this declaration is used by the Board to check to see that the exchange is actually forthcoming. Consequently, the foreign demand for Canadian dollars is being steadily reduced and is now pretty much confined to payments for sundry services, insurance premiums or other similar undertakings due by non-residents and expressed in Canadian dollars.
There is, as you know, a fair amount of non-resident owned Canadian dollar balances in Canada. So far, little uneasiness has been shown by their owners, nor, so far as we know, have they attempted any large scale effort to withdraw them since foreign exchange control has been instituted. It is the case, however, that there is, and I suppose always will be, some desire on the part of non-residents to obtain foreign exchange for their Canadian dollar balances. Consequently, since the operation of Control has dried up any effective demand on the one hand, and there continues to be some selling pressure on the other, the tendency is for the unofficial rate to weaken. You will no doubt understand that the Canadian dollar quotation in New York has no real significance in relation to the Canadian economy as a whole. It is merely the figure at which one non-resident is willing to sell his Canadian dollar balance to another non-resident, who may have a use for it in this market. For this reason it would not be surprising to find that rates quoted for Canadian dollars in the various cities of the United States may show fairly wide differentials as the market is, we believe, extremely narrow and very little volume can show a marked effect.

I need hardly add that under Control practically all the exchange transactions arising out of this country's foreign trade take place in the official market and that the Board sells exchange freely at its official rate to importers or others who have approved foreign exchange obligations to meet.

I hope this covers the query you have in mind, but do not hesitate to let me know if you wish any further information.

With kind regards,

Yours sincerely,

(S) D. GORDON
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany (via Rome)
DATE: March 14, 1940, 11 a.m.
Rec'd: March 16, 1940.
NO.: 641

FOR TREASURY FROM HEATH.

Last night Puhl, the Vice President and active head of the Reichsbank, had dinner with me and discussed at some length the Reich's present financial and monetary plans and problems.

For the last five months, he said the Reichsbank, through Funk, who is its President and also Minister of Economics and German plenipotentiary for economic matters, had pressed for further increases in taxes and the issuance of a large war loan on long term in order to take up or immobilize excess purchasing power. They had not yet received final permission for the issuance of a war loan, but Puhl assured me that before long it would be granted, and 4 percent would be the interest rate. One difficulty that they would have to overcome, he said, was popular distrust of "war loans" in view of the experience of German investors in the issues of the World War. During the past few days, the Reich Treasury as a first step had started selling five year 4 percent bonds without publicity, which the banks and the public were taking up.
He said that because the rate of interest on the present five year issue and on the future war loan is only 4 percent does not mean that it is the intention of the Government to revise downward all interest rates. He said that the forthcoming war loan would in the main be a conversion of the short term paper which up to the present had been the principal means of financing the war. The older 4 1/2 percent government bonds, he pointed out, had gone above par — being 100-3/8 today — without the Reichsbank giving any support thereto. The Reichsbank had on the contrary taken advantage of the liquidity of the money market to reduce its holdings of securities. The larger portion of Government paper now being sold, he remarked, consisted of three months bills at an interest rate of 3 1/8 percent, and slightly higher rates of interest for five and six months bills.

END SECTION ONE.

KIRK.
Puhl said, with regard to increases in taxes, that despite stories in the press - reference: telegram of March 7, No. 577 from the Embassy - they had not yet made final decision as to their form and rate. The whole controversy had recently been resolved by Goering, who stated that the differences between the proponents of extreme increases and those who objected to further raising of the income tax rates should be settled by Funk, who is ill with a serious sinus infection at present.

It is interesting to note that Goering is apparently exercising authority in matters of taxes, since Goering and Funk are relatively conservative in their financial and monetary views as compared with certain officials of the Party, such as Reinhardt, who is State Secretary of Finance and the author of the "new plan", for financing by means of tax certificates, which plan has now been discontinued.

Puhl told me of the essentially conservative character of the economic views of Funk. While Funk is in favor of an increase in taxes, he said, Funk was rigidly opposed to what he called "Bolshevist" rates which would prevent private capital from action. Incidentally, I have learned from
from another source that the words "Bolshevist" and "Capitalist" were heatedly exchanged in taxation conferences between Funk and other officials of the Reich.

I asked Puhl whether an increase in Government borrowing and spending was the cause of the expansion of the Reichsbank's bill portfolio and note circulation during the past two months. He avoided answering my question. I have heard from another source that there has been a very substantial increase in Government borrowing over the earlier average monthly rate of 2 1/4 billion reichsmarks indicated in the debt statements for September, October and November. Reports of contacts in other departments of the Government that there are steadily increasing military expenditures support this information.

Puhl said with regard to the increase in note circulation of the Reichsbank for the last three months that this was due to a certain extent to the inclusion in the mark system of the former Polish territory and to the note circulation's diminished velocity. In the portions which have been annexed, he said, it had been necessary to issue a lot more marks than were needed to effect the exchange of dirty notes because cash was not circulating as rapidly as before in view of the war conditions. Large reserves of cash were also held by military units, which moved slowly; much greater cash reserves were being
held by both individuals and firms in order to be able to take immediate advantage of any unexpected chance to buy materials or goods. Puhl expressed his confidence in the solidity and efficiency of the present system of rationing and price controls, which he said represented a new development in management of monetary affairs; however, he very clearly indicated he was fearful lest the increasing pressure of excess buying power in the hands of the public should break through these controls. Because of the vivid memory of the 1923 inflation in Germany, the buying public of the country no longer had any "monetary discipline". He was keeping a daily watch of indices of this situation, he said.

Puhl told me in conclusion that the Reichsbank was working on studies as to future German and international monetary arrangements after the war is over. The present direction of the Bank held the view that the mark would have to be devalued and again become an international currency, and as soon as peace made such action possible, exchange control would have to be abolished. However, until there was confidence on the part of the public in a stable peace, this could not take place. It might be essential, even then, to continue the moratorium on debts and the standstill arrangements for a time. It would of course
course be necessary that gold be lent to Germany to bolster the confidence of the public in the currency and to act as a cushion if, as would probably be the case, the new parities which the governments selected should prove to be incorrect in view of unforeseen developments in the post-war economic situation. Puhl thought that after peace is declared the international monetary arrangements should be concluded as quickly as possible. He believed that such arrangements could for the most part be worked out at meetings of heads of central banks at the BIS, which the Reichsbank, he said, was giving its full support.

END OF MESSAGE.

KIRK.
Mr. Irigoyen, Financial Counselor of the Argentine Embassy, called on me yesterday afternoon. Mr. Irigoyen has spent the last several months in Argentina, and only recently returned to the United States. We had a general discussion of monetary problems.

Irigoyen mentioned that a credit which Argentina has from Swiss and Dutch bankers will mature in May. The Bank of the Netherlands is not agreeable to a renewal of the Dutch share. Negotiations are still being carried on with the Swiss bankers in regard to renewing their portion. In the meantime Mr. Irigoyen is endeavoring to learn whether he could raise in New York the ten or fifteen million dollars necessary to pay off this credit. So far, I believe he has found a rather cool reception to the idea among New York bankers. He will be quite unhappy if it is his task to report to his Government that it is impossible in this country, notwithstanding the plethora of funds, to raise the comparatively small sum required. He commented upon the limited resources of the Export-Import Bank.

Irigoyen spoke to me of Argentina's trade with Great Britain. This is now done principally under a clearing agreement. Since the trade balance is favorable to Argentina, there is an accumulation of sterling in Argentina's favor. The British agree to convert this at a fixed rate into gold, but the gold must be retained in London. The rate, I believe, is based on dollar exchange. While this permits trade to continue between Argentina and Great Britain on an active scale, Argentina may find her cash importantly frozen if the gold balances in London grow actively. There would then arise the question of having enough dollar exchange to pay for Argentina's normal purchases on the United States market. There might also develop a situation where-in the Argentine Government would be short of pesos for internal expenditures, particularly if the process should be followed very far of Argentina repatriating bonds issued in London and of taking over British investments in Argentina in payment for exports. There has been some talk of Argentina acquiring the British owned railways in that country. Irigoyen is against this plan since it would involve a continuing drain upon the Government to provide the foreign exchange necessary to buy equipment, etc., for the railway. He thought it more likely that the Government might acquire power plants and similar utilities now British owned. Irigoyen is obviously interested to know whether any financial assistance could be expected from the United States if, as a result of the above described circumstances, Argentina should require dollars.

Irigoyen stated that Argentina's export trade in meat, hides and wool is now good, with prices remunerative. There is more concern about the export market for corn. During the last war much of this was shipped to central
Europe, which market is now closed. There is no acute wheat problem, since the last wheat crop in Argentina was so poor.

Irigoyen does not seem concerned over the outlook for sterling, since he feels that British prestige and requirements for foreign materials demand that the official rate be maintained. He was also of the opinion that the recent depreciation in the unofficial sterling rate will probably not be used extensively in fostering Argentine exports competitively.

When Irigoyen spoke of their dollar needs, I reminded him that during recent months his central bank had acquired important amounts of gold from us against dollars, which they are still holding under earmark in New York. Mr. Irigoyen admitted that there was no immediate need for dollars, but thought that it might possibly develop within the next two years.
RE SAVINGS BONDS

March 14, 1940.
11:30 a.m.

Present: Mr. Bell
Mr. Sloan
Mr. Kilby
Mr. Broughton

Bell: Shall we go ahead on this for a moment?

H.M. Jr: Sure.

Bell: A few days ago you asked me to get you a statement as to the monthly expenses of the Savings Bonds Division, how much was being spent on promotion from sales. We can't very well break that down by months or that wouldn't mean anything if we broke it down by months, because on their publicity end they spent so much of their money in the first part of the year and the material they get lasts throughout the year, but this is the figure here that they are allowed for printing and binding, which is largely their publicity. They are allowed $248,000 for the year and up to January 31, they had spent $228,000 or obligated it, which means that they have got material in that will last them through until June. That is right, isn't it?

Sloan: That is right, yes, sir.

Bell: And last year we started talking about changing the rates on Savings bonds and then the war came along and we had a discussion along early in October and we decided there wasn't anything to be done about it because the spread between the yields on the long Governments and the savings had narrowed from the spread that it was from June until about August, so we determined either late in September or early in October that we weren't going to make any changes in the Savings bonds. Mr. Sloan's division got busy on the new publicity and they devised this little circular which is now just coming off the press and hasn't been distributed yet.

H.M. Jr: I never had seen it. I think it is beautiful.
Bell: It really is a nice job.

H.M.Jr: Incidentally, Sloan, get together for me a collection of every piece of promotion from the beginning to end. We may have it. Check with Miss Chauncey whether we have it or not, but if not, I would like to have a regular complete set of all promotional matter that went out in the mail from the beginning.

Broughton: You had better have our circular, too, hadn't you?

Bell: I think you have got them in a nice file, but I think it would be nice to put them in a book.

H.M.Jr: Now, this is in process?

Bell: This is being delivered. None of them have been delivered to the public.

Sloan: None are being released until we get a release from you, sir.

H.M.Jr: How many of these have you ordered?

Sloan: About four or five million to take care of us until the end of the fiscal year.

H.M.Jr: Let's just actually table this for a minute. We have ordered it and we have got to use it.

Bell: You may be able to use it, even though you can make some changes.

Sloan: We were careful in putting no detail in there. We thought we were protecting ourselves.

Bell: In considering the changes that could be made, we have divided them into three classes. Two of them would be a change in regulations and one under that would be a change in regulation that we could make effective April 1, which would be pretty quick action. The other one would be possibly July 1, which would take a little longer, and under the one we could make effective April 1, would be to restrict the sale to individuals in their own right, eliminating all sales to banks, corporations, fiduciaries and trust companies, and the like,
and we think that might cut down the total sales by some place between 20 and 25 percent.

Sloan: Based on the results we have been having.

Bell: Yes. And there is another one under that which would restrict the amount that may be issued in the aggregate, say to 30,000 or 24,000, but we have no legal opinion on that. We are not so sure and we think administratively it would be very difficult to enforce, because our records are not such that we could --

Sloan: They are filed by series and it would take a long time to --

H.E.Jr: Supposing tomorrow - supposing today we decided, and tomorrow being the 15th, I got the President's approval to cut this thing down, keeping it to individuals, you see.

Sloan: Yes, sir.

H.E.Jr: Tomorrow is the 15th. Could you reach every post office by the end of the month?

Sloan: Yes, sir. We will have the notice in the hands of every sales agent and have time to cover on it.

Broughton: When you restricted trusts, we could get notice to post offices.

Bell: We changed the regulations in January to cut out those pension funds and that went out within five or six days and was in the hands of everybody, wasn't it?

Sloan: Yes, we can do it all right.

Broughton: They can do it by telegraph to the distant places and by letter to the nearer places.

H.E.Jr: That would give you - say, tomorrow, it gives you two weeks.
Kilby: Plenty of time.

Broughton: It would take two or three days to get the regulations through counsel, and so forth, and we would have it by the first of April without any difficulty at all.

Bell: And this group here recommends that change.

H.M.Jr: They do?

Sloan: Yes.

Bell: As a matter of fact, we think it should have been done a long time ago.

H.M.Jr: You do recommend it?

Bell: Yes. They do.

Broughton: Mr. Secretary, we have also discussed with respect to the sale in one name only without a beneficiary or a co-owner, but the set-up in the beginning has put emphasis on those.

H.M.Jr: I think it would be bad.

Bell: We don't recommend it.

Sloan: Another thing, Mr. Secretary, that Mr. Broughton pointed out, probably to search down the person that was entitled to payment in the event of death would cost us as much administratively as it would to carry the registrations the way they are now.

H.M.Jr: You people are all in favor of cutting these other things out?

Sloan: Yes, sir.

H.M.Jr: Well, I think - have you got a letter prepared along those lines?

Bell: We have a letter here prepared and I will show it to you a little later.

H.M.Jr: Well, that will do 20 or 25 percent?
Sloan: That is what we estimate.
Bell: I agree with that.
H.M.Jr: I think we ought to do that and that is a movement in the right direction.
Broughton: Mr. Bell, before you go ahead to that next item, you might mention that second small item about restricting sales to residents of the United States.
Bell: Oh, yes. In connection with that, we think it would be a good thing if we restrict the sale of these bonds to residents of the United States, the Philippines, Hawaii and the Canal Zone.
H.M.Jr: Who is buying them now?
Sloan: Very few abroad, but there were times last fall just before the war broke out - they came in for about six million dollars.
H.M.Jr: Aliens?
Sloan: Yes. It doesn't amount to anything, but the threat is always there. We would like to get rid of the threat.
H.M.Jr: Well, cut that out. What else?
Bell: If you want to go further and change the terms of the bonds, such as the rate, the step-ups and lengthen the maturity or what-not, that is going to take a little more time, because you have got to change all your forms, you have got to reprint your bonds, then we had in about 16,000 offices at the present time bonds which cost somewhere in the neighborhood of two or three hundred thousand dollars to reproduce.
Broughton: Well, the stock where the agents now are would cost between fifty and sixty thousand to reproduce.
Bell: Then there was another expense there that was involved.
H.M. Jr: Well, Doc, I think if you and these gentlemen agree, I would like to make this move for 20-25% reduction and then get the public reaction and meet in a couple of weeks again and see what happens.

Sloan: And that way, Mr. Secretary, we can continue to use that book and the only thing we will have a loss on is a few order forms that have been printed where we will have to eliminate the other forms of registration. We can get them out quickly.

H.M. Jr: You can use this book?
Sloan: Yes, that wouldn't hurt the book at all.

H.M. Jr: How much investment have you got in that book?
Sloan: It is about a hundred thousand dollars. The only statement made in there is the ten-year term and the element of yield. As long as that isn't disturbed, it is all right.

H.M. Jr: When would these normally begin to be mailed?
Sloan: They would be going out tomorrow. Half a million of them a day would start to come in right away.

H.M. Jr: I would wait until I had a chance to see the President.
Sloan: Yes, sir, and then we will just re-order forms.

Bell: Another day or two won't hurt.
Sloan: We will hold it up until we write a letter and get a new order form with it.

H.M. Jr: This isn't the way it goes out, is it? That is a dummy, isn't it?
Sloan: Yes, sir.

Bell: I think we ought to bear in mind in our discussion of the Savings bond program that if we are going to change the terms of the bond,
we ought to have at least three months.

H.M.Jr: I agree on that. You might shade it a couple of weeks - if we decided in the middle of April to do it the first of July, that would be all right, wouldn't it?

Sloan: They can print the bonds. The Bureau of Printing and Engraving, I don't know about them.

H.M.Jr: I wouldn't have any more bonds printed for a while.

Bell: We ought to have time, anyhow, to use up that stock that is in there.

H.M.Jr: Well, two and a half months. You might have ten thousand dollars worth of stock.

Bell: In that time, yes.

H.M.Jr: You might get stuck for ten thousand dollars worth of stock if you had two and a half months.

Sloan: We can use those. We always have re-issues afterward.

Kilby: Twenty thousand dollars worth would be a normal amount to expect to lose on a change-over, anyway.

H.M.Jr: It is this thing here. That is a hundred thousand dollars worth of stuff.

Bell: Yes, that would be destroyed if we changed the rate.

H.M.Jr: I think he would be satisfied with that.

Bell: Well now, this memorandum to the President which is in response to those two, he didn't ask for a memorandum. He asked you to speak to him. One of them - one of them was prepared by Eccles and the other was prepared by Currie. This memorandum was intended to
be in reply to those. What I said in the last paragraph was, I am still studying the matter and hope to have a decision within the next few days as to what regulations will be changed on April 1. That can be changed to say I have decided, if you want to. We have told him the history, that we have had this thing under consideration.

H.M.Jr: May I see that?
Bell: Surely. You should read it if you have time.
H.M.Jr: I have time. Well, I think I would go on and say, "I have decided to do it."
Bell: That we will continue to study the other phases of it.
H.M.Jr: That is right. I want to ask for an appointment for 9:30 tomorrow morning, so if I get it I could stop by here at 9:00 and pick it up.
Bell: Well, we can have it ready.
H.M.Jr: All right, will you proceed to change the regulations, then?
Broughton: Yes. We won't lose any time on it, on those two things.
Sloan: We will plan to make them effective the first of April.
H.M.Jr: That is right. That is a good day, that is a Monday. You see, if I give you clearance, you are going to have two full weeks to work on it.
Bell: That is plenty of time.
H.M.Jr: You will have two full weeks to get out your stuff, which ought to be plenty.
Kilby: I would like to have that much on financing some time.
The foreign exchange market was quieter today and the reported sterling turnover was considerably smaller than that which prevailed during the earlier part of this week. In contrast to the wide fluctuations which took place in the sterling rate during the past few days, the quotation moved within a much narrower range today. As shown in the turnover figures below, offerings of sterling were about evenly balanced by orders to purchase. In Amsterdam, sterling reached 3.69-5/16, its lowest point since the current decline began. After opening at 3.71 in New York, the rate moved off gradually to 3.70 just before noontime, then returned to 3.70-1/2, where it remained until mid-afternoon. Just before the close, a firmer tendency appeared and the final quotation was 3.71.

Sales of spot sterling by the six reporting banks totaled £533,000, from the following sources:

- By commercial concerns: £137,000
- By foreign banks (Europe, South America and Far East): £396,000
- Total: £533,000

Purchases of spot sterling amounted to £554,000, as indicated below:

- By commercial concerns: £310,000
- By foreign banks (Europe and Far East): £244,000
- Total: £554,000

The forward quotations for sterling were quoted at a discount of 7/8¢ and 3¢ per pound for one-month and three-months deliveries respectively.

The National City Bank reported that it had sold cotton bills totaling £9,000 to the British Control on the basis of the official rate of 4.02-1/2.

Further improvement was registered in the rate for the belga, which rose today to a high of .1702 at noontime. It closed at .1698.

The other important currencies closed as follows:

- French francs: .0210-1/4
- Guilders: .5311
- Swiss francs: .2242
- Canadian dollars: 18-3/8% discount

The discount for the Cuban peso widened further to 10-3/16%. The Mexican peso was unchanged at .1672.
We sold $100,000 in gold to the National Bank of Belgium, to be added to its earmarked account.

The Federal Reserve Bank of New York reported that the following shipments of gold were being made to it by the banks indicated below:

- $7,500,000 from Italy, shipped by the Bank of Italy for its own account, for sale to the U.S. Assay Office.
- 1,665,000 from South Africa, shipped by the South African Reserve Bank, to be earmarked for account of the Netherlands Bank.
- $9,165,000 Total

The Bombay silver quotation worked out to the equivalent of 40.51¢, off 1/16¢.

In London, the spot and forward silver prices were both fixed at 20-15/16¢, up 1/4¢. The U.S. equivalents were 34.30¢ and 34.61¢.

Hendy and Harman's price for foreign silver was unchanged at 34-3/4¢, and the Treasury's price was also unchanged at 35¢.

We made ten purchases of silver totaling 1,293,000 ounces under the Silver Purchase Act. Of this amount 750,000 ounces represented sales from inventory and 16,000 ounces were trading silver. The remaining 527,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 25,000 ounces of silver from the Bank of Canada under our regular monthly agreement.
Operator: Go ahead.

H.W., Jr.: Hello.

Congressman Snyder: Hello, Mr. Morgenthau?

H.W., Jr.: Talking.

S: Congressman Snyder of Pennsylvania, Chairman of the House Committee Appropriations for Army and National Defense.

H.W., Jr.: Right.

S: I want to see you about five minutes some time today.

H.W., Jr.: At your convenience, as long as it doesn't come at Cabinet time.

S: When's Cabinet time?

H.W., Jr.: Two to four.

S: Well suppose - what time do you go to lunch?

H.W., Jr.: Well, I go out around one o'clock.

S: Well I've got hearings, at ten, and running until twelve. Of course I'd break them up to see you but then -

H.W., Jr.: Could you do it after four?

S: After four o'clock?

H.W., Jr.: Yes.

S: Yes sir. Would that be better?

H.W., Jr: It would be better for me, if it's time enough for you.

S: Yes, that's all right.

H.W., Jr: What?

S: I'll be there then -

H.W., Jr: Well let's say - four-fifteen.
Four-fifteen?

H.V. Jr: Yes.

Thank you Mr. Morgenthau.

H.V. Jr: Thank you so much.

Yes sir.
March 15, 1940,
9:50 a.m.

Operator: Secretary Edison.
Secy. Edison: Yes.
E: Oh yes, hello Henry.
H.W. Jr: How are you?
E: Well I think I'll live.
H.W. Jr: Good. Did you - no indigestion from my lunch.
E: No what?
H.W. Jr: You've no indigestion?
E: Oh no, no, I can hand that one a good one.
H.W. Jr: Did you hear from Pa Watson?
E: Yes I did. He said that the President said that it was O. K. to release that six hundred thousand - yes - six hundred thousand pounds of powder to the British.
H.W. Jr: Yes.
E: Is that right?
H.W. Jr: That's right. I went over and saw Pa and explained it to him and then he said he'd call you and he saw the President.
E: All right. Well then we're all squared away again.
H.W. Jr: (laughs) Now I want to ask you if you'd do me a little favor.
E: Yes sir.
H.W. Jr: I wonder if you could get your naval attache in London to give me a little cable which the Treasury will be glad to pay for interpreting the significance
of this English-German-Italian coal business, see?

E: Yes, the naval attache in London.

H.V. Jr: Yes.

E: You want him to send you a cable.

H.V. Jr: Well send it to you for me, which we'll pay for.

E: Send it to me, giving his interpretation of the English-Italian-German coal agreements.

H.V. Jr: Yes.

E: I see. All right, we'll get that for you.

H.V. Jr: You know, I mean that no more German coal going by sea, you know.

E: Yes. I know.

H.V. Jr: And how are the Italians going to get the coal, and the whole business. I mean I don't care how many words he uses.

E: I see.

H.V. Jr: I'd like a detailed explanation of the significance of it.

E: All right sir.

H.V. Jr: And the Treasury will be glad to pay for it.

E: All right fine. I'll get that for you sir.

H.V. Jr: Thank you. Thank you.

E: Goodbye.

H.V. Jr: Goodbye.
March 15, 1940,
10:21 a.m.

H. W. Jr:
Senator Wagner:

Hello.

Hello.

What's the price of silver today Senator?

Hello Henry, how are you?

Well I've got a lot of silver for sale.

Have you? You're not buying. You're selling now are you?

Well I am now with your help and Key Pittman.

Say Henry, I'm damned sorry about the situation but, you're coming up aren't you, on Tuesday?

Why no.

Well the committee has asked me to ask you to come up. I told Barkley to do it but he hasn't done it yet, to tell you about it.

Well I saw in the paper, but I thought it was a misprint.

No it wasn't. Oh I said that we were going to have a representative at the Treasury Department and they said, "Why we wanted - we want to know where the Secretary stands and all that sort of business".

Well now look -

So both Barkley and I agreed to get in touch with you. I thought Barkley would do it because he started all this trouble. I thought I had it -

Now Bob.

Some way, but yet it's hard to handle.

On the night of the 21st, which is Thursday, I'm taking the family away for Easter, can't you postpone it until after that?

God, we're postponing it so often that they're hollering murder you know.

I know.
M: Between you and me I took a little leave myself over a couple of weeks.

H.N. Jr: I know. But supposing - couldn't they postpone it -

M: I don't think so although I tell you it'll be awfully hard to do Henry in view of the fact that we postponed it for a month now, and he's hollering for a vote, and the only thing that'll keep it in will be if, if we get something from the Administration -

H.N. Jr: Well how would this be. Supposing Harry White comes up Tuesday.

M: Yes.

H.N. Jr: And if they're not satisfied then you can send for me.

M: Well Henry, I'd like to say it's all right, but I know they're going to complain. They're going to say that I didn't really follow out the wishes of the committee. Let me talk - I'll get word to you later on.

H.N. Jr: I'll tell you what I'll do.

M: Let me talk it out a little.

H.N. Jr: Talk it out and -

M: You know what I'd like to do. I wouldn't like to have you come up at all, you know, because I don't see any sense in it, but here's this committee and they're all hollering.

H.N. Jr: Well I'll tell you this. If you want me I'll be there.

M: Yes.

H.N. Jr: If you can keep me from coming I'd appreciate it.

M: Well -

H.N. Jr: If you want me I'll be there.

M: Yes. Well I don't want you.
W: I know, but I mean -

H.M.Jr: Yes, oh they - all right.

W: If you can't wrangle it so that I can't be down, I'll be there.

H.M.Jr: Yes.

W: But I'll not put it down on my calendar until I hear from you again.

H.M.Jr: All right Henry.

W: How's that?

H.M.Jr: Yes.

W: Is that fair enough?

H.M.Jr: That's - oh well. Well you know what my feelings are? It's only that you can't always do what you want with these guys.

W: Well you know I went over -

H.M.Jr: That's a ticklish thing. Listen Henry -

W: I wish to hell the President would forget it and let it go, you know, but he won't and that's the end of that.

H.M.Jr: Well now we went over -

W: And I'm going to stand by him.

H.M.Jr: We went over to see Mr. Hull and Hull won't make any fight for this.

W: He won't. He told me so. He said he was going to leave it all in your hands. I called him up yesterday.

H.M.Jr: Well that's nice.

W: I said the committee would like to get his views. He said, "I have no views I'm leaving it all in the hands of Henry Morgenthau".

W: Yes, well that's it you know. I mean every fellow should take a little, take his share but too many Presidential candidates around now.

H.W. Jr: Couldn't - just let me drop this in your mind.

W: Yes.

H.W. Jr: Because I'm not running for anything except for -

W: Yes, I understand.

H.W. Jr: Now, Sheriff in Dutchess County, I do want that some day.

W: Well I've been wanting to be alderman in New York and I never got it, when they abolished it.

H.W. Jr: I see. Well anyway, I'll leave it in your good hands and I just wanted to -

W: Well Henry here's what - why I think that I can't change it because I, myself, said "At the next meeting we'll have a representative of the Secretary here" and they said "No, we don't want a representative we want the Secretary. We want somebody that speaks with authority." So there it is.

H.W. Jr: Well may I make one other suggestion?

W: Yes, certainly.

H.W. Jr: See, the day I come up, that you can't put Key Pittman on first.

W: Yes, well we'll try to do that.

H.W. Jr: See?

W: Yes. I don't see any objection to that.

H.W. Jr: Well now if you put Key on first.

W: Yes.

H.W. Jr: Muddy the waters so that nobody will know where we stand.
W: Yes.
H.M.Jr: See?
W: Yes. All right. I'll do that.
H.M.Jr: Put him on first. He'll talk his head off and I'll never get a chance.
W: All right. All right Henry.
H.M.Jr: How would that be?
W: All right, I'll do that.
H.M.Jr: Okey doke.
W: Yes.
H.M. Jr: Hello
Operator: Justice Douglas.
H.M. Jr: Hello
C: Go ahead.
H.M. Jr: Hello.
Justice Douglas: Hello Henry.
H.M. Jr: Well I just want to tell you Bill, I kept faith on the Bank of America.
D: Oh, I'd lost track of it.
H.M. Jr: Well they've agreed, with no - unconditional agreement - to put in thirty million dollars worth of capital.
D: Oh swell.
H.M. Jr: And they announced it yesterday.
D: Yes.
H.M. Jr: And last week, when they tried to put heat on me to only take this agreement subject to an agreement with SEC, I threw it out the window.
D: Swell.
H.M. Jr: And so I've written a letter this morning to Jones to put up the thirty million.
D: Yes.
H.M. Jr: And I understand as soon as that's in and subscribed, then SEC is going to go ahead.
D: Yes.
H.M. Jr: But the other day when they tried to get me to agree to this thing - subject to SEC coming to agreement, I told them I got a blood brother agreement with Bill Douglas.
D: (laughs) Well that's grand Henry.
H.W. Jr: I just wanted to let you know I kept it, and the SEC knows it.
D: Yes.
H.W. Jr: Because they put the heat on them and they would have been sunk.
D: Yes.
H.W. Jr: If I had taken an agreement subject to their settlement with SEC.
D: Yes.
H.W. Jr: Which I refused to do, last Friday.
D: That's grand of you.
H.W. Jr: And our end of the story is true and I think that once Jones puts the money in, then it's up to the SEC to go ahead.
D: Sure. Well that's grand of you Henry.
H.W. Jr: Well I started this.
D: Perfectly swell.
H.W. Jr: It's the biggest financial fight that's taken place in Washington.
D: Yes, that's right.
H.W. Jr: It's the biggest one.
D: You betcha.
H.W. Jr: O.K.
H.W. Jr: Goodbye.
D: Goodbye.
March 15, 1940,
11:35 a.m.

Operator: Captain Collins. Go ahead.
Captain Collins: Good morning sir.
C: This is Collins.
H.W. Jr: Yes Mr. Collins. Go ahead, Morgenthau talking.
C: Yes sir. Mr. Secretary, yesterday afternoon I wanted to just pass along one piece of information which I'm passing along by a memorandum later on today as soon as I can get it out of here. At the meeting yesterday why they told their program pretty much along the lines it was told in your office, the French. After the meeting I had a talk with Towers, Chief of Aeronautics, as you know, Admiral Towers.

H.W. Jr: Yes I know him.
C: And he's very — was very favorably impressed with it, and he said that he saw no reason why they should not be given access to any plans or specifications for any model existent or proposed as far as the Navy was going and he was agreeable to that.

H.W. Jr: Good.
C: We talked for probably half hour or so on it. He saw Stark last night and then also Secretary Edison phoned me at the house last evening and said that they had agreed thoroughly to letting these people have access to all plans and specifications of any models that they could use.

C: So that's the Navy end of it. The Army end of it I think will be entirely different.

H.W. Jr: I see.
C: It was so indicated in their line of questioning yesterday.

H.V. Jr: Well -

C: That will be tied in with the meeting we had yesterday morning which I think will probably be pursued a little further tomorrow.

H.V. Jr: I see. Well Woodring was here, as you know for lunch.

C: Yes sir.

H.V. Jr: And he's coming back Tuesday morning with Edison.

C: Yes sir.

H.V. Jr: And I think he'll have some kind of a proposal at that time.

C: Well I may have it for you Monday.

H.V. Jr: I see. Now what happened to Purvis. Has he left town?

C: He went back on the five o'clock and I talked with him last evening in New York and told him the good news and he is sending down Jacquin plus an Englishman due in New York today. They are expected here tomorrow morning and I told him that I would see that they were properly presented to Towers.

H.V. Jr: Well what they can do is, I mean if the Army doesn't come across, they could get a look at the Navy stuff can't they?

C: Oh that's what they're going to do.

H.V. Jr: What?

C: That's what I want them to do.

H.V. Jr: They can begin to look -

C: Right away. Right away.
H.W. Jr: If the Navy sets the precedent it's going to be awfully hard for the Army.

C: Very hard indeed.

H.W. Jr: What?

C: Very hard indeed.

H.W. Jr: Yes. Well I think that's - wasn't Purvis pleased?

C: Oh he was tickled to death when I phoned him last evening.

H.W. Jr: Good. Now I finally got that damned six hundred thousand powder thing cleaned up.

C: Yes sir.

H.W. Jr: I had to go over and see Watson. He saw the President. The President ordered it to be done and I spoke to Edison this morning, so they're going to release it. Now I wonder if Purvis knows that.

C: No he doesn't.

H.W. Jr: He doesn't.

C: He doesn't know, because he spoke to me again last night and I told him that I had been talking with you just shortly before we'd gone into a session before our fellows saw him yesterday.

H.W. Jr: It's all clean and that Navy powder which is on order from Dupont, isn't it?

C: That's right.

H.W. Jr: Well it's his

C: All right fine.

H.W. Jr: So you let him know that.

C: I'll do that and then also, what about the million two for the War Department?

H.W. Jr: That's all released.
C: All right, fine.
H.V.Jr: What?
C: All right, fine.
H.V.Jr: And if he has any trouble, if there's any trouble on it let me know, but gosh it's been so hard to get that and tell him that.
C: Yes sir. Oh, I told him that yesterday. I didn't tell him why but I told him that there had been extremely great difficulties put in your path in connection with this deal and that you were personally handling it and I had talked with you about it, and you told me that you were personally handling it.
H.V.Jr: It's all clear and he ought to be able to get that million two and six, he ought to get it at once. There's no more difficulties there and if there are let us know.
C: Well then I think if he just simply applied to the Companies immediately for that -
H.V.Jr: At once.
C: At once. I'll tell him that.
H.V.Jr: At once.
C: Goodbye.
H.V.Jr: Goodbye.
C: Thank you.
March 15, 1940.
11:55 a.m.

Operator:
Ed.
Foley:
F
M.V.Jr:
F
M.V.Jr:
F
M.V.Jr:
F

Mr. Foley.
Yes, Mr. Secretary.
Did Cushing say anything after he left here?
No.
I just wondered.
No. He just said, as we walked down the hall, that he hoped if there were any criticisms or suggestions that we had from examinations in the future that we could discuss the matter with the people in the bank and not get it in the record making stage again, because he thought that harmonious relationships could be continued on that basis.
I don't think it did any harm to say that.
Oh I think it was very good, Mr. Secretary, and I think he went away with a lot better taste in his mouth.
O.K.
Thank you sir.
EN INDIANA INVESTIGATIONS

Present:
Mr. Graves
Mr. Helvering
Mr. Irey
Mrs. Klotz
Mr. Thompson
Mr. Cairns

M.M.Jr: At your service, gentlemen.

Helvering: Well, I don't know just - I suppose maybe we could discuss a little farther about --


Helvering: Yes. First, I want to say that in the memorandum Mr. Irey wrote you and enclosed was a copy of Sullivan's statement --

M.M.Jr: Yes.

Helvering: I want you to understand Irey didn't do that voluntarily of his own accord. He thought it would be well for you to see it and I okayed that.

M.M.Jr: Yes.

Helvering: I am approaching this from an entirely different angle from what seems to be the approach of the attorneys. I am approaching it from an angle of securing evidence. They seem to approach it from the angle of having enough evidence to secure a conviction. In all our practice over here and in other cases, the orders have been issued, the testimony secured and the day after it was done it was all over with. This may take on a significance that we ought to be more careful about, that is true, but when I read the testimony, the fact that Mr. Elder had submitted a statement of the books of the Hoosier Democratic Club showing so much money going to the State Democratic Committee, the Democratic Committee's books not showing it, then he admits that he didn't give it to them, that he took it himself in cash and we have got photostatic copies of the checks he cashed and those are ranging to $250 to several $10,000 checks. I think it is inconceivable for a man to handle that much in one check, cash, and not be able to tell a thing about what became of it.
Therefore, I say, in my opinion, his answer that it was given for the general benefit of the Democratic Party or good purposes, is exceedingly vague and I think proper grounds for an order. Now, evidently the Attorney General and Mr. Foley disagree with that premise. They want more --

H.M.Jr: Well, as I understand it, and mind you, I handle a lot of these things every day just the way you do - you men have got to check my memory. I read Bob Jackson's letter only once and as I read the letter it was a very carefully written letter, and you check my memory, and the letter said that he didn't think as the matter stood we had enough evidence, but if we wanted him to go ahead, he would. Now, wasn't that about the purport of the letter?

Selvering: Yes, and it had other additional facts.

H.M.Jr: But wasn't that about what he said? Am I right?

Graves: That is right.

H.M.Jr: I only read it once. It was a very short letter, as I remember it.

Selvering: Yes, it was.

Graves: He said, "In concluding, if, after consideration of the foregoing, your Department feels that your investigation might be furthered by the filing of the petition and you so advise, this Department is willing to take that action and to cooperate with you to the fullest extent possible."

H.M.Jr: I love to check my memory. It is fun to just check it.

Klotz: It is wonderful.

H.M.Jr: Now look, let's just for a minute talk personalities on this thing. Elmer is a sick man. We have been through tougher things than this. I don't consider this a particularly tough one. It is unpleasant to have a pipeline somewhere in the Treasury and every time we make a move, it is known and therefore it appears in the columns. It is a pipeline, definitely. There
is a leak somewhere which I don't know and some day it will turn up. Now, as to the personal side, Elmer is so wrought up about this thing that I think he ought to go down to Florida and do a little coordinating down there. Do you agree on that?

Helvering: Yes, I think so.

H.M.: Because this is no job for a sick man.

Helvering: No.

H.M.: And what I am ready to do any time you people are ready to talk, if you are ready today, you say you want a court order, I won't ask anybody except you two people. If you think it is ready for a court order, let me know and I will ask for one, and that answers it.

Helvering: I think there is a little preliminary work we want to do before that.

H.M.: Do you care to tell me?

Helvering: Yes. I think we ought to have a further analysis of this report for two purposes. One, to find out if there is anything in there that Mr. Sullivan has misrepresented and another is whether or not we have evidence sufficient to ask for this court order. I myself think any judge would say if a man has cash in the amount of $10,000 and said he doesn't remember or - it was just for the general good of the Democratic Party, I can't conceive of it.

H.M.: Let me get this thing straight. What does a court order accomplish? I am not familiar with that procedure. You are a lawyer, aren't you?

Helvering: Yes.


Helvering: At least, I passed through the stages at one time.

H.M.: Just what happens when we go through that process?
Helvering: The District Attorney advises the court that they haven't been able to secure from the witness an answer to the questions that they want answers to, that he is either evasive or in contempt, that is, contemptuous, as the lawyers call it, or refuses to answer. Now, we can't say that Elder refused to answer. We can say very distinctly that he was evasive. He wasn't contemptuous about it. He was very affable, as a matter of fact.

Helvering: Too affable.

Helvering: Yes, but gave us no information. I am of the opinion that if the court is advised that this man had $117,500 and which we have photostatic copies of the checks endorsed by him, on which he admits that he - a great many of them he got cashed - he doesn't remember some of them, $85,000, I think the figure is, in the other fund.

Helvering: Yes, but gave us no information. I am of the opinion that if the court is advised that this man had $117,500 and which we have photostatic copies of the checks endorsed by him, on which he admits that he - a great many of them he got cashed - he doesn't remember some of them, $85,000, I think the figure is, in the other fund.

Helvering: The slush fund?

Helvering: Yes.

Helvering: Which he also pocketed, as far as we know?

Helvering: Well, he doesn't explain where it went or for what purpose it was used. $238,000 there - no, not quite that much.

Graves: A little over two hundred.

Helvering: If that is presented to the court and if the court did request us as to why we want this order, all I think we would have to do in the world is to read the question and his answer.

Helvering: Well, there is another matter which maybe you (Graves) had better suggest to him now, about what we think is necessary here.

Graves: Mr. Helvering and I spent a long time this morning going over this thing and we concluded that we...
would like, ourselves, to make an analysis of the evidence in this case to see what we have got against each of these principal figures and what our investigation gives promise of getting in addition to what we have got. Now, that is something where we will need some help. Mr. Helvering and I can't take two tons of material and go over it ourselves, so we thought that we should have a lawyer to help us on that job, or two lawyers. You mentioned Sam Klaus yesterday. I thought perhaps you were joking, but you recognize yourself that - the need for people of that kind. The man that we think would be most useful is a man named Carpenter in the Penal Division of the Chief Counsel's Office in the Bureau of Internal Revenue. I say that because I have worked with him myself on these motion picture cases and other cases, the California --

Schenck?

And others and on the Annenberg case and I have seen the man work and I know he is capable and straightforward and quick, so Mr. Helvering quite agreed that he would be a serviceable man. He called Mr. Wenchel to inquire if Mr. Wenchel would be willing to loan that man to him - let's put it that way - to loan him to Mr. Helvering and Mr. Wenchel said he would have to get the clearance of Mr. Foley and Mr. Foley declined to give his approval to that loan of this lawyer.

Why?

Well, I think this is the reason. The man was one of the two lawyers who were sent to Indiana on this very case.

Yes?

And I think - I am speculating somewhat - but I think this lawyer, Carpenter is his name, was not in sympathy with Mr. Leming, who was the fellow who was in here before you in this objection, in proceeding with this court order,
and I think Mr. Foley had that reason. He gave a different reason to Mr. Helvering. I think you (Mr. Helvering) ought to tell Mr. Morgenthau that. Mr. Foley already called Mr. Helvering and talked with him about it.

Well, when I called Phil Wenchel I said I would like to have Mr. Carpenter detailed absolutely to me for a week or maybe more. He said, "Of course." He said, "Of course, I want to clear it with Foley." He called me back and said he would like to come down and see me and he came down and said he had talked to Foley and Foley didn't approve of it, but he would talk to me, so while Mr. Wenchel was in there, Foley called me, so while I did have an intimation from your talk yesterday and also from what Harold says, that we were just going into this and the whole thing would be decided by we three here, I did tell him, because I knew he would find out anyhow, that what I wanted Mr. Carpenter to do was to analyze the file and evidence in the Indiana case and I can read you now Mr. Foley's direct answer. I had my secretary take it down.

He said, "I might be put in a position of being responsible for what Carpenter does, not knowing what he is doing or what might develop. I would be uncomfortable about it. When you get a division of responsibility and cut across division lines, you have a bad situation in the organization. However, I will be glad to let you have Ben Leming."

Of course, that is rather contradictory in itself. I motioned my secretary to take this down. I then made it plain to him that I didn't want Carpenter in any other capacity except a full detail to me and reporting to me or such man as I designate. Of course, I didn't mention Harold in it at all. Well, he said he wouldn't feel like doing that.

Well, what I told Harold yesterday, and this goes, is that you and Harold can have anybody that you want.
Graves: I told Mr. Helvering that.

F.W. Jr: I am going to have Carpenter detailed to me. Foley isn't in town. Does it have to be Carpenter?

Graves: Carpenter is the very best man we can get our hands on. We want a quick job on this and he knows all about this.

F.W. Jr: You mean you think Foley ought to have a chance?

Klotz: Well, you want to have good feeling all around.

F.W. Jr: You won't have good feeling in this, Mrs. Klotz. It isn't going to be good.

Klotz: Well, I am all in sympathy with you (Helvering) and I agree with you a hundred percent —

F.W. Jr: He can talk to me tomorrow if he wants to about it. When do you want Carpenter?

Helvering: The first thing in the morning, if we can get him.

(Mr. Thompson entered the conference)

F.W. Jr: Norman, I have got a special case here and I want Mr. Helvering and Mr. Graves to handle it and I told them they could have anybody they want. They want a man by the name of Carpenter. For some reason or other which I don't know, Mr. Foley doesn't want them to have Carpenter. Foley is on his way to New York and I have asked the man to come in, whoever is acting. I will give Foley a chance to talk to me tomorrow. But I want Carpenter detailed to me, personally, you see. I want him - and detached - we will ask Foley to tell us why, to give us a reason before I do it, but I want him before I do it. I am coming in here tomorrow morning and I want Mr. Carpenter here at 10:30 tomorrow morning. We can send for him. And I want him attached to me and I will - he is working for me. Then I can do anything I want with him. Is that legal and proper?
Thompson: It surely is, absolutely.

(Mr. Cairns entered the conference)

H. M. Jr: Huntington, sit down and pull up a chair. I have given these two gentlemen a task to do for me and I told them they could have anybody they wanted in the Treasury. They want a lawyer by the name of Carpenter. I understand that Mr. Foley has some objections. Now, you get Foley when he gets to New York tonight, see, and tell him that if his objections are serious, he can talk to me in the morning. What I want is, I want Carpenter assigned to me personally and he is working for me personally, see.

Cairns: Yes.

H. M. Jr: Do you know about this?

Cairns: No.

H. M. Jr: Well, it is in connection with the Indiana cases.

Cairns: Yes.

H. M. Jr: Then I will assign him to do whatever work I want, but if - before we go through with it, Foley, if he wants to, can call me up tomorrow morning and tell me why, and I won't move until he has a chance to talk to me, but the proposal I make is, I want Carpenter assigned to me personally and what I am going to do with him then is assign him to Harold Graves.

Cairns: Well, if Ed has no objection when I talk to him, shall I just tell Mr. Graves and Carpenter?

H. M. Jr: That is it. As I understand it, he doesn't want the responsibility, and so forth. Well, I am releasing him of all responsibility but he is being assigned to me and Harold Graves, in his capacity as Assistant to the Secretary of the Treasury, is doing a special job for me and he needs legal - he needs a lawyer.
Cairns: Yes.
E.W. Jr: I don't want to go outside of the Treasury, so I want this fellow.
Cairns: I understand.
E.W. Jr: I am not going to rush Foley and if he wants his day in court, he can have his day in court on the phone with me tomorrow morning.
Cairns: I have it. And if he has no objection, I won't bother you any more, I will just tell Mr. Graves.
E.W. Jr: But I told Harold when he went into this job he could have anybody in the Treasury he wanted. For reasons I don't know, he has picked Carpenter. I don't even know what the fellow looks like. I can't have Harold doing this difficult task when he says he wants Carpenter - if there is some good reason and Foley wants to talk to me tomorrow, he can talk to me.
Cairns: I will make that clear to him.
E.W. Jr: And if you want to talk to Harold afterwards to get additional explanation, he will be available when he leaves this office.
Graves: I will come around.
E.W. Jr: If there is a good reason, my God, after these years that Foley has been in there, he will have his day in court.
Cairns: Of course.
E.W. Jr: But you talk the thing over with Harold. Is there any other lawyer you (Graves) want while I am at it?
Graves: No, not at the moment.
E.W. Jr: You just want this one lawyer?
Graves: For the time being.
E.W. Jr: The suggestion of Leming was made. He doesn't want Leming. I don't know why. He wants
Carpenter. All right, I told him as a bribe when he did this job, that whoever he wanted, he could have. Now, I am not going to fall down on him. See what there is to it, will you?

Cairns: Yes, indeed.

H.M.Jr: Just the same way as when I want "neutrality" I want you and I don't want somebody else.

Cairns: All right.

H.M.Jr: But I want to make it very, very clear if Foley has his doubts he can have his day in court over the telephone, but if Harold can sell you a bill of goods and you can sell it to Foley, don't come back, but if there are any doubts in Foley's mind, he talks to me tomorrow. Is that fair?

Cairns: Absolutely.

H.M.Jr: And Norman Thompson will draw up the papers and the man will be detached until further notice to me personally, not to the office—whatever the way is.

Thompson: Yes, sir, that is easy enough.

H.M.Jr: O. K.?

Cairns: Fine.

H.M.Jr: And you (Graves) go back and see this man afterwards.

How is neutrality, anyway? We are not too neutral, I hope, are we?

Cairns: Well, we just got a telegram from Norway that we are to be put in jail.

H.M.Jr: You and I both?

Cairns: You and Herbert and myself.

H.M.Jr: You supply the books and I will supply the food.
Cairns:

Fine.

Klotz:
The books he would recommend are too highbrow.

E.M.Jr.:

Oh, he has got some others.

Klotz:

I remember the last ones he recommended.

E.M.Jr.:

What else?

Graves:

I assume you intend that I am to stay with this case until we get to the end, either one way or the other.

E.M.Jr.:

That is right.

Graves:

And you mentioned Mr. Klaus.

E.M.Jr.:

I think Klaus is just going to trial out there. You had better not pick him up.

Graves:

I was just going to say again, if you were serious it would be entirely suitable to me.

E.M.Jr.:

No, you had better leave Klaus alone. Let me make another suggestion, with the exception of this man here who only makes one copy, don't write any more memoranda about this. When you want to see me, come over in this room and talk it over. Don't write any memoranda, because somewhere along the line, in all this memoranda stuff, somebody is getting it, so no more memoranda.

Salvering:

I won't.

E.M.Jr.:

See, and I am interested and I have got all the time that you gentlemen need. Now, supposing you get Carpenter tomorrow. When do you think you will be ready to see me again?

Graves:

I would guess before the middle of next week. Tomorrow is Saturday.

E.M.Jr.:

Remember, I am going away on the night of the 21st.

Klotz:

Thursday.
Graves: Yes, we will have the recommendation for you before that, won't we?

Helvering: Oh yes, yes.

H.M. Jr.: And you had better clean up whether Agent Sullivan is or isn't.

Graves: Yes, sir. I would like to say now that I have examined since last night this statement made by Bo Elder and the analysis or criticism of it by Sullivan, and while there are discrepancies between Sullivan's statement and the questions and answers things from Bo Elder, in my opinion there is nothing there for which anybody could attach any blame to Sullivan. There was no intention on his part to misrepresent or to deceive anyone with reference to any part of this business.

H.M. Jr.: But now, no more memoranda. Somewhere in these memoranda going around somebody is getting them. Between now and the 21st, Thursday night, you ought to be able to give me an answer.

Helvering: Yes.

H.M. Jr.: Who else do you want?

Graves: Well, I am not sure. I thought it best to stay away from Irey's people, not bring in any of Irey's people, that is, to help me. We have got to talk with Irey's people.

H.M. Jr.: All right.

Graves: Not that I myself have any lack of confidence in Irey's people, but I think perhaps it would look better if I just used other people than the people who have been in this picture.

Helvering: You will have to get certain information from Mr. Sullivan.

H.M. Jr.: And you and the Commissioner are going to do this thing together and it is just between the three of us and the only thing I wanted out of you, Norman, was an order and Harold will let you know.
Thompson: Do you want Carpenter to see you tomorrow?

M. W. Jr: No, the point is this. I can sense this thing. It is this old fight between the General Counsel's office and dividing the authority. Isn't that what it is?

Helvering: That is right.

M. W. Jr: Therefore, I cut across all lines and the fellow is assigned to me personally.

Thompson: Yes. All right.

(Mr. Thompson left the conference)

M. W. Jr: Isn't that what is the matter? So then I cut everything loose and I can pick up a lawyer and assign him to me personally and then lend him to this fellow. Is that right?

Helvering: Yes.

Graves: That is what we supposed when Mr. Helvering called and Mr. Wenchel said yes, just like that. There would be no question about it.

M. W. Jr: What will we do about Elmer?

Graves: I understood you wanted to tell him of your wish that he go away and take a rest.

Klotz: I thought he got that impression from you last night.

M. W. Jr: He did, but I want to tell him.

(Mr. Trey entered the conference)

Trey: Elmer, amongst your friends here, we think that this is a nice time of the year to do a little coordinating.

Trey: So I have been told.

M. W. Jr: And this is an order, see, and I don't want any argument.
Irey: Like you have, generally?

H.M. Jr: And so between Norman Thompson and Herbert Gaston, they will fix you up a nice coordinating order. I don't think he ought to go down to Florida, because Mr. J. Edgar Hoover has advertised that too much. I think somewhere around Biloxi. Haven't you got a job down there?

Irey: I can find one anywhere in the country.

H.M. Jr: I am perfectly serious about it. What is the next district west?

Irey: West of here?

H.M. Jr: No, what is the next district, the Mississippi district?

Irey: Houston, Texas.

H.M. Jr: There isn't anything down along Biloxi?

Irey: Nothing around Biloxi. There are plenty in New Orleans. There are plenty of places of the type you have in mind.

H.M. Jr: I wouldn't go to Miami.

Irey: All right. We are having a meeting there Tuesday.

Helvering: They are having a regular meeting at Miami Tuesday.

Irey: There is a pistol match they have been trying to get me to come to. Herbert Gaston and I have been talking about going to it.

H.M. Jr: You and Herbert Gaston fix it up and you get your papers fixed up and by the time you come back you will have some health and your friends will look after you.

Irey: Maybe a better disposition.

H.M. Jr: Your disposition is all right. This is simply because for years and years of hard work you
have earned a vacation, see, and your friends here, we here, will take care of the situation by the time you come back and it will be all right.

Irey: All right.

H.M.Jr: This is simply a vacation, because you need it for your health's sake and it has nothing to do with any cases pending. Get it?

Irey: Yes.

H.M.Jr: Because you need a vacation and we all think you need a vacation.

Irey: I appreciate that.

H.M.Jr: Guy, I am waiting to hear from you and when you are ready, you phone me.

Helvering: Do I understand we will have a meeting here Monday morning about this?

H.M.Jr: All meetings, all bets are off until I hear from you.

Helvering: All right.

H.M.Jr: This was before we decided that Elmer was to go south. When you are ready --

Helvering: I have a note to be in your office on Monday morning.

H.M.Jr: When you are ready, you communicate with me and then I will see you and Harold. But no more memoranda.
TO Secretary Morgenthau
FROM E. H. Foley, Jr.

DATE March 18, 1940

Attached is a memorandum containing the statute governing the
disclosure of income tax information and the penalties for its
violation.

In the absence of knowledge of information purposed to be
discussed with newspapermen, it is impossible to give you more specific
advice at this time.

E.H. F.

Attachment
1. The provision of law prohibiting the divulging or information concerning a person's income tax return is as follows:

"It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return, or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding $1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office or discharged from employment." (R. S. 3167, I. C. sec. 55(f) (1) underlining supplied).

2. Violation of this provision is a misdemeanor punishable by fine or imprisonment or both, and also by dismissal from office. The prosecution could be instituted either by the Attorney General or by the United States District Attorney in whose jurisdiction the offense might occur, or by a Grand Jury returning a true bill.
MEMORANDUM FOR THE SECRETARY:

Following is a summary of the record relative to the inquiry into the taxable status of the Hoosier Democratic Club:

(1) On November 7, 1938, Hon. James W. Morris, Assistant Attorney General, for the Attorney General, addressed a letter to the Commissioner of Internal Revenue, referring to him for appropriate action a communication which the Department of Justice had received from one George R. Jeffrey, relative to charges of possible tax evasion by the Hoosier Democratic Club.

(2) The Commissioner had himself received a similar letter direct from Jeffrey, and, on October 20, 1938, had, through the Chief of the Intelligence Unit, referred this matter for investigation to Mr. A. P. Madden, Special Agent in Charge, Chicago Division. Madden assigned the case for investigation to Special Agent E. H. Vaughn.

(3) During November, 1938, Special Agent Vaughn interviewed Bowman Elder, Treasurer of the Club, with a view to eliciting information necessary to a determination of the taxable status of the organization.

(4) On November 30, 1938, Elder addressed a communication to Special Agent Vaughn, giving certain information asked by Vaughn, and stating grounds upon which the Club claimed exemption from taxation.

(5) On December 2, 1938, Special Agent Vaughn transmitted Elder's communication to the Bureau of
Memorandum for the Secretary--2.

Internal Revenue at Washington with the request that on the basis of the facts submitted the Bureau make a ruling as to the taxable status of the Club.

(6) On January 13, 1939, the Bureau addressed a letter to the Club, calling upon it for certain supplemental information concerning the Club's activities and finances.

(7) On February 6, 1939, Elder, in response to this request, transmitted to the Bureau a sworn statement concerning the scope of the Club's activities, incorporating tabular statements of receipts and expenditures.

(8) Since that time, an investigation by officers of the Bureau of Internal Revenue has been proceeding, to secure accurate information regarding the Club's receipts and expenditures and to verify the statements made by Elder with a view to securing a tax-exempt status for the Club.

The pending investigation has developed, beyond a doubt, that the statements filed by Elder with the Bureau, under oath, were false and misleading. Moreover, Elder has consistently refused to disclose the information which is essential to a determination of the question raised by Jeffrey and subsequently referred to the Bureau by the Department of Justice, as above stated. The petition for a court order now under consideration is for the purpose of compelling Elder to supply this information.

GRAVES.
No. 2730

Subject: Pending Brazilian Banking Legislation.

ORIGINAL & THREE COPIES BY AIR MAIL — CONFIRMATION COPY BY STEAMER.

Strictly Confidential

Rio de Janeiro, March 15, 1940.

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

With reference to my despatch No. 2691 of March 9, 1940 concerning the status of foreign banks vis-à-vis the proposed new banking legislation in this country, I have the honor to report, for the Treasury Department also, that a member of my staff discussed this subject informally with Dr. Francisco Campos, the Minister of Justice, to whom the project of law has been referred for report. The Minister stated that the "proyecto" was on his desk but that as yet he had only given it superficial attention. He stated, however, that he had already informed the Minister of Finance of his opinion verbally on the general subject of foreign banks, namely that the Government should allow this matter to remain in status quo for an indefinite period. He added that he told the Minister of Finance that,
as time went on, it was becoming more evident every day that foreign capital was vital for Brazil's development and that every effort should be made to attract it and restore confidence and Brazil's credit abroad which has been shaky for so many years. He stated also that his final report on the banking law project to President Vargas would be along the above-mentioned lines. This attitude of the Minister of Justice has also been confirmed by Sr. Boucas, Secretary of the Technical Council on Economy and Finance, in a discussion of the subject today.

The Minister of Justice was also questioned concerning the proposed law covering corporations (sociedades anónimas) which is also in his hands for report. When asked whether there was any truth to the report that this law would make obligatory the control by Brazilians of all corporations in this country, he answered emphatically in the negative. He reiterated that it was high time for Brazil to recede from the antagonistic attitude toward foreign capital which has been prevalent in Government circles here as this policy was only serving to impede Brazil's progress.

Respectfully yours,
For the Ambassador

Ware Adams,
Second Secretary of Embassy.
PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 73

DATE: March 15, 1940

Although the Department has taken note of the comment with reference to Grade VIII which is contained in your telegram no. 97 of March 8, there is transmitted the following inquiry from the Foreign Bondholders Protective Council: Does Article IV of the decree-law obviate the possibility of any payments being made to State of Ceará bonds during the next four years? The Bondholders Council mentions the promotion of Bahía bonds through the June 28, 1934 decree which is mentioned in Article I.
To Secretary Morgenthau

From Mr. Cochran

At the suggestion of Commander Thompson, I received this morning at 10:30 Mr. Victor Velasquez, an attorney from Mexico City who had come to Washington with introductions from our Embassy officials, and who has been received by Mr. Daggan in the Department of State.

Mr. Velasquez is not in the Government but is a strong supporter of Senor Alaman, who is opposing the candidate of President Cardenas, likely to be Machado, in the presidential elections which are to take place July 7, 1940. Velasquez is not at all sure that Cardenas may not continue in office beyond his legal tenure, following the example of certain sister republics to the south. If the election contemplated by Mexican law takes place, Velasquez expects Machado to be the Cardenas candidate. If elected, however, Machado would have little power. It is the plan of Cardenas to take over the presidency of the powerful political organization which now embraces the workmen, peons and soldiers, and through this organization have a strangle hold on the Government. Velasquez said this organization is now under a radical leader from Vera Cruz, and that many of his lieutenants are communist refugees from Spain.

Velasquez is a Chupultepec graduate, cavalry, and is not of the Mexican popular front. He stressed the extent to which the present Government and its supporters play up American purchasing of Mexican silver. He stated that Mexicans could not understand why the United States should be buying Mexican silver at an excessively high price, except that it has been explained to them by the Government that the sympathetic Administration in the United States desired to support and perpetuate the Cardenas regime, and chose this manner of getting funds to their friends. Velasquez feels that if our purchase of Mexican silver should stop prior to July 7, the Mexican people would interpret this as a withdrawal of support by the American Government of the Cardenas regime. He is convinced that this would help tremendously in the election of a Government which would come into office with the intention of restoring order in Mexico and establishing respect for property rights, both domestic and foreign. Such a regime would welcome the influx of foreign capital as well as settlers.

I told Mr. Velasquez that the question of our continuing purchases of foreign silver must necessarily depend upon the decision which will probably be taken in Congress within the next few days. I mentioned specifically Senator Townsend's bill. I reminded him that the question of our purchasing foreign silver did not revolve solely about the point as to whether the Treasury requires more of this metal to back its currency. He realized various factors were involved. He hoped, however, that the Townsend bill would pass and he insisted that this would be to the benefit of Mexico, not only politically but
economically. He said that so long as we continue to pay a fictitious price for Mexican silver the foundation of Mexican money and economy will be unstable. He thinks it better that a normal silver situation be reverted to, even though this may result temporarily in a weakening of the Mexican peso. He emphasized the diversity of products of Mexico and realized that markets for copper and other Mexican exports might so improve during the war that this would be the ideal time for the transition of Mexican economy from the unstable silver basis to a firm and solid one.
TO Secretary Morgenthau

FROM Mr. Cochran

Captain Puleston told me this morning that the Secretary desired appointments for him with Messrs. Ashton-Gwatkin and Rist. I accordingly arranged through Mr. Pinesent for Mr. Ashton-Gwatkin to receive Captain Puleston at the British Embassy at 11:30 this forenoon.

I talked directly with Professor Rist at 11:25. I had not been able to find him earlier since he was at neither his hotel nor Embassy, but in the State Department. Since the Professor is leaving this afternoon for New York, he agreed to telephone Captain Puleston at once at the British Embassy to try to arrange for a 12:30 appointment today.

Professor Rist told me that he will be in New York at the Waldorf-Astoria until he returns to Washington for a dinner on Wednesday evening. He could be reached at the Waldorf or at the office of Mr. Purvis. He stated that he had a number of questions to take up with Purvis. He mentioned particularly his concern over what he considers enormous exports of copper which are now going to Russia. In answer to my inquiry, he stated that he was not accompanying Ashton-Gwatkin to Ottawa. He said the principal point to be discussed there by Ashton-Gwatkin will be that of a naval control base. Rist may later go to Ottawa with Ashton-Gwatkin when they are discussing economic problems.
Mr. Arthur Fisher, who stated that he is a lawyer from Chicago, presently stopping at the Hotel Martinique in Washington, called on me this afternoon. He stated that it had been suggested at the State Department that he see me in regard to the Treasury's attitude toward a proposition which he is working on. Mr. Fisher was not willing to disclose his principals, either in the United States or in China. He talked rather hazily of an idea for the sale of dollar securities directly to investors in this country, without the intermediation of underwriters. The securities would be issued by the Chinese Government and guaranteed by a bank, presumably in China. No amounts were mentioned. No indication was given as to whether revenues would be pledged on the bonds liquidated through exports from China to the United States.

I told the visitor that it was the Department of State which passed on the policy of foreign borrowing in the United States, and that the S.E.C. had formalities to be met. The visitor told me that he had already visited the S.E.C. and found that his idea was welcomed there. In the State Department he had seen Messrs. McKay, Adams, Feis, Livesey and Hiss. He has also talked with Mr. Whittmore, Vice President of the Export-Import Bank.

I told Mr. Fisher that the Treasury's contact on Chinese finances had been with Mr. Chen, and that we were aware that the Export-Import Bank was granting a new credit, following satisfactory experience with the credit already outstanding.

I told the visitor that the State Department had not consulted the Treasury Department on the proposition which he so vaguely outlined, and that I hesitated to mention the matter to the Secretary in the absence of some concrete information. I refused to indicate any Treasury position, except to say that our relations on official financial matters with Mr. Chen were entirely satisfactory. Mr. Fisher then remarked that he hoped the Treasury would not, in its conversations with Mr. Chen or the Chinese Embassy here, take any position vis-à-vis his proposition which might result in these officials cabling a report to China which might hurt chances for the success of his undertaking.

After the visitor left, I telephoned Mr. Livesey who confirmed that Fisher had called at the State Department but had not presented enough information to warrant any indication as to what the attitude of the State Department would be in the premises. Livesey thought this man was in the business for a profit, and he was a little astonished that anyone should be thinking of a new issue of Chinese bonds in the United States with present issues now in default and quoted so low.
PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro
NO.: 72
DATE: March 15, 1940

Due to the fact that the details of the Brazilian debt servicing decree of March 8 are not widely known, considerable uncertainty is reported in financial circles in this country regarding its actual effect. The text of the decree and of Aranha's letter, as cabled by you, have been sent to the Council by the Department. As yet no public statement with reference to the matter has been made by the Bondholders Council.

It would be of assistance if you could tell us exactly what coupons the Brazilian Government intends to service (Article III of the new decree-law) and what procedure will be set up in order to make the funds available in New York. When will the various paying agents of the individual loans receive instructions from the Government of Brazil?

HULL (HF)
After the meeting of the President's Liaison Committee yesterday afternoon I had a conversation with Admiral Towers in which the principle of releasing restricted aviation equipment materiel was discussed at length. He stated that, after the presentation which had been made of the Allied situation by M. Flevan, he realized thoroughly their desire for the latest aviation materiel; that he felt that there should be made available to the Allies all information concerning plans and specifications of any existing or proposed planes and engines; and that he was going to discuss this matter with the Chief of Operations upon his return to the Navy Department.

Last evening he called me at home and stated that he had discussed the matter with Admiral Stark, as well as with Secretary Edison, and that they both agreed with him. He asked me to transmit to the Anglo-French Purchasing Board the information that the Navy would be very happy to sit down with any technical representative or representatives they desire to send to Washington and discuss any aviation materiel in existence or in development which they felt might be of use to them in their proposed program.

I talked by phone with Mr. Purvis at New York and transmitted this information to him, and he advised me of his appreciation of the action taken by the Navy and stated that he would have a technician from the English and French Army in Washington tomorrow morning for consultation with representatives of the Bureau of Aeronautics of the Navy Department. I promised to put his representative in touch with Admiral Towers upon his arrival here tomorrow.

Chairman, President's Liaison Committee
In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Bridgeport Brass Company

On March 13, 1940, received a request for a closing agreement involving special facilities costing $107,600.00, provided the contractor is awarded a certain Navy contract.

Walter Kidde and Company

On March 14, 1940, received a letter from the Navy Department requesting that consideration be given to contractor's request for a closing agreement.

On March 15, 1940, conference were held, forenoon and afternoon, with contractor's representatives.
March 15, 1940.

REPORT FOR SECRETARY MORGENTHAU:

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(Signed) Guy T. Hackett
Commissioner.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: March 15, 1940, 7 p.m.
NO.: 348

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

This afternoon Pennachio of the Bank of Italy came to see me for a chat. The commercial and clearing agreement between Italy and France concluded recently (reference: telegram of March 7, No. 301 from the Embassy) he said had provided for a balanced import and export trade between the two countries which was estimated to reach 900,000,00 francs for the year. For the year 1937 exports to Italy from France totaled 531,000,000 francs, and for 1938 they were 485,000,000. In 1937 Italian exports to France totaled 571,000,000, and in 1938 they were 577,000,000.

Pennachio said that France had been "more reasonable" regarding agricultural products from Italy than had previously been the case, especially in lemons and oranges, and that Italian exports to France will include about 40 percent agricultural products. Important items of the remainder will be various textiles and hats - reference, telegram of February 8, No. 185 from the Embassy; the scope of this agreement does not include French armament purchases, although Pennachio intimated today that such purchases are not as great as had been the expectation. Under the agreement, payments are to be made at the official franc rate.
frate for the lira. Pennachio said he thought that the outcome of the agreement was satisfactory to both sides; he took part in the negotiations.

Pennachio remarked that he thought officials of the Bank of France were at heart somewhat concerned at the important drop during the last few days in the free market rate for sterling and the franc at New York, although the official attitude is one of indifference. He expressed the belief that there is no deliberate move to stimulate exports as a result.

It seems to be the feeling of American bankers here that as far as the franc itself has been a factor in the recent decline, rather than merely sterling's partner, the drop is due in part to the French Government's recent practice of feeding the free market supply of francs through insisting that imports from the United States be invoiced in francs; references: telegrams of February 14, No. 213 and February 20, No. 237, from the Embassy.

On exchange control, Pennachio is a firm believer in "going the whole way". He said that as time goes on the French will find a growing need to close all doors, as did the Italians, which would include a tighter prohibition on the export of French banknotes and prohibiting the import of such banknotes, which latter is not restricted at present. In the latter regard, his view is quite
different from that of Rueff and Tyler, who believe that a useful escape valve is offered by the importation of franc banknotes, and that it prevents a runaway market.

Pennachio went on to say that the rate on French banknotes in Switzerland is only slightly lower than that on checks, indicating a large supply of such notes, and a substantial traffic therein with France which is relatively unhampered. Of course, he said that in Belgium there formerly was a large supply of French banknotes which may in part account for the existing volume of traffic in bank notes rather (omission) and that new exports may not be the source.

As for the general French situation, Pennachio seemed to foresee no early difficulties. He said that the flow of subscriptions to armament bonds really impressed him, as well as the fact that the trend is upward in such subscriptions. As for the wages question, he has views similar to those of Ardant, i.e., that while in heavy industry they are more than adequate, in manufacturing and services which are not directly connected with the war and not operating full time, they are probably unduly low.

Pennachio said that he enjoyed his meeting with the BIS President, McKittrick and other officials of the Bank at Zurich recently — reference: telegram of February 14,
No. 213, from the Embassy - though he regretted the difficulties of operating in wartime. He said that the 1939 accounts must be approved and the BIS must hold its general meeting; this could be done, he said, without the presence of belligerent representatives by proxy but the proxy regulations under the statutes must first be sent around and the Board members must do this. He remarked that the main thing was to keep the Bank alive and adhere strictly to its statutes. He again expressed enthusiastic praise for the President, McKittrick.

The Paris securities market closed the week with an active and firm session. Advances in part due to favorable technical position of 3 to 5 percent were fairly general. The fortnightly settlement passed off easily. Rente issues were up fractionally the dollar exchange guarantee issue of 1937 rose 1.70 francs.

END OF MESSAGE.

MURPHY.
HSM

PLAIN
London
Dated March 15, 1940
Rec'd 12:15 p.m.

Secretary of State,
Washington.

655, March 15.
FOR TREASURY FROM BUTTERWORTH.
1. There is no official news on the result of the £300 million war loan but the general expectation is that it will be fully subscribed.

2. I gather that it was through the censorship that the British authorities first obtained evidence indicating that securities are being sold here on behalf of Germany contrary to the Trading with the Enemy Act. Such securities were no doubt obtained mainly from the Czechs and Poles. Despite the strongly worded warning to members of the stock exchange not to act on evidence of ownership from a neutral source which is not thoroughly well known to them it will be very difficult to prevent liquidation of bearer shares.

KENNEDY

WWC

Regraded Uclassified
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE March 16, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was very dull today. After opening in Amsterdam at 3.70-5/8, the rate for sterling strengthened to close at 3.73-3/16 in that market. In New York, the initial quotation was 3.72-1/4 and shortly thereafter it receded to 3.71-1/2. It then recovered to 3.73 and moved in a narrow range until about noontime when some small buying came into the market. The closing quotation was 3.73-1/2.

Sales of spot sterling by the six reporting banks totaled £296,000, from the following sources:

- By commercial concerns: £114,000
- By foreign banks (Far East, South America and Europe): £182,000
  Total: £296,000

Purchases of spot sterling amounted to £166,000, as indicated below:

- By commercial concerns: £40,000
- By foreign banks (Far East and Europe): £126,000
  Total: £166,000

The Guaranty Trust Co. reported that it sold cotton bales totaling £24,000 to the British Control on the basis of the official rate of 4.02-1/2.

The other important currencies closed as follows:

- French francs: 1921-3/4
- Guilders: 19312
- Swiss francs: 2242-1/2
- Belgas: 1699-1/2
- Canadian dollars: 18-1/8% discount

We purchased $24,000,000 in gold from the earmarked account of the Bank of Sweden.

The Federal Reserve Bank of New York received cables from the B.I.S. and the Netherlands Bank requesting it to apply for a license to transfer approximately 48,200 ounces of gold ($1,587,000) from B.I.S. Account #2 to the account of the Netherlands Bank at the Federal Reserve Bank of New York. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make this transfer.
The Federal Reserve Bank of New York reported the following gold shipments which will be sold to the U. S. Assay Office at New York:

$4,301,000 from Switzerland, shipped by the Swiss Bank Corporation, Zurich, to its New York office.


Total $4,551,000

The equivalent of the Bombay silver quotation was 40.25¢, off 1/4¢.

In a report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on March 13, such deposits totaled $41,163,000, an increase of $2,112,000 since the last report as of March 6. Of this amount, $27,990,000 represented deposits with the Yokohama Specie Bank by its branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was $79,017,000, a decrease of $6,034,000 since March 6.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro
NO.: 114
DATE: March 16, 1940

Reference is made to the Department's telegram no. 72 of March 15, 1940, noon.

For the purpose of discussing with the Minister of Finance the exact interpretation to be placed upon Article III of the decree-law, an official of the Finance Ministry is going to Pocos de Caldas by airplane this morning. I expect that by late afternoon on Monday I shall be able to send to the Department a full report on the question.

CAFFERY

EA:EB
Secretary of the Treasury Morgenthau announced last evening that additional amounts of 2-1/4 percent Treasury Bonds of 1951-53 have been allotted to Government investment accounts, bringing the total up to the full $100,000,000 reservation contained in the offering circular and his press release of December 12, 1939. The allotment of $73,006,000 of these bonds was announced in the press release of December 20, and since that time an additional $26,994,000 have been sold to the accounts.
TO: Secretary Morgenthau

I believe this attempted change of position on the part of the Navy will be of interest to you. The retreat is so rapid we might suggest changing their song from "Anchors Aweigh!" to "Anchors Away!"

From: MR. SULLIVAN
Memorandum of Vinson Act Conference

IT: P: CA
CAA


Place of meeting: Room 5234, Internal Revenue Building, Washington, D. C.

Time of meeting: 9:30 to 10:30 A.M., Saturday, March 16, 1940.

Present at meeting:

Treasury Interdepartmental Committee:
C. A. Appel and H. T. Reiling.

Navy Representatives:
Admiral I. E. Bass.
Commander Richardson
Mr. Warren McLaine.

This conference was held at the request of the Navy representatives. Such request arose from a telephone conversation on the afternoon of the 15th between Mr. Appel, Mr. McLaine and Commander McCann. Mr. Appel called Mr. McLaine and stated to him that the letter dated March 9, 1940 from the Secretary of the Navy in regard to the application of Walter Kidde and Company for a closing agreement did not follow the formula agreed upon as set out in Press Release 18-79 and did not contain all of the information material to the entering into of a closing agreement. Mr. McLaine said that he would refer Appel to Commander McCann who was at that time standing along side of him. Commander McCann asked what additional information the Treasury Department desired and Appel explained to him that it was desired to know whether the estimated cost of the facilities was considered reasonable by the Navy Department; whether, in the opinion of the Navy Department, the cost should be amortized against the product, and, if so, what was the percentage properly chargeable in the opinion of the Navy Department. Commander McCann said that he had looked back to the letter the Navy Department wrote in the case of the Consolidated Aircraft Corporation and he had thought in drafting the letter in regard to the Kidde Company's facilities that he had covered the matter. Appel assured him that not only was there a failure to follow the formula agreed upon but, in addition, the letter of March 9th failed to convey to the Treasury Department vital information which is obtainable nowhere but from
the Navy Department, that is, whether the purchase of the cylinders represented all of such product that will be purchased or whether there is a present prospect of additional purchases. Commander McCann stated that he would look into the matter at once. Later in the day, as stated above, the Navy phoned over, asking for a conference for Saturday morning and the request was granted.

Mr. McLaine opened the conference by stating it was not understood what further information the Treasury desired. In answer to this, it was explained that Press Release 18-79 is understood by the Treasury representatives of the Interdepartmental Committee to constitute a statement of what it should obtain from the Navy Department before entering into a closing agreement coming within the proposition that the closing agreement be entered into at the time the Navy contract is signed. It was pointed out that under the formula laid down in the Press Release the Navy has agreed to (1) certify its opinion concerning the proper percentage of cost to be allowed as a deduction, (2) certify that installation of the special facilities is necessary for the National Defense Program, and (3) that due to technical considerations such facilities will be partially or totally useless after completion of the contract. It was pointed out to Mr. McLaine that the Navy letter of March 9th does not make these statements in full. It was further explained to Mr. McLaine that there was one material consideration information as to which is only obtainable from the Navy Department and the letter of March 9th does not contain this information, that is, the prospect of further contracts from the Navy Department for the production of the article under consideration. Accompanying this memorandum is a copy showing the full text of the Navy letter of March 9, 1940, and it will be noted that it conveys very little information except that the facilities will be required to meet the proposed production, that the Navy is in urgent need of the cylinders, that Kidde is the only bidder, and the Navy requests that the Treasury Department give early consideration to the request of the company for a closing agreement.

Mr. McLaine stated that he had been under the impression that in some previous conference the formula had been modified by an agreement that the Navy would not be expected to certify as to the cost of the needed facilities and it would not be asked to state its opinion as to the percentage of the cost properly chargeable to the contract, and he understood that if the Treasury made its determination then the Navy Department would agree to it. In reply to this, the Treasury representatives stated that they did not have any present recollection of any such understanding.

Commander Richardson stated that he would be prepared to certify as to the machinery and equipment required for the contract but that as he was in the aeronautical branch he would not be equipped to certify as to the reasonableness of the proposed cost of the
building to be erected. Admiral Bass intervened at this moment to state to Commander Richardson that the Bureau of Construction and Repairs would be qualified to give an opinion relative to the building.

In general, the Navy representatives were advised that the Treasury Department is in need of their cooperation and help if these arrangements are to be made with the contractors; that it is the understanding of the Treasury Department that the Navy has frequent access to the manufacturing plants involved and, therefore, the first-hand information relative to their condition, capacity and all other relevant details. It was further stated that it was the understanding of the Treasury Department representatives that the proposition of making agreements with the contractors such as proposed by the Kidde Company was a matter of cooperation between the two Departments, in consideration of the fact that the whole formula was designed to assist the Navy Department in procuring needed supplies and equipment.

The conference closed with the understanding that the Navy will draft an additional letter to the Treasury, in which it will conform to the formula, as nearly as may be in consideration of the fact that the extra facilities have not yet been acquired by the contractor and the exact cost of them is not yet in evidence. The Navy representatives were advised that the Treasury representatives would go ahead with the case in the interim and there would be no delay due to waiting for the promised letter from the Navy, unless the letter was delayed, it being understood that complete action was to await receipt of such letter.

Comment by Reporter (Appel):

The above report, of course, contains merely a brief digest of the discussion lasting about an hour, but it is believed that it will be evident that the failure of the Navy to follow the formula was intentional. It was quite evident to the reporter that the Navy is exceedingly reluctant to assume a definite position in regard to such matters as the cost of additional equipment and the proportion thereof that should be charged to the contract. This reluctance appears to reside in having to definitely take a position before the Treasury Department has acted. It was regretted that to some extent the discussion had to involve the question of policy but it was unavoidable in order to endeavor to get over to the Navy representatives what the Treasury representatives believe they are required to do and the reason for it.
During the course of the discussion, Mr. McLaine said that it was regrettable that Press Release 18-79 had ever been issued. The Treasury representatives are in need of instructions from the office of the Secretary in regard to the matter of policy. It will, of course, be appreciated that if the formula is abandoned and the Navy Department merely makes a request that a determination be made by the Treasury Department and a closing agreement be entered into, entire responsibility for whatever action is taken will be shifted to the shoulders of the Treasury Department standing alone.
H.W. Jr: - anything about your lawyer.
Harold Graves: I've heard nothing.
H.W. Jr: You don't know whether you'll get him or not.
C: I don't know. I assumed that Mr. Foley wanted to talk with you because Mr. Cairns promised me that Mr. Foley - when he talked with him last night had no objection, he'd let me know first thing this morning, and I've heard nothing from him.
H.W. Jr: I'll ask him.
C: Yes. Yes sir.
H.W. Jr: You want to see me later though, don't you?
C: Well I am very anxious if this can be arranged, Mr. Morgenthau, to have this man this morning, because we have only a few days, and we want to work this afternoon and tomorrow.
H.W. Jr: I'll see what I can for you.
C: Yes, thank you very much.
March 16, 1940.
10:40 a.m.

Operator: Operator.
H.M.Jr: Huntington Cairns.
O: Right. Mr. Cairns.
Huntin gton Cairns: Hello.
H.M.Jr: Hello Huntington.
O: Yes.
H.M.Jr: Morgenthau.
O: Yes, Mr. Secretary.
H.M.Jr: How about that lawyer?
O: That's perfectly all right. I've told Norman and he's putting it right through. Ed wanted to make sure that you knew all about it and since you do why he's satisfied.
H.M.Jr: Well, know all about what?
O: That the lawyer was to be taken.
H.M.Jr: Yes.
O: So on.
H.M.Jr: But I mean Ed is satisfied.
O: Yes.
H.M.Jr: Well now, how can I get that lawyer over here?
O: I'll have him over here immediately.
H.M.Jr: Will you have him over and bring him to my office at eleven o'clock?
O: Yes indeed.
H.M.Jr: And introduce him to me please.
O: Yes indeed.
H.M.Jr: And have him here at eleven will you?
C: Yes, I'll do that. He'll be here at eleven.

M.M.Jr: Did Ed have any particular objection?

C: No, when I talked to him last night he said that he thought he would talk to you about it but he called me a few minutes ago and said that he decided that he would not.

M.M.Jr: I see. You don't know why, why he changed his mind?

C: Well he just didn't think it was important enough for him to register an objection.

M.M.Jr: O.K.

C: That's all.

M.M.Jr: Well let's go. Have him here at eleven.

C: I will.

M.M.Jr: Thank you.

C: Fine.
March 16, 1940.
11:30 a.m.

H.V. Jr: Hello.
Operator: All right.
H.V. Jr: Go ahead.
O: Go ahead.
H.V. Jr: Hello.
Congressman Snyder: Hello.
H.V. Jr: Hello Mr. Snyder.
S: Mr. Morgenthau?
H.V. Jr: Talking.
S: Yes. I just wanted to know if it would be convenient, next Tuesday morning, at nine o'clock,
H.V. Jr: Well here's the thing, that's the morning I'm supposed to go up and testify on silver.
S: Where at?
H.V. Jr: Before Senator Wagner's committee.
S: Oh!
H.V. Jr: See. I mean Senator Wagner has asked me to come at ten.
S: Well then, in the afternoon?
H.V. Jr: That'll be fine.
S: Well you can name an hour so I won't get tied up here.
H.V. Jr: Well, is three o'clock a good time?
S: Yes.
H.V. Jr: Is that a good time?
S: Yes.
H.V. Jr: What?
S: Yes, that'll be a good time Mr. Morgenthau.

H.W. Jr.: That isn't too late, I mean, you're not having any hearings?

S: No, well if I do, I'd dispense with them, you see.

H.W. Jr.: Well -

S: And I'll tell you the place to come, it'll be some particular place up around here.

H.W. Jr.: Some hide out.

S: Hide out, yes, very much so.

H.W. Jr.: Right.

S: All right.

H.W. Jr.: Well you let me know, I'll put it down for three o'clock.

S: You put it down for three o'clock and I'll let you know the place.

H.W. Jr.: On Tuesday.

S: On Tuesday next.

H.W. Jr.: Thank you.

S: Yes sir.

H.W. Jr.: And that question of that attorney is all in motion, and we'll have an answer for you by that - not later than Monday.

S: Well of course, as I said, there's a lot of agencies out there, and some in your own department there that don't want him.

H.W. Jr.: Well -

S: I know it's all right, so I put it up to you.

H.W. Jr.: Well I'll have an answer for you some time Monday.

S: Well, if I may suggest this to you, there's one
place that I wish you'd insist that that thing be done.

H.M. Jr: Well I have, but Mr. Foley is out of town, that's why there's a delay.

S: Oh I see, thank you.

H.M. Jr: If he was in town I could have had the answer now, but he left town to go up to a St. Patrick's dinner.

S: Hurrah for Pat.

H.M. Jr: And so I can't move until he gets back.

S: Well I thank you in advance.

H.M. Jr: There is some resistance against him, but I'll —

S: Well you know, Italian, see?

H.M. Jr: Italian?

S: An Italian.

H.M. Jr: Oh!

S: See?

H.M. Jr: Yes.

S: But then we've got twenty thousand Italians in my district, and we've got five Italian lawyers, and we've got the finest Italian people in the country, you know. Well you can't just discriminate.

H.M. Jr: Well —

S: Because he's an Italian.

H.M. Jr: Well I don't care whether he's Italian or Greek, he's a friend of yours and that's all I want to know.

S: Thank you. Well this is it, he's endorsed — we have four judges, one of them a Republican and three Democrats, in the county, and he's endorsed by the courts. That's enough.
H.M. Jr: Well just as long as he's a friend of yours, that's all that counts.
S: Thank you Mr. Morgenthau. Thank you very much.
H.M. Jr: Goodbye.
March 16, 1940.
11:30 a.m.

Operator: Operator.
G: Right. Yes.
G: Right. Here he is. Go ahead.
Harold Graves: Hello.
H. M. Jr: Harold?
G: Yes sir.
H. M. Jr: Huntington Cairns just heard a few minutes ago from Foley.
G: Yes.
H. M. Jr: Withdrawn his objections.
G: Oh, that's fine.
H. M. Jr: And the man will be here at my office at eleven. I'll introduce him.
G: Yes.
H. M. Jr: And if you'll be outside of my room and have Norman Thompson there too, at eleven.
G: We'll be there.
H. M. Jr: If you please.
G: Yes, thank you very much.
H. M. Jr: Is that fast enough?
G: I beg pardon.
H. M. Jr: Is that fast enough?
G: Oh that's, that's fine. That eases my mind a great deal. Thank you.
G: I'll be out there at eleven.
H.W. Jr: O.K.
DATE March 15, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

To relieve the Secretary from unnecessary reading, the practice will hereafter be followed of providing summaries of or excerpts from reports where the entire subject matter is not of interest, but where there are certain points to be noted. Only messages requiring action, or of very special interest in their entirety will be submitted to the Secretary.

Summary of Incoming Reports - March 15, 1940.

From Matthews, Paris, No 348, dated March 15, 1940.

Pennachio of Bank of Italy believes no deliberate move has been made by British or French to stimulate exports through lowering free market rate for sterling and franc at New York. Pennachio had met President of B.I.S. at Zurich recently. He said B.I.S. must hold its general meeting to approve 1939 accounts. This could be done, he said, without the presence of belligerent representatives by proxy, but the proxy regulations under the statutes must first be sent around to the board members. The B.I.S. annual meeting is ordinarily in May.

From Heath, Berlin, No 641, dated March 14, 1940.

Reporting a conversation with Puhl, the active head of the Reichsbank, Heath ended his message:

"Puhl told me in conclusion that the Reichsbank was working on studies as to future German and international monetary arrangements after the war is over. The present direction of the Bank held the view that the mark would have to be devalued and again become an international currency, and as soon as peace made such action possible, exchange control would have to be abolished. However, until there was confidence on the part of the public in a stable peace, this could not take place. It might be essential, even then, to continue the moratorium on debts and the standstill arrangements for a time. It would of course be necessary that gold be lent to Germany to bolster the confidence of the public in the currency and to act as a cushion if, as would probably be the case, the new parities which the governments selected should prove to be incorrect in view of unforeseen developments in the post-war economic situation. Puhl thought that after peace is declared the international monetary arrangements should be concluded as quickly as possible. He believed that such arrangements could for the most part be worked out at meetings of heads of central banks at the BIS, which the Reichsbank, he said, was giving its full support."
Official sales of British owned dollar securities under the vesting order effective February 19:

<table>
<thead>
<tr>
<th>No. of Shares Sold</th>
<th>$ Proceeds of Shares Sold</th>
<th>Nominal Value of Bonds Sold</th>
<th>$ Proceeds of Bonds Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>17,700</td>
<td>695,622</td>
<td>N11</td>
</tr>
<tr>
<td>12</td>
<td>19,400</td>
<td>804,734</td>
<td>N11</td>
</tr>
<tr>
<td>13</td>
<td>5,700</td>
<td>311,474</td>
<td>N11</td>
</tr>
<tr>
<td>14</td>
<td>20,300</td>
<td>676,714</td>
<td>N11</td>
</tr>
<tr>
<td>15</td>
<td>4,100</td>
<td>217,877</td>
<td>N11</td>
</tr>
<tr>
<td>16</td>
<td>1,100</td>
<td>13,540</td>
<td>N11</td>
</tr>
<tr>
<td><strong>TOTAL FOR WEEK</strong></td>
<td><strong>68,300</strong></td>
<td><strong>2,719,961</strong></td>
<td><strong>N11</strong></td>
</tr>
<tr>
<td>Sales from</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>February 22 to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March 9, incl.</td>
<td>172,890</td>
<td>6,573,366</td>
<td>N11</td>
</tr>
<tr>
<td><strong>TOTAL FEBRUARY 22</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to MARCH 15, INCL.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>241,190</td>
<td>9,293,327</td>
<td>N11</td>
<td>N11</td>
</tr>
</tbody>
</table>

Mr. Pinsent informed me that he had received from Mr. Gifford the report that sales of non-vested securities for the week ended March 9 totaled $4,000,000. Gifford thinks there is a lag of about one week between the figures which he received from London and those which we may be able to pick up on the New York market, that is, the figures gathered by the Securities and Exchange Commission.

Mr. Pinsent has again told me that Gifford is distributing his business in New York as widely as possible with a view to keeping good relations with the market.

At 11:30 this forenoon I telephoned Pinsent and read to him the letter from Mr. Frank in regard to our providing the Securities and Exchange Commission with the data which the British are giving us each day concerning security sales. Pinsent agreed that the original arrangement was that such figures could be given to Mr. Frank provided he met the secrecy requirements of the Secretary of the Treasury. I told Pinsent that I would draw up our letter as carefully as possible.
He reserved the right to communicate with us and to raise the question of this policy, if it should come to his attention that the press or market may have more knowledge in the future as to what is going on than it has had in the past, since the vesting order took place. Incidentally, Pinsent stated that he had already received one or two cablegrams from his people in London inquiring whether the information which the Federal Reserve Board has published on the matter of securities might possibly have contained some material provided this Government in confidence. Without even questioning the Treasury, Pinsent stated that he had assured his people that there had been absolutely no leak from the Treasury. He simply hopes that the Securities and Exchange Commission will guard the figures with much care, not only refraining from publishing these figures, but also refraining from utilizing them in any way to correct or supplement figures which they already publish.

Pinsent stated that discussions were now going on with the view to deciding whether a further vesting order should take place toward the end of this month. This would be not greater than the original order, but might possibly include some preferential shares and bonds in order that no particular type of investor would feel inequality of treatment.
In the foreign exchange market, the sterling quotation moved in an erratic manner. Although the reported volume of sterling transactions was slightly greater than Friday's turnover, it was far below the average volume which prevailed earlier last week. In Amsterdam, the rate advanced from an initial quotation of 3.74-7/8 to 3.77-1/2 just before our opening; it was reported that peace rumors associated with the Hitler-Mussolini meeting actively influenced the quotations abroad. After opening at 3.77 in New York, sterling declined to 3.75 in the first hour of trading, principally on offerings by Japanese banks. The rate returned to 3.75-3/4 by noontime. During the afternoon, sterling moved off to a low of 3.74-1/2, then strengthened in a thin market to reach a high of 3.77-7/8 just before the close. The final quotation was 3.77-1/2.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £702,000, from the following sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>By commercial concerns</td>
<td>£188,000</td>
</tr>
<tr>
<td>By foreign banks (South America, Far East and Europe)</td>
<td>£494,000</td>
</tr>
<tr>
<td>By Federal Reserve Bank of New York (for Yugoslavia)</td>
<td>£20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£702,000</strong></td>
</tr>
</tbody>
</table>

Purchases of spot sterling amounted to £492,000, as indicated below:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>By commercial concerns</td>
<td>£113,000</td>
</tr>
<tr>
<td>By foreign banks (Far East, Europe and South America)</td>
<td>£379,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£492,000</strong></td>
</tr>
</tbody>
</table>

The Chase National Bank reported that it had sold cotton bills totaling £4,000 to the British Control on the basis of the official rate of 4.02-1/2.

After reaching .1702-1/2, the high for the current movement, the belga closed at .1702. The other important currencies closed as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>French francs</td>
<td>.0214</td>
</tr>
<tr>
<td>Guilders</td>
<td>.5310</td>
</tr>
<tr>
<td>Swiss francs</td>
<td>.2242-1/2</td>
</tr>
<tr>
<td>Canadian dollars</td>
<td>18% discount</td>
</tr>
</tbody>
</table>

The Federal Reserve Bank purchased 50,000 belgas and 30,000 Italian lire for account of the Bank of Latvia.

CONFIDENTIAL
We sold $5,000,000 in gold to the Bank of Portugal, to be added to its earmarked account.

We purchased $15,000,000 in gold from the earmarked account of the Bank of France.

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it by the banks indicated below:

- $3,527,000 from South Africa, shipped by the South African Reserve Bank, to be earmarked for account of the Bank of Java.
- 3,473,000 from Canada, shipped by the Bank of Canada, Ottawa, for sale to the United States Assay Office.

$7,000,000 Total

The State Department forwarded to us cables stating that the following gold shipments would be made:

- $11,618,000 from Sweden, representing three shipments by the Bank of Sweden for its own account to the Federal Reserve Bank of New York, the disposition of which is unknown at the present time.
- 1,300,000 from Switzerland, shipped by the Credit Suisse, Zurich, to the Guaranty Trust Co., New York, for sale to the United States Assay Office.

$13,118,000 Total

The Bombay silver quotation declined the equivalent of 3/4\¢ to 39.51\¢.

In London, a price of 20-13/16d was fixed for both spot and forward silver, off 1/8d. The United States equivalents were 35.28\¢ and 35.09\¢ respectively.

Handy and Harman's and the Treasury prices for foreign silver were unchanged at 34-3/4\¢ and 35\¢ respectively.

We made eight purchases of silver totaling 1,025,000 ounces under the Silver Purchase Act. Of this amount 600,000 ounces represented sales from inventory by an American refining company and the remaining 425,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 400,000 ounces of silver from the Bank of Canada. So far this month, we have bought 625,000 ounces from Canada under our regular monthly agreement to purchase up to 1,200,000 ounces.
By telephone this afternoon I inquired of Mr. Knöke, and was informed that as recently as March 4 he had spoken with the State Banking Superintendent in regard to investigating the overdraft of the Yokohama Specie Bank. He was informed that the last examination of the New York branch took place in May, 1939, and that another examination will be "coming along soon." Mr. Knöke will keep us informed on this subject.

I brought to Mr. Knöke's attention the letter of March 15 from Assistant Vice President Roelse of the New York Bank to the Board of Governors of the Federal Reserve System, on page 5 whereof there was listed under gold movements an item of $25,007,000 from England. I reminded Mr. Knöke that this was a shipment of gold that entered the United States from Canada, even though England was the original source, and that this amount was carried on all official reports as an entry from Canada. He agreed that the item should so have been carried in the letter under reference, and will take appropriate steps to avoid any recurrence of this error.

CONFIDENTIAL
TO
Secretary Morgenthau

FROM
Mr. Haas

Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

Mar. 5: Germany is reported to have purchased about 6,000 tons of soy beans from Manchuria. This was the first Manchurian business in a long while. Evidently it is planned to transport the soy beans by highways.

Mar. 6: A bullish construction was placed by speculators on the private crop estimates for winter wheat, as reports failed to indicate the rather general improvement over the December report that was anticipated. The only crop expert to give bushels indicated an estimated yield of 434,000,000 bushels which, while being the smallest since 1924 and below domestic requirements, is still 35,000,000 bushels more than the Government report of December.

There was one cargo of American corn sold to Denmark but it was sold at 1½ cents per bushel under the replacement price. Exporters have some American corn along the American coast and do not hesitate to sacrifice it if they can find a buyer. They realize that it will be impossible to sell American corn after the next 10 days because of heavy offerings of Argentine corn at very low prices.

Mar. 7: There was one report that Russia had purchased 250,000 bushels of Pacific Coast wheat for shipment to Vladivostok. The facts are that Russia purchased 336,000 bushels.

Export sales of 350,000 bushels of Canadian wheat were made for shipment to Europe.

With the Export-Import Bank granting loans to China and Scandinavian countries to the extent of $66,000,000, it was almost certain to have some strengthening effect, particularly on oats, rye, and
soy beans, especially the latter because the Scandinavian countries are in dire need of these grains and soy-bean oil.

Mar. 8: Oats were very strong, advancing into new high ground for the year and the highest price since 1937. Small amounts of oats continue to come in from Argentina.

There were 50 loads of freight booked out of New York yesterday for shipment from the Atlantic coast to Scandinavian countries, which will for the most part consist of Canadian wheat.

The first ocean freight carrying Australian wheat from Sydney, Australia to American Atlantic ports was booked Thursday and there had been two boats booked for Philadelphia and four boats for Halifax. The business to Philadelphia was booked at 47 cents per bushel.

Mar. 9: There was no export business in wheat reported, although there was some interest from Scandinavian countries in Canadian wheat for May shipment from Montreal.

Mar. 11: Export business was very light here and in Canada. Argentina has sold about all the wheat that will be sold this year for export, due to a very short crop.

Exports of soy beans from October 1 to January 31 totaled in excess of 10,000,000 bushels. This is the largest business in soy beans to date.

Mar. 12: Peace news coupled with good moisture throughout almost the entire country had considerable effect on the market yesterday. Occasional reports continue to come in from the Southwest that wheat is not looking favorable, but all feel that there will be improvement from now on and that there is every indication that the spring wheat acreage will be large.

At the present time the visible supply of wheat in the United States is 98,000,000 bushels as against 82,000,000 bushels last year.
Mar. 13: Export business in American grain continues slow. Today Europe bought 112,000 bushels of Northern Pacific Coast wheat on the new subsidy export program which became effective yesterday.

At the present time, the British Government is absorbing 44 cents of the cost of Canadian wheat to the millers for the purpose of keeping the cost of bread down to 3½ cents per pound.

Note: The Journal of Commerce of March 15 reports that Great Britain has purchased upward of 10,000,000 bushels of wheat from Canada, the largest single day's business since the extremely heavy takings early last January.
During the week ended March 6, 1940, 2,323,000 persons were reported employed by the Work Projects Administration, a decline of 3,000 persons from the figure given for the previous week. This slight decrease is the first one since the beginning of September 1939.
WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

<table>
<thead>
<tr>
<th>Week Ending</th>
<th>Number of Workers (In thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939-40</td>
<td></td>
</tr>
<tr>
<td>July 5</td>
<td>2,388</td>
</tr>
<tr>
<td>July 12</td>
<td>2,290</td>
</tr>
<tr>
<td>July 19</td>
<td>2,250</td>
</tr>
<tr>
<td>July 26</td>
<td>2,200</td>
</tr>
<tr>
<td>August 2</td>
<td>2,082</td>
</tr>
<tr>
<td>August 9</td>
<td>2,054</td>
</tr>
<tr>
<td>August 16</td>
<td>1,977</td>
</tr>
<tr>
<td>August 23</td>
<td>1,898</td>
</tr>
<tr>
<td>August 30</td>
<td>1,842</td>
</tr>
<tr>
<td>September 6</td>
<td>1,662</td>
</tr>
<tr>
<td>September 13</td>
<td>1,696</td>
</tr>
<tr>
<td>September 20</td>
<td>1,735</td>
</tr>
<tr>
<td>September 27</td>
<td>1,790</td>
</tr>
<tr>
<td>October 4</td>
<td>1,834</td>
</tr>
<tr>
<td>October 11</td>
<td>1,875</td>
</tr>
<tr>
<td>October 18</td>
<td>1,898</td>
</tr>
<tr>
<td>October 25</td>
<td>1,901</td>
</tr>
<tr>
<td>November 1</td>
<td>1,901</td>
</tr>
<tr>
<td>November 8</td>
<td>1,929</td>
</tr>
<tr>
<td>November 15</td>
<td>1,961</td>
</tr>
<tr>
<td>November 22</td>
<td>1,987</td>
</tr>
<tr>
<td>November 29</td>
<td>2,024</td>
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<tr>
<td>December 6</td>
<td>2,075</td>
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<tr>
<td>December 13</td>
<td>2,123</td>
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<td>December 20</td>
<td>2,144</td>
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<tr>
<td>December 27</td>
<td>2,152</td>
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<tr>
<td>January 3</td>
<td>2,160</td>
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<tr>
<td>January 10</td>
<td>2,190</td>
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<tr>
<td>January 17</td>
<td>2,222</td>
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<tr>
<td>January 24</td>
<td>2,244</td>
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<tr>
<td>January 31</td>
<td>2,265</td>
</tr>
<tr>
<td>February 7</td>
<td>2,288</td>
</tr>
<tr>
<td>February 14</td>
<td>2,306</td>
</tr>
<tr>
<td>February 21</td>
<td>2,319</td>
</tr>
<tr>
<td>February 28</td>
<td>2,326</td>
</tr>
<tr>
<td>March 6</td>
<td>2,323</td>
</tr>
</tbody>
</table>

Source: Work Projects Administration
### WORK PROJECTS ADMINISTRATION

#### Number of Workers Employed - Monthly

**United States**

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Number of Workers (In thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937</td>
<td>July</td>
<td>1,569</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>1,480</td>
</tr>
<tr>
<td></td>
<td>September</td>
<td>1,451</td>
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<td>1,476</td>
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<tr>
<td></td>
<td>November</td>
<td>1,520</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>1,629</td>
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<tr>
<td>1938</td>
<td>January</td>
<td>1,901</td>
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<tr>
<td></td>
<td>February</td>
<td>2,075</td>
</tr>
<tr>
<td></td>
<td>March</td>
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<td>November</td>
<td>2,024</td>
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<td></td>
<td>December</td>
<td>2,152</td>
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<tr>
<td>1940</td>
<td>January</td>
<td>2,265</td>
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<tr>
<td></td>
<td>February</td>
<td>2,326</td>
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</table>

*Source: Work Projects Administration.*

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION
CONFIDENTIAL
DATE March 18, 1940

TO
Secretary Morgenthau

FROM
Mr. Haas

Subject: The Business Situation, Week ending March 16, 1940.

Conclusions

(1) As the period for normal seasonal expansion in business gets under way, there is still lacking any real evidence of a marked increase in new orders, which must precede any important rise in industrial production. The volume of new orders for steel in particular has not yet improved enough to offset a rapidly diminishing backlog of unfilled orders. Although the decline in steel activity has recently slowed up, and last week's production rate showed a slight increase, steel production has been supported by a building up of mill inventories rather than by increased orders. Unless new buying increases rapidly in the near future, a further decline in steel activity appears likely.

(2) Thus the major question at the moment is the timing of the next upturn in new industrial buying. There is as yet no definite indication that such an upturn is imminent, although the recent marked expansion in buying of nonferrous metals may point in that direction. Our weekly new orders index in the second week of March dropped back to the February average level, following a sharp gain in the previous week.

(3) Business news of the week has, on the whole, been somewhat less favorable:

(a) Weekly business indices show further moderate declines, largely because the trends of production in various industries have not reflected the normal seasonal gains.

(b) The ending of the Russian-Finnish war, rumors of a general peace move, and renewed declines in British and French exchange rates, have had a weakening influence on commodity prices. The net effect has been to induce a period of hesitation in current business progress.
(c) On the other hand, residential construction data of the F. H. A. show a noticeable improvement, both in mortgages selected for appraisal and in new homes started.

New orders not increasing

There is as yet no evidence in our new orders figures of any expansion in industrial buying such as must precede a renewed upturn in general business activity. Our weekly new orders index declined in the week ended March 9 (see Chart 1), after rising rather sharply during the previous week on an increase in textile orders.

The steel situation

The present outlook in the steel industry is clouded by the fact that, in spite of recent optimism in the steel trade and some pick-up in orders, the volume of new business has not yet improved sufficiently to maintain current operating rates. Our confidential report from the U. S. Steel Corporation for the week ended March 7 showed new orders at a low level for the third week in succession, at approximately 36 per cent of capacity. Trade reports do not indicate that new orders for the industry as a whole are materially above this level, though some improvement recently has been noted. The volume of unfilled orders, which heretofore has supported steel output well above the level of new orders, has now been worked down to a rather low level.

An appraisal of the current position of the steel industry is provided by an analysis of confidential data and published data of the U. S. Steel Corporation, which accounts for 30 to 35 per cent of the total production of steel in this country. Information from trade sources does not indicate that the situation for the industry as a whole differs materially from that for U. S. Steel.

The rate of steel production has been maintained for several months considerably above the level of new orders, on account of work being done on the huge volume of orders booked last September and October. (See Chart 2, upper section) The falling off of new orders has caused a sharp curtailment in
steel production since November, however, which has brought the operating rate down nearly to the level prevailing before the outbreak of the war. In recent weeks the decline in steel activity has slackened, and last week's rate of 64.7 per cent showed a very slight gain over the week before.

It is doubtful if the recent slackening in the steel decline has been justified on the basis of new orders. The recent moderate improvement in orders noted in the steel trade seems not to have been sufficient to offset the diminishing backlogs of unfilled orders; and orders reported by the U. S. Steel Corporation show no real evidence of improvement.

Steel inventories increasing

There is some evidence that the steel companies have recently been maintaining their operating rates by building up mill inventories in anticipation of increased business. The American Metal Market this week says that "more recently, mills have been increasing their own stocks of finished and semifinished steel, which has helped to hold up operations, but now with unfilled orders reduced further, additional adjustments have been made to bring production into better alignment with incoming tonnage."

An analysis of U. S. Steel Corporation data shows (1) that unfilled orders have apparently been reduced nearly to their pre-war level, and (2) that production recently has apparently been maintained by accumulating inventories at the mills. These indicate the importance of a substantial increase in new orders soon, if a further reduction in output is to be avoided.

In Chart 3, upper section it will be noted that new orders of the U. S. Steel Corporation in recent months have been running much below shipments, which has meant a rapid depletion of the backlog of unfilled orders accumulated during the buying boom of last September and October. Our estimate of unfilled orders derived from the difference between new orders and shipments (see lower section of chart) indicates that at the end of February the backlog had been reduced to about a "normal" level.

In Chart 4, upper section, it will be noted that the estimated output of the U. S. Steel Corporation in recent months has been somewhat above the level of shipments, thus indicating an
accumulation of steel in various forms at the mills. The relative amount of inventory accumulation is indicated by our estimate of inventories shown in the lower section of the chart. This estimate is an approximation based on the difference between monthly U. S. Steel shipments and our estimate of the Corporation’s monthly production of finished steel.

The outlook for an upturn in steel orders is favored by the high level of activity in the automobile industry, by continued reports of an expanding volume of export business, and by some diversion of war orders from Canadian steel plants to mills in this country. The current issue of the Iron Age mentions that the greater part of recent heavy purchases of steel plates, to be used in filling orders for war materials recently placed in Canada, have gone to mills in the United States because of the congestion of orders at Canadian mills. It is of interest that the index of industrial production for Canada rose from 138 in December to 145 in January.

**Commodity prices lower**

Sensitive price indices weakened somewhat last week both in this country and in England (see Chart 5) owing to the combined effects of the ending of the Russian-Finnish war, rumors of a move toward general peace negotiations, and (as a weakening influence on prices in this country) a renewed decline in sterling exchange following the new British regulations regarding payments for imports. While the price weakness has been rather general prices of industrial materials on the whole have held steadier than prices of agricultural products.

**Residential building improves**

Mortgages selected for appraisal by the Federal Housing Administration increased sharply in February, while residential contract awards reported by the F. W. Dodge Corporation showed a further slight decline, apparently of a seasonal nature. (See Chart 6, upper section)

Recent weekly data on F. H. A. mortgages show a further decided improvement. (See lower section of chart)
Secretary Morgenthau - 5

The recent improvement is also reflected in the number of new homes started under F.H.A. inspection, which has risen steeply in the first two weeks of March to a level well above the early March figures for last year. (See Chart 7) These projects, as indicated on the chart, have followed rather closely the trend of awards for residential projects reported by the F. W. Dodge Corporation.

**New York Times index lower**

A decline of .8 point to 96.0 was recorded by the New York Times in the week ended March 9, reflecting moderate downturns in the adjusted indices of automobile, steel, and lumber production and "all other" carloadings.

In the week ended March 16, steel output was increased very slightly, and automobile production was stepped up to 105,720 units from 103,560 the previous week. Both increases were less than the seasonal average, however, and the adjusted indices will therefore be lower.
NEW ORDERS, SHIPMENTS AND ESTIMATED UNFILLED ORDERS OF THE U.S. STEEL CORPORATION

Chart 3
CONFIDENTIAL

TONS THOUSANDS

1935 1936 1937 1938 1939 1940
0 200 400 600 800 1000 1200 1400 1600 1800 2000

NEW ORDERS *
SHIPMENTS

TONS MILLIONS

1935 1936 1937 1938 1939 1940
0 1.0 2.0 3.0 4.0

ESTIMATED UNFILLED ORDERS

* CORRECTED TO TAKE ACCOUNT OF CANCELLED ORDERS

Regraded Unclassified
March 18, 1940

CONFIDENTIAL

To: The Secretary
From: Mr. Young

Re: Finland

I talked with Ernest Swift this morning on the Finnish situation. The League of Red Cross Societies reports approximately 600,000 refugees in Finland, made up of 300,000 children, 270,000 women and 30,000 men. This number is constantly increasing. Of the 600,000 refugees, 470,000 are without homes and need immediate help.

Word received by the Red Cross from Finland March 16th indicated that thousands of children are war orphans and that about 200,000 Finns are abandoning their homes in the property ceded to Russia. There are already 10,000 Finnish refugees in Sweden and 6,000 in Norway.

At the present time there are over 50,000 wounded who must be taken care of and the hospital demands are constantly increasing. The most pressing problem is the evacuation of refugees from the territory given up by Finland. There is an urgent need for shelter, medical attention, food, clothing and building materials.

As of March 2nd, the total expenditures and commitments by the American Red Cross for relief in Finland, exclusive of the estimated value of materials in chapter produced supplies, amounted to $326,000. The estimated value of chapter produced supplies was about $66,300.

Reports received from the League of Red Cross Societies indicate that voluntary non-governmental contributions from other countries, including Sweden, Norway, England, Denmark, the Netherlands, Iceland, France, and Spain, for Finnish relief have amounted to several million dollars.

Mr. Swift voluntarily offered to send me copies of some of the telegrams which had been received by the Red Cross if I wished them.
Please return this attached bulletin to Mr. Young, Room 196.

bj

Mr. Young
EXPEDITE

Mrs. Jones,
Room 196.

Please return to R & S after this bulletin has served its purpose. Thanks.

3-18-40

Regarded Uclassified
Can this be the thing in question? Andy Robb's pub. had three or four been recently. This one just.

MISS DIAMOND
Br. 2069 - Room 352
Treasury Library

Rachel
3.19.40
<table>
<thead>
<tr>
<th>Mr. Bell</th>
<th>Mr. Thompson</th>
<th>Mr. Graves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Gaston</td>
<td>Mr. Foley</td>
<td></td>
</tr>
<tr>
<td>Mr. Sullivan</td>
<td>Mr.</td>
<td></td>
</tr>
</tbody>
</table>

| Mr. Alexander | Mr. Haas     |
| Mr. Allen     | Mr. Hall     |
| Mr. Bartelt   | Mr. Hanna    |
| Mr. Batchelder| Mr. Harper   |
| Mr. C. S. Bell| Mr. Harris   |
| Mr. Berkshire | Mr. Helvering|
| Mr. Bernard   | Mr. Irey     |
| Mrs. Betts    | Mr. Julian   |
| Mr. Birgfeld  | Mr. Kilby    |
| Mr. Blough    | Miss Lonigan |
| Mr. Broughton | Mr. Rose     |
| Mr. Bryan     | Mrs. Ross    |
| Mr. Cochran   | Mr. Schwarz  |
| Mr. Collie    | Mr. Sloan    |
| Capt. Collins | Mr. Spangler |
| Mr. Delano    | Mr. Tarleau  |
| Miss Diamond  | Mr. Upham    |
| Miss Planagan | Mr. White    |
| Mr. Wilson    | Mr. Wilson   |
| Mr. Young     | Mr.          |
After six months of war Europe now looks apprehensively to the beginning of
spring. March and the approach of warm weather always has been a critical time in
Europe's conflicts.

Whether or not spring will bring offensives and counter-offensives is still
a matter of speculation; the mere fact that such a possibility exists has been an
added factor in placing new and severe strains on social and economic life in the war-
affected nations. The mass movement of populations, the necessity for commodity
rationing and other rigid control measures have resulted in urgent relief problems.
Shortage of food, clothing and shelter have combined to create an appalling dis-
organization of national life. Medical emergencies are being reported daily.

With the end of the Finnish-Soviet conflict, Finland's relief needs have not
been curtailed. According to communications from the League of Red Cross Societies, a
survey completed just prior to the peace treaty revealed that 500,000 Finns had been
evacuated from danger zones. After living in crowded, temporary quarters for weeks,
they must now return to their homes and resume their normal lives. Among them will
be thousands who previously lived in sections of Finland which have been ceded to
Russia. For them, there will be not only the task of rehabilitation, but the problem of
finding new homes and re-adjusting their lives to meet new conditions.

The League survey also states that the number of Poles who have fled to the
sanctuary of neighboring neutrals has risen to 120,000. Most of the Polish refugees
are now in Hungary, Rumania, Lithuania and Latvia, where the majority are dependent
on charity for shelter, food and clothing. In France, hostilities have forced a
million persons from the Maginot Line area. Carrying with them meager belongings,
refugees were taken to quarters in central France to remain for the duration of the war.

Since September 1, European headquarters of Red Cross Societies have been
operating under the most difficult emergency schedules. To aid the international Red
Cross, has come assistance from the entire world, through sister societies of the
organization located in 65 nations.

Acting promptly on the first day of the German-Polish conflict, the American
Red Cross has been engaged in war relief operations ever since. Expenditures up to
March 2nd total $1,174,639. This figure does not take into account either the cost of
the materials or the estimated finished value of garments and surgical dressings
produced by chapters.

Red Cross chapters throughout the United States, moved by the plight of
Europe's war suffering, have mobilized a mercy corps of 250,000 women volunteers. At
this writing they are engaged in the production of hundreds of thousands of garments
and surgical dressings, with shipments arriving daily in New York for transmittal to
Europe. Already large cargoes have reached the war zones and are being distributed
at points where greatest needs are reported. To date more than 165,000 articles of
comfort and nearly 400,000 surgical dressings have reached Europe and are being con-
sidered as possible.
signed to cooperating agencies through the American Red Cross foreign delegation.

FINLAND

To assist Finland's 600,000 refugees and to aid in meeting urgent medical problems, the American Red Cross has spent more than $325,000 in cash for relief supplies including 10 ambulances, hospital equipment, surgical instruments, tents, blankets and x-ray machines. In addition, chapter volunteers throughout the country have shipped 64,128 articles of clothing and 168,925 surgical dressings.

Latest purchases for Finnish relief were made following reports of tragic need from Dr. H. A. Spencer, U. S. Public Health Service official who is in Finland on special duty for the American Red Cross. Dr. Spencer's cable described refugees as being "very poorly clothed and undernourished." He added that many were suffering from respiratory diseases, exposure, mental anxiety and fright from daily air-raid alarms or bombings.

Immediately following receipt of Dr. Spencer's cable, Red Cross officials expedited shipment of 10,000 blankets, 10 x-ray machines and 40 basic sets of surgical instruments.

POLAND

Wayne Chatfield-Taylor and James T. Nicholson, members of the American Red Cross delegation in Europe, arrived at Cracow, March 4th to arrange distribution of eight shipments of warm clothing and medical supplies, valued at $126,181. The supplies had reached Cracow via a Mediterranean port and overland from Genoa. The two delegates will remain in Cracow to coordinate and observe the distribution of relief supplies to cooperating Polish agencies including Jewish, Catholic and other organizations, working in the areas around Warsaw, Lublin, Cracow and Radom.

A supplementary agreement with the German Government guarantees that American Red Cross relief supplies "will at no time be at the disposal of or claimed by the German authorities."

To date a total of $397,206 has been spent by the American Red Cross for the purchase of supplies for the relief of Poles in German-occupied Poland, and for Polish refugees in neighboring countries. Chapter-produced supplies furnished up until this time include more than 25,000 articles of clothing.

FRANCE

Heavy shipments in the past two weeks of blankets, underwear, surgical dressings and other relief needs has brought American Red Cross expenditures for France war relief to $89,334. Chapter-donated dresses, gloves, underwear, sweaters and other articles of clothing exceeded 30,000, while the total number of surgical dressings shipped exceeded 154,000. Value of chapter produced and donated articles was placed at $53,907.

GREAT BRITAIN

Evacuated civilians and the threat of aerial warfare continued to be the major problems harassing Great Britain. At this writing, no count has been made of the number of English who have been moved from population centers, but preliminary returns from a survey being made indicate the figure may reach into the hundreds of thousands. Relief shipments to Great Britain from the American Red Cross continued to consist mostly of chapter-made clothing, surgical dressings and large supplies of purchased relief essentials. Relief expenditures amount to $108,764 in purchased
supplies, and $17,341 in chapter-produced garments and surgical dressings. Most
recent consignments to England included 18 x-ray machines, surgical instruments,
hospital supplies and clothing. Further assistance to Great Britain through the
American Red Cross has been made in the form of a designated contribution of $57,040
to the Canadian Red Cross hospital at Taplow.

AMERICAN RED CROSS DELEGATION

On October 4, the American Red Cross sent a three-man delegation to Europe
to survey relief needs. Since that time, Ernest J. Swift, vice chairman in charge of
foreign operations has returned to this country, leaving abroad, Wayne Chatfield-
Taylor and James T. Nicholson. These men have been working with the International Red
Cross Committee, League of Red Cross Societies and with individual Red Cross societies,
coordinating and observing the distribution of Red Cross supplies sent from this
country.

On March 9, two additional Red Cross relief experts left by clipper plane
to join the delegation. They are H. Sherburne House and Raymond T. Schaeffer, of New
York and St. Louis, respectively.

INQUIRY AND INFORMATION SERVICE

The American Red Cross has completed plans with the International Red Cross
at Geneva to handle requests regarding the welfare of persons in Finland who have not
been heard from because of the war. This service will be conducted similarly to that
offered to Americans concerned with friends and relatives in Poland. Red Cross
chapters in this country are receiving inquiries and clearing them through national
Red Cross headquarters in Washington. The Finnish Red Cross is sending back to this
country reports on the whereabouts and safety of those concerned. Inquiries handled
by the Red Cross in this country have totaled more than 21,000 cases since the service
was established early in September.

CHAPTER PRODUCTION

More than 250,000 women volunteers in chapters throughout the country are
engaged in the production of warm clothing and surgical dressings for shipment to
Europe. Since the program got under way, 166,281 articles of clothing and 399,017
surgical dressings have been shipped. Additional thousands of articles are now under
production and will be ready shortly for shipment as cargo space is available on
Europe-bound vessels.

CONTRIBUTIONS

Although the American Red Cross has not, as yet, found it necessary to
launch a major campaign for war relief funds, Chairman Davis has asked chapters
throughout the country to accept voluntary contributions. On March 9, $643,881.19 in
contributions had been received. Donors have been permitted to designate the country
in which they wish their contributions to be used.
<table>
<thead>
<tr>
<th>Location</th>
<th>National Organization Expenditures</th>
<th>Chapter Expenditures*</th>
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<tr>
<td><strong>SUMMARY OF EXPENDITURES</strong></td>
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<tr>
<td>AMERICAN RED CROSS WAR RELIEF</td>
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<td>THROUGH MARCH 2ND</td>
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<td>Expenditures by National Organization</td>
<td>$1,174,639.78</td>
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<td>FINLAND</td>
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<td>GREAT BRITAIN</td>
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<td>CANADIAN RED CROSS</td>
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<td>MISCELLANEOUS</td>
<td>Recatriation of American Citizens, Inquiry</td>
<td>$105,446.03</td>
</tr>
<tr>
<td>and Information Service, assistance to International Red Cross Committee, and other expenditures not classified above</td>
<td>$97,866.12</td>
<td></td>
</tr>
<tr>
<td>For supplies purchased, but not designated as of March 2nd,</td>
<td>$ 97,866.12</td>
<td></td>
</tr>
<tr>
<td>*Cost of materials for chapter-produced garments and surgical dressings shipped to Europe. This figure does not include any cash evaluation on the labor of Red Cross volunteers.</td>
<td>$ 97,866.12</td>
<td></td>
</tr>
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</table>
Mr. Speaker, I ask unanimous consent to extend my remarks in the Record at this point by incorporating a letter from the Secretary of the Navy on this subject matter.

The SPEAKER. Is there objection to the request of the gentleman from Georgia?

There was no objection.

The letter referred to follows:

DEPARTMENT OF THE NAVY.
OFFICE OF THE SECRETARY.
Washington, March 18, 1946.

Hon. Carl Vinson,
Chairman, House Naval Affairs Committee,
Washington, D.C.

Mr. Chairman: Mr. Vinson. In response to your inquiry, you are advised that the sale of aircraft to the Allied governments by domestic manufacturers is in agreement with the Department's aircraft procurement program. In at least one instance sales of aircraft in earlier deliveries to the Navy Department. The concern, however, looks upon these slightly reduced in subsequent orders for the Allied governments, and the contractor would have been allowed generally to reduce this force and extend his work for the Navy Department at a very high rate. Exemption to the Allied governments, this force would not have been necessary. Except for the availability of subsequent orders for the Allied governments, the contractor would have been allowed generally to reduce this force and extend his work for the Navy Department.

Mr. Vinson. In connection with a sale to the Government of Finland, offered to effect the great improvements in certain of the aircraft engines, the Department informs me that the Department would accept a disputed extension of delivery dates under the contract. The extended date was such as to meet the Navy's replacement program, and in view of the necessity of this change, the Department would accept a extended delivery date and extend its work for the Department.

The SPEAKER. In view of the statement made by Mr. Vinson, there is no objection to the request of the gentleman from Minnesota.

[The matter referred to appears in the Appendix.]

Mr. TREADWAY. Mr. Speaker, I ask unanimous consent to extend my remarks in the Record to include a short quotation from the Washington Post and from the Constitution of the United States.

The SPEAKER. Is there objection to the request of the gentleman from Montana?

There was no objection.

Mr. RANKIN. Mr. Speaker, a point of order. We cannot hear these requests. We cannot hear a word that is being said.

The SPEAKER. Does the gentleman from Mississippi desire that the gentleman from Montana repeat his request?

Mr. RANKIN. I would like to know what it is, Mr. Speaker.

Mr. THORKELSON. I ask unanimous consent to extend my own remarks in the Record and to include therein a memorandum relative to the trade-treaty program.

The SPEAKER. Is there objection to the request of the gentleman from Montana?

There was no objection.

[The matter referred to appears in the Appendix.]

Mr. KNOTTON. Mr. Speaker, I ask unanimous consent to extend my remarks in the Record by inserting a letter received by me this morning.

The SPEAKER. Is there objection to the request of the gentleman from Minnesota?

There was no objection.

[The matter referred to appears in the Appendix.]

Mr. RICH. Mr. Speaker, I ask unanimous consent to extend my remarks in the Record to include a statement by Mr. J. Robinson concerning a bill I have introduced in the House, and in the other extension to include a statement by Mr. J. Robinson, of Patagonia, Ariz.

The SPEAKER. Is there objection to the request of the gentleman from Arizona?

There was no objection.

[The matter referred to appears in the Appendix.]

Mr. BOUTZROH. Mr. Speaker, I ask unanimous consent to extend my own remarks in the Record and to include therein a memorandum relative to the trade-treaty program entitled "Senator Waite's Joins Demands for Drastic Shake-Up in the N. L. R. B."

The SPEAKER. Is there objection to the request of the gentleman from Ohio?

There was no objection.

[The matter referred to appears in the Appendix.]

Mr. THORKELSON. Mr. Speaker, I ask unanimous consent to extend my own remarks in the Record and to include therein a memorandum relative to the trade-treaty program.

The SPEAKER. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

[The matter referred to appears in the Appendix.]

The CRAZY GAME OF BLIND-MAN'S BUFF

Mr. RICH. Mr. Speaker, when a businessman makes money, the Federal Government takes a great part of it in taxes. When many large corporations or railroads lose money and go broke, they borrow from some Federal lending agency and keep going.

When a businessman goes broke, his assets are usually sold under the hammer for the benefit of his creditors. When a farmer goes broke trying to make money out of the soil, he is run off the farm and onto the city relief rolls. When a workingman in the city goes broke and is unable to find employment so that he can feed and house his family, he is kicked around like a vagrant—on the relief rolls today and off tomorrow.

When the Federal Government goes broke, they just exchange IO U's with the money changers, and the crazy game of blind-man's buff goes on. Meanwhile the Nation totters on the brink of despair. Forty-four billion dollars running in the red ten thousand a minute—where will you get the money?

However, let no one say that this is a Nation with an uncharitable soul. Even if our own people are in want, we still have millions to give away and loan to those who suffer and are oppressed in other lands.
March 15, 1940
3:05 p.m.

H.M. Jr: Hello.
Operator: Secretary Woodring. Go ahead.
H.M. Jr: Hello.
Secretary Woodring: Henry?
H.M. Jr: Yes, Henry.
W: Say I've just gotten back here, half an hour ago, from the Hill, and I've - you know what it does, it isn't time wasted, it certainly takes you away from your desk.
H.M. Jr: Yes.
W: I wondered if we can't postpone this thing tomorrow morning. I'm just simply up over my neck and if it's agreeable to you I'd like to make it later or else let it go next week to the usual luncheon time.
H.M. Jr: Well I hope to leave town Thursday night.
W: Oh do you?
H.M. Jr: Yes.
W: Well if I could put this off, over to Wednesday, after Wednesday, but then of course he won't be back will he?
H.M. Jr: No, that's the trouble.
W: Well all right, I'll try and run - we won't stay. I'll run over there. Leave it the way it is then and we won't stay. I'll make that but I'm just snowed under here with getting ready to go up on the Hill, you know.
H.M. Jr: Well it's entirely agreeable to do it any way you want.
W: Well, it's just - I get down here and then I've got to drive over there and take time out and I just wondered if there was anything important that we could, in this time, without escape, without - would hurt to postpone it until the following week.
H.M. Jr: Might as well. I won't be here but it's all right with me if you want to postpone it, because I have nothing special.

W: Well all right. Let's do postpone it then. It'll help me so much this week.

H.M. Jr: All right.

W: All right. Thank you a lot. Goodbye.

H.M. Jr: Goodbye.
Hello.
Hello Henry.
Charlie? Hello.
Yes.
Harry Woodring called me up to say that he was so busy he didn't think he could come around tomorrow morning.
Oh! All right. Well then that's off isn't it?
Yes. Did you read the Star tonight?
No I haven't seen it yet.
Well read Kintner and Alsop's column and then maybe you'll realize why he's so busy.
(laughs) He was up, he was up defending himself in front of this Barlow up here, this morning. I was up at these hearings and there's - this fellow that got this new explosives -
Oh!
That's a joke.
Send for Kintner and Alsop's column and then you'll find out maybe why he's so busy.
(laughs) All right I will. Poor fellow seems to be in trouble all around doesn't he?
Yes. I thought your letter to was very good.
Which one?
I don't know. You wrote them about the planes. It was on the ticker.
Oh yes. Well I'm glad you liked that one.
All right.
I tried not to confuse the situation.
H.M. Jr: No.
E: All right sir. Well I won't see you tomorrow.
H.M. Jr: No.
E: I'll buy my own breakfast.
H.M. Jr: All right.
E: Goodbye.
GROUP MEETING

Present: Mr. Graves
Mr. Cotton
Mr. Sullivan
Mr. Cochran
Mr. Bell
Mr. Haas
Mr. White
Mr. Thompson
Mr. Schwarz
Mr. Foley
Mrs Klotz

H.M.Jr: Good morning, everybody. I just talked with Herbert Gaston. That is what delayed me. He is going down to St. Petersburg until he gets well. I am also having Dr. Daniels go up and see him. He had that same thing happen to him Saturday night that happened down in Guatemala.

Thompson: Mr. Foley has some papers on this Pennsylvania attorney.

Foley: I don't think you ought to appoint him.

H.M.Jr: Well, unless he has been in jail --

Foley: He came very close to it.

H.M.Jr: How close?

Foley: He was suspended from practicing in '37 for unprofessional conduct.

H.M.Jr: Well, I will tell you what is at stake. The whole winning of the war is at stake. I will work from that backward. If I don't get this attorney, we lose the war and this is why, because the English and French won't get the planes they need, I have to go up on the Hill and testify, and the Congressman who is chairman of the Subcommittee on Appropriations for war, his whole election depends upon this. You can go backwards or forward. That is how important it is.

Thompson: Mr. Delano has already said he would go along.
H.M.Jr: What is the matter with the fellow, Ed?

Foley: Well, he is a member of the --

H.M.Jr: Now, wait a minute. I never approved an appointment like this before. This is a new way of writing it.

Klotz: There is a reason.

Foley: Well, I don't see any reason, either, why you should.

Thompson: No, I shouldn't think so.

H.M.Jr: Now, let's be serious a minute. I have turned down better fellows than this.

Foley: Here is a summary of what has happened on him.

White: Isn't it possible if you give him his choice of another man it will fill your requirements?

H.M.Jr: Just so it isn't on the record. That was all kidding, see. I will give you a chance to take this back and destroy it.

What is this Congressman's name?

Foley: J. Buell Snyder. He is on the House Military Affairs Committee and the Subcommittee on Appropriations. He sent in several telegrams.

H.M.Jr: Well, supposing you give me — yes, I will ask him for another, but that doesn't help him. He has got this man on his hands. Is this enough here to get him? Can't you tell me what he did, why he was suspended?

Foley: Yes, I can enlarge upon that.

H.M.Jr: Make it look as — you know. Give it to me so I can have it after lunch and you just destroy that other part. If we have got to win the war that way, let's lose it.

Thompson: I have nothing else.
Bell: Mr. Taber has requested information as to the cost of the West Point depository, silver depository, source of the funds and the cost of transporting all the silver that is stored there. We are getting up all that information today. I suppose we have got to furnish it to him. He is a member of the Appropriations Committee.

The Relief bill, I understand, is going to be discussed with the President either tomorrow or Wednesday, if you want to get that.

Wm. Jr.: I have got that in the baby bond thing. I hope he sees me today. I haven't heard.

Bell: I have still got a tag over in the Budget Bureau on that matter and they are holding it.

Mr. Ickes sent quite a long letter to the President on the use of Philippine funds of various kinds, particularly the sugar tax, which covered which comes into the Treasury and by the Sugar Act is authorized to be appropriated. We sent an estimate over to the Budget Bureau last May and it was turned down or just held up. That amounted to about nine million. Now, there is about 19 million in the fund and we are going to send another estimate to the Bureau of the Budget, appropriation of that fund for the benefit of the Philippines. The President sent Mr. Ickes' letter over to you for a report and we are not commenting on Mr. Ickes' recommendation as to the use of these funds for national defense and other purposes, but we are merely giving a history of the fund and a statement of the account. I think that is all we should do.

Wm. Jr.: What else?

Bell: That is all.

Wm. Jr.: If we get an approval on this baby bond thing, are you all ready to shoot it out?

Bell: Yes sir, that is, ready with the printing. The regulations haven't passed through all the machinery yet, but they will be ready in a few days.
H.M.Jr: Then they are not waiting on me?
Bell: Waiting on you on the printing. We held up the printing on Friday and we told them we hoped to have this settled by Tuesday. The paper has all been dampened and it is just being held.

H.M.Jr: If I don't see the President, I think I will decide it on my own.
Bell: The regulations will take several days, yet.

H.M.Jr: What we are talking about is this: By confining the sales of baby bonds to individuals, we will cut the gross sales down from 20 to 25 percent, as of April 1st.

White: Are you considering setting a maximum for the amount that anyone can hold?

H.M.Jr: They have done a very exhaustive study of it and I have got the memorandum for the President - anything we can do on that, it will take three months to put it in force, Harry. The boys have been working on this thing since last December. I have got a memorandum - I have got two things from him, Currie and Eccles each sent him a separate one and I have answered both of them, but this thing we can do effective immediately and it cuts the sales about 20 or 25 percent. I want to get the public reaction to that.

Bell: We can't cut the $10,000 and there is some question whether we can confine the total amount in the hands of one individual. I am not sure yet. That hasn't been passed on by the General Counsel.

White: It was the latter point I was raising.
Bell: We don't know about that.
White: There is so much talk about this being used as a device to get higher yield bonds than would be available with people with very high incomes.
By cutting out everything but individuals, we cut the gross sales 20 to 25 percent.

Harold?

Graves: Nothing.

H. M. Jr: Harry?

White: You are setting aside some time this afternoon to go over this silver? We are preparing a rather lengthy statement and one or two other things.

H. M. Jr: Who is going to give the statement?

White: I thought you would read it. It gives them the background, a lot of factual data.

H. M. Jr: Well, while I think about it, Gaston can't give that talk Thursday, so either you go up or anybody.

White: It is a very excellent talk, I think, but I should like to have you read it.

H. M. Jr: Well, I can't read it. I can't do any more, Harry.

White: Or give it to somebody to read. I don't know whether anybody else has read it, but he gave it to me last week and not knowing that he wasn't going to go, but merely asking for my comments, I thought it was a very good statement to make and it could easily go up and have somebody there read it.

H. M. Jr: Well, I tell you, in order to save me, supposing Bell, you, and Harry and Chick get hold of Gaston's statement and read it and handle the thing for me so that he doesn't have to go. He can't go Thursday. Will you take it off my hands? It is a speaking date he has in New York.

Bell: In New York?

H. M. Jr: Yes. Will you take it off my hands, you and White and Chick?
Hell: Yes.

H.M.Jr: Now, silver, have you heard on the Hill what is happening?

Volley: No, I haven't any report this morning.

H.M.Jr: Well, let me get hold of Senator Wagner. Senator McNary was at the house Friday night and we got kidding on silver. He told me to forget it. He said he would see personally that I didn't have to go up on the Hill.

White: Fine.

H.M.Jr: Because I told him that if I went up I would say, "Now, as Senator McNary said to me in 1934 and as I said to Senator McNary --" He said, "You don't go up there." So we will see what happens.

White: Well, it will be quite possible that they are satisfied for you not to go up but to send your statement up and this statement is a factual background and rather an interesting one which in no way comments on the merits of the bill, so you might send this prepared statement up if you care to.

H.M.Jr: We will give you tentatively 3:00 o'clock, Harry.

White: All right.

H.M.Jr: Anything else?

White: The capital inflows are shifting very rapidly from week to week but the net outflow is still remains approximately zero for the year and the expenditures are not increasing for the Allies.

H.M.Jr: While I am on that, you will have to begin to cut down on these cables. I just can't read all that stuff (speaking to Mr. Cochran). By the time I read four or five pages to get one sentence out of it, I - that is all I did yesterday, was to read cables for the last
Cochran: Four or five days, and when I get through - because I had hoped to get away Thursday night. If there is something important - if you will confine it - not in your foreign exchange letter which I get every night and which I don't read, but I do read your special memoranda. See what I mean?

E.M.Jr: Yes, sir. I could easily put two or three lines on the outside of a cable if you preferred.

Cochran: Then if I want to read the whole thing - got enough help in there?

E.M.Jr: Oh, I can do it, yes.

White: I spoke to that chap from the Mutual Broadcasting after having spoken with Chick. He said he would be very glad to postpone it for several weeks. He doesn't feel he could eliminate it, but he said he would be very glad to have me draw up the way we would like it, so it is still on ice.

E.M.Jr: Would you get hold of today's Tribune? There is a whole column devoted to a meeting of 27 people that took place in New York. Eccles and Currie, amongst the others. Evidently, the whole account of it is in a Savings Bank magazine. He quotes from that. It is in today's Tribune.

Bell: I think that was the meeting that took place at the Metropolitan Club. We decided not to have a representative there.

E.M.Jr: Evidently a Savings Bank magazine has written up the whole meeting --

Bell: Well, it is conducted by the Savings Bank magazine.

E.M.Jr: Well, it is all in their issue. I think Chick got it and circulated it. They decided the gold problem for us.

George?
Haas: (Handing report to Secretary) I have got this other material.

H.M.Jr: I am not going to see you right after the meeting. You go back to the office and I will call you.

Haas: All right.

H.M.Jr: And George, when you get back, send for the United States Department of Agriculture - maybe you have got it - forecast on business. Evidently they have got another one out.

Haas: Yes, I have already got it.

H.M.Jr: It is pretty good, too.

Haas: I sent for that. I will bring that in.

H.M.Jr: Anything else?

Haas: That is all.

H.M.Jr: Chick?

Schwarz: You may be asked this afternoon about some purchases of gold by Argentina as reported in the Tribune and it might be an opportunity psychologically to make something of it, if you wish.

H.M.Jr: No. I think I would skip it, wouldn't you?

Cochran: I believe I should. They have been buying consistently since September.

H.M.Jr: Anything else?

Schwarz: No.

Cochran: That conference at the Brenner Pass this morning lasted two hours and twelve minutes. Then the respective leaders went back to their capitals. There is no communiqué out.

H.M.Jr: As soon as this is over, will you go over to
Mr. Hull's office and see if you can read the Rome cables and see if they know anything?

Cochran: Yes, sir. This morning the stock markets in London and Paris are upset and heavy, but sterling made quite a recovery in Amsterdam and went from 3.73\% to 3.77\% this morning.

I have two things to take up when you have a chance. One is Leroy-Beaulieu's phone call about Customs. If you want me to take it up with Basil Harris - he is here this morning.

H.M. Jr: I have asked for it. Let's do it.

Cochran: He has been asked to give his advice and he wants to know how many agents you have got.

H.M. Jr: How many did we ask for, three?

Cochran: I suggested three. I am not sure --

H.M. Jr: You and Basil talk it over and there is more monkey business --

Cochran: He said he was willing to recommend whatever you wanted.

H.M. Jr: After you and he talk, I will see.

Cochran: All right, sir.

We have a letter from Jerome Frank which we ought to answer.

H.M. Jr: Get a clearance on it. We have got to give him that information.

Cochran: I think so, yes, sir.

H.M. Jr: Get a clearance. He is entitled to that. Fix up a letter for me.

Cochran: You mean get a clearance with the other people?

H.M. Jr: Get a clearance from the English so we can give him that information. I would like to do it today.
Cochran: All right.

H.M.Jr: But under the circumstances, I can't refuse to give it to him.

Cochran: No, you can't.

H.M.Jr: That was Wagner on the phone. I don't know why she sent me in there.

A quarter of 11:00 tomorrow morning, Banking and Currency.

White: Then that meeting for 3:00 o'clock is out?

H.M.Jr: Yes.

Sullivan: The Interior found the money to send that tax man up to Alaska, but they found the money to send that tax man up to Alaska and pay his expenses, but they also wanted a man who would be familiar with State liquor legislation. We anticipated that our fellow would do both. Dr. Gruening had some sort of a promise of a man from Alexander and it seems to me that is a needless duplication. The fellow we are sending up there can familiarize himself completely on that. Now, I don't know just how much control we have over Alexander. It seems silly to send two men to Alaska.

H.M.Jr: Who is going to pay for the other one?

Sullivan: Alexander.

H.M.Jr: I told Gruening not to go to Alexander.

Sullivan: That is right, and Governor Gruening, I understand, is very reluctant to take Alexander's man, because of your remark to him.

Thompson: I don't see why one man couldn't do the whole job.

H.M.Jr: Will you tell that to Burlew?

Thompson: I told Dr. Gruening that our man could take care of the whole thing.
H.M.Jr.: Will you tell that to Burlew?
Thompson: Yes. I told Dr. Gruening that our man could take care of the whole thing.
H.M.Jr.: O. K., tell that to Burlew.
Sullivan: You asked me to remind you this morning about that name situation.
H.M.Jr.: I am not seeing him. Will you be here tomorrow?
Sullivan: Yes, sir.
Foley: You asked for a summary of the SEC Investment Trust Bill.
H.M.Jr.: Yes.
Foley: This statement (March 14) that they prepared over at the SEC explains the purpose, and then starting here, it gives the position of the bill. It is a 105-page bill and it is kind of hard to get it all the way you want it.
H.M.Jr.: Thank you.
Foley: It may not be the way you want it.
H.M.Jr.: All right. Anything else?
Foley: No.
Hello.

Dean Landis.

Hello.

Go ahead.

Hello.

Hello.

Henry Morgenthau.

Yes.

How are you Jim?

Fine thank you.

Want - two purposes, one, I want to thank you for the perfectly grand advice you gave me on Bank of America which from our end has come to a successful -

Yes, it has.

Definitely.

That's good.

We got everything that we wanted.

Well fine.

And I wrote my letter to the RFC and I think they'll go through with it.

Oh good.

So that's that. Now the other thing is I have a decision to make in regard to the state of Indiana, it's a question of whether we do or don't file a petition with the judge to make a certain man talk.

Yes.

And I - everything will be ready by Wednesday. I wondered if you could spare me a day?
L: I might Friday.

H.W. Jr.: Well the trouble is I'm going out - taking the family away Thursday night.

L: Yes.

H.W. Jr.: And I wanted to settle it before I left, but if you can't do it, it's out of the question is it?

L: Well let me look over my schedule.

H.W. Jr.: Would you?

L: I'm not in the office right now, and I -

H.W. Jr.: Well either - I want to try to get Lloyd Garrison too.

L: Yes.

H.W. Jr.: I think I'm going to leave it Wednesday, but if he should say he could make it Thursday I'll call you back.

L: Yes.

H.W. Jr.: It won't take more than one day, they'll have everything ready.

L: Yes.

H.W. Jr.: And -

L: I'll go over that schedule and see what I can do.

H.W. Jr.: And you'll call me back.

L: Yes I will.

H.W. Jr.: Thank you so much.

L: All right.

March 18, 1940.
11:30 a.m.

W.N. Jr.
Litagow
Osborne:

Hello.

Good morning. How are you?

Fine. How are you?

Pretty good. I'm very anxious for Bill Hovard to talk to you about the gypsy moth situation in New York State which affects this department very closely, and it affects landowners in Dutchess County.

Yes.

And I thought you might possibly be in a position to make some suggestions as to the acquisition of more federal assistance because the situation is pretty darned critical. It was critical when you were here and it's gotten lot worse in the last couple of years.

Well I'm always glad -

When it was - he could perhaps see you when you come up to Dutchess County or whether he could come down to Washington.

Well I won't be coming up to the County for a couple of weeks, so if he wants to see me it would have to be Wednesday or Thursday.

Wednesday or Thursday, this week.

Yes.

Well I think he might be able to get down on Thursday.

Well supposing he comes in and then gives me a ring and we'll fix him up an appointment some time in the morning.

Right. Some time Thursday morning.

Right.

And anybody particular he should get hold of.

He'd better get hold of me.
O: All right sir.
H.V. Jr: I'll be glad to see him.
O: Thank you very much.
H.V. Jr: Thank you.
O: Right.
H.V. Jr: Goodbye.
Goodbye.
Operator: Mr. Clapper.

H.M. Jr: Hello.

Raymond Clapper: Hello. Mr. Secretary.

H.M. Jr: How are you?

C: I'm good. I was just thinking about calling you. Like to come over and have a chat with you.

H.M. Jr: Well that's what I'm calling you for.

C: Good.

H.M. Jr: I like to see the press around four and after that I'd be free.

C: After four.

H.M. Jr: Is that too late for you?

C: No. No, that's all right.

H.M. Jr: How about four-thirty?

C: Four-thirty. All right. Are you going to have anything to say at the press conference on this McNutt case?

H.M. Jr: No. I'll show you, that's one of the things I want to show you the statute, what happens to me if I talk.

C: Huhhuh.

H.M. Jr: You fellows got all the advantage. You can say anything but I've got to go to jail if I talk.

C: (laughs)

H.M. Jr: I want to show you the statute.

C: Well I - I just - I was wondering whether there would be anything at the press conference bearing on that.

H.M. Jr: No, I've got it right before me. I want to give you a copy of what happens if I confirm or deny.
C: (laughs) All right.

H.M.Jr: And I don't think you want me to go to jail yet.

C: Oh no not yet. I've already paid my income tax so it's no use now you going to jail.

H.M.Jr: Well, you come on over and I want just to have a little chat with you.

C: Yes, four-thirty.

H.M.Jr: If you would.

C: I'd be glad to.

H.M.Jr: Swell.

C: Thanks Mr. Secretary.

H.M.Jr: Goodbye.
Operator: Go ahead.
H.M.Jr: Hello
Dean
Landis: Hello.
L: Yes.
H.M.Jr: Do you know whether you can come?
L: Oh yes, I just - about twenty minutes ago, why I telephoned Ed Foley and I wanted to talk to him about another matter so I asked him to let you know that I'd be down Wednesday.
H.M.Jr: Well he didn't.
L: Yes. It would - will in a few minutes.
H.M.Jr: Well then that's fine. Wednesday.
L: Yes.
H.M.Jr: Nine-fifteen at my office?
L: I think I'll be down there. I've just gone over the schedule and I think I'll be down there by nine-fifteen.
H.M.Jr: Well -
L: I may be a little late, but -
H.M.Jr: Well supposing we say ten o'clock.
L: I think that - my plane will be in, ought to be in by that time.
H.M.Jr: Ten o'clock.
L: Yes.
H.M.Jr: Swell.
L: All right.
H.M.Jr: We'll have everything ready.
L: Fine.

H.N. Jr: Thank you.

L: Fine.
March 18, 1940.
5:03 p.m.

Operator: Go ahead.
H.M. Jr: Hello.
Senator Wagner: Henry?
H.M. Jr: Yes.
W: This is Bob Wagner.
H.M. Jr: How do you do?
W: Why, how do you do? Say Henry, I - Pittman has gone out on me. He's got some other important things.
H.M. Jr: Yes.
W: So you'd better be here at ten-thirty - eh - we'll certainly try to help all we can. It's just one of those silly things, you know.
H.M. Jr: Pittman's run out on you.
W: He's run out, yes. He got some other very important meetings, but he'll come any other time but tomorrow. I said, "Well to hell with any other time but tomorrow".
H.M. Jr: All right. Well if I'm there what the devil -
W: Yes. Oh yes it isn't - be all right. Say listen, you always acquit yourself and I don't know - what all this concern is about.
H.M. Jr: St. Patrick's day was on the 17th.
W: Well it's true. I mean I'm not - you know that yourself. I don't have to tell you.
H.M. Jr: You know I'm going to come up -
W: Whether you do or not.
H.M. Jr: I'm not going to stultify myself. I've got a little statement. I'm going to read it, so what?
W: All right.
H.M. Jr: O.K.

M: Yes, fine. All right Henry.

H.M. Jr: Thank you.

M: Goodbye.
Operator: Go ahead.
H.V. Jr: Hello.
Robert Doughton: All right, Mr. Secretary.
H.V. Jr: How are you Bob?
D: All right Henry, how are you?
H.V. Jr: Swell.
D: How are your return receipts showing up?
H.V. Jr: Why we're not making any announcement but they're running just a little bit ahead of what we figured.
D: Ahead of the estimates.
H.V. Jr: Yes, a little bit.
D: Yes, well I was in hopes they'd be considerably so.
H.V. Jr: No, just a little bit, not much.
D: I see. Nothing new on taxes anyway.
H.V. Jr: What's that?
D: Nothing new on the tax situation.
H.V. Jr: Not a word, no.
D: Well -
H.V. Jr: I don't know a word, but they're just running a little bit ahead.
D: Well the thing that I regret to do the most of anything in the world, to bother a man of your duties and responsibilities about a little job.
H.V. Jr: Well I'm always - you never can bother me Bob.
D: Well about two months ago I spoke to you about a woman here that was in desperate situation in my district, right near my home there, a Mrs. Gene McKinnon, and you got her appointed down at -
somewhere in the Treasury, Procurement Division.

H. W. Jr.: Yes.

D.: Now they've laid off a great number down there and she goes off, she's about crazy, say she's done splendid work, I don't know whether you can keep her any longer or not.

H. W. Jr.: Well the trouble with that is Bob, we've got, I don't know, there's three or four hundred people we're laying off.

D.: Yes.

H. W. Jr.: And I haven't made one exception yet, and if I do I'm sunk.

D.: Yes.

H. W. Jr.: And -

D.: You have an idea you might find a place elsewhere for her without making exception, I don't want to ask you to make an exception and get yourself in trouble, I don't do that.

H. W. Jr.: Yes.

D.: I understand your situation.

H. W. Jr.: What's her name?

D.: Gene McKinne for McKinne.

H. W. Jr.: McKinne.

D.: She goes off the last of this month. She's been up here to see me several times, she's got some dependents to take care of and her man's left her some time ago and she's just in a terrible situation, but I understand your situation too. If you can't do anything -

H. W. Jr.: It's awfully hard.

D.: Her people down there have always been among my most loyal and effective supporters.
H.M. Jr: Yes.
D: And they feel like I ought to be able to help her.
H.M. Jr: Yes. Well I'll take a look but I don't hold out much hope because it would just mean pressure from every side and I haven't made an exception yet so I can tell all my friends I treat them the same.
D: I see.
H.M. Jr: That's the trouble.
D: I see. Well -
H.M. Jr: But I'll take a look at it Bob.
D: I'll appreciate it Henry if you will.
H.M. Jr: Thank you.
D: Goodbye.
H.M. Jr: Goodbye.
My dear Mr. Secretary:

I wish to acknowledge your recent letter in which you state that in the opinion of the Treasury Department the Inter-American Bank, as outlined in the proposed Convention and By-Laws, has an opportunity for performing useful work on a cooperative basis towards the improvement of economic and financial relations among the American republics and that the proposal therefore meets with the approval of the Treasury Department.

I wish also to take this opportunity of expressing my appreciation for the great cooperation which the Treasury Department has extended in the preparation and discussion of the Inter-American Bank proposal.

Sincerely yours,

Adolf A. Berle, Jr.
Assistant Secretary

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.
The administration of the Silver Purchase Act and the acquisition of all-
defensive strategic materials are inextricably interconnected.

The committee, in its entirety, would like to express its concern about the
situation in the Treasury and the Federal Reserve Bank of New York, which will be
discussed in detail. It has also been brought to the attention of the committee and the
authorities that have been placed upon
the Treasury and the Federal Reserve Bank of New York since 1939 has led to
carry out the duties and responsibilities that have been placed upon
the United States with respect to Sterling, would want to
assume that the committee, in determining what should be the
appropriate course of action, would also terminate the existing 50% position

The Treasury would also terminate the existing 50% position

Any order or other action taken with respect to such
agreements and other agreements respecting the
administration of the Federal Reserve Bank of New York,
the Secretary of the Treasury,
the Secretary of the President,
the President, or any other person or
entity in the executive branch of the
government, with
the consent of the President, the Secretary of the Treasury,
the President, or any other person or
entity in the executive branch of the
government, with
the consent of the President, the Secretary of the Treasury,
the President, or any other person or
entity in the executive branch of the
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entity in the executive branch of the
government, with
the consent of the President, the Secretary of the Treasury,
the President, or any other person or
entity in the executive branch of the
government, with
the consent of the President, the Secretary of the Treasury,
I have had prepared for the convenience of the Committee summary table showing the silver purchased by the Treasury, and the silver sold (canceled for by the Treasury), the acquisitions of silver by the Treasury, and the imports of silver into the United States since 1933.

I should like to mention that the difference between the figures of silver acquisitions shown in the table lies in the fact that the figure set of figures records the silver purchased regardless of when delivery is to be made and the acquisition figures record the actual silver received by the date and agency officer pursuant to such purchase.

I also mention that none of these figures include acquisitions of already coined domestic silver or silver which was nationalized pursuant to the Executive Order of August 9, 1934.

I would also like to leave with your Committee several statements which are also digest statements of all silver purchases up to February 15, 1940. These statements show the country which is the source of silver purchased by the Federal Reserve Bank of New York, at the direction of the Treasury Department.
both domestic and foreign, by the Treasury during the six year period, the ratio of silver to our total monetary stocks has not reached the ratio stipulated in the Silver Purchase Act. The obvious reason for this has been the increase in our gold acquisitions.

In order that the committee may have before it a complete picture of the silver required by the United States since 1933 the Department has also prepared a statement showing the amounts of duly-mined domestic silver and nationalized silver acquired since 1933.

I have also prepared a statement showing the amounts collected each year by virtue of the 50% silver profits tax. You will note that the amount of taxes collected in each of the first three years of the silver profits tax is substantially greater than the amount of tax collected in each year thereafter. The reason for this is that the yield of the tax is higher during a period of rising silver prices than during a period of stable or declining silver prices.

The Committee may have a number of questions which it would like to ask in connection with these tables. The members of my staff, who are here with me today, are available to answer such inquiries.
I should also like to explain here we have been purchasing silver. Firstly, we acquire silver for spot delivery. But in most of the cases, we have been purchasing silver under the Silver Purchase Act.

As you know the Treasury has made special arrangements with various foreign countries relating to the purchase of silver. The first, and perhaps the most significant, are the arrangements made with various foreign countries where the Treasury purchases silver directly from a foreign government at the price which the Treasury paid for the silver.

In all the instances where the Treasury purchased silver directly from a foreign government, the price which the Treasury paid for the silver was lower than that paid by the Treasury in the United States. In carrying out the silver purchase program, the Treasury has sought to divert to American refinerie companies a considerable amount of business which otherwise would have gone to foreign refinerie.

The Treasury normally requires that the silver purchased under the Silver Purchase Act be delivered no later than the working day following the purchase of the silver. Generally speaking, silver purchased for spot delivery comes from the stocks of territories of refinerie companies, or other dealers in silver such as banking firms.

As of now, we have been purchasing silver under the Silver Purchase Act.
important of such arrangements was made with China. In June, 1936, representatives of the Chinese Government came to me and requested me to work out arrangements for the orderly sale by China of some of its large silver holdings. At that time and from time to time thereafter the Treasury entered into arrangements with China pursuant to which it acquired approximately 565,855,000 ounces of Chinese silver. The arrangements by which we have purchased this silver from China have been of inestimable assistance to China.

Beginning with January, 1936, and up to March 31, 1938, the Treasury had a special arrangement with Mexico pursuant to which the Treasury purchased directly from Mexico up to 5-million ounces a month of newly-mined Mexican production. This special arrangement with Mexico lapsed on April 1, 1938, and has not been renewed since that date. Mexican newly-mined silver has been imported into the United States and has been sold in American markets. Some of it has been purchased by the Treasury. The silver when acquired by the Treasury is acquired as any other silver in this country and bears the stamp of an American refiner located in this country and the purchases were usually made from American concerns. The third special arrangement is the one which the Treasury has with Canada. Pursuant to this arrangement we acquire up to 1,200,000 ounces of newly-mined Canadian silver monthly. This arrangement is on a monthly basis and continues in full operation and effect.
In every case where foreign silver has been purchased payment has, of course, been in dollars. The foreign seller obtained dollars for the silver that he sold in the United States. These dollars were used chiefly for payment of goods purchased from the United States whether by the country selling us the silver or by some third country. In other words, our purchases of foreign silver have enabled foreign countries to increase their purchases from the United States. This has obviously increased the level of business activity and of employment in the United States. These purchases of foreign silver have, of course, not increased the public debt. It has been possible thus to obtain benefits for our economic life without increasing the public debt since, as you know, the Treasury is paid for silver purchases through the issuance of silver certificates in an amount equal to the cost to the Treasury of the silver thus purchased. To be sure the amounts involved are not large the Treasury is now buying about $5,000,000 worth of silver per month so that the economic advantages of our purchases are not as great as they were during that period when our monthly purchases were.

However, though the economic advantages that flow from the program of foreign silver are not large they are sufficient to warrant continuing that policy during these disturbed economic and political periods.

I feel that the proposal at this time to discontinue purchases of foreign silver is unwise. Pursuant to mandate of Congress the Government has acquired a very large stock of silver. In more recent years there has been greater stability in silver than in prior years. Many countries with whom we have friendly and intimate relations have, or produce, substantial
quantities of silver and 1s of the greatest necessity to such countries that they be able to use such silver in order to acquire such needed dollars. If there were to be a substantial decline in the price of silver such countries would suffer a proportional decline and would of necessity entail their purchase of commodities in this country. We are trying to build up our economy and we are trying to build up friendly and armed relations with foreign countries. To stop purchasing silver at this time would seem only to increase the difficulty of obtaining such silver. Furthermore, this government has been directed by the Senate to study and recommend a national monetary and banking policy and to consider and recommend the character of governmental monetary best calculated to carry on such a policy. Such a study }
As I understand it, this Committee is considering a bill proposed by Senator Townsend, the effect of which would be to terminate all power and authority of the President, the Secretary of the Treasury, and any other agency in the Executive branch of the Government with respect to the acquisition of silver (except newly-mined domestic silver acquired pursuant to section 4 of the Act of July 6, 1939), and also to terminate any orders, regulations, and other action taken with respect to silver. The bill would also terminate the existing 50% profits tax imposed on transfers of silver.

I assume that the Committee, in determining what should be the future policy of the United States with respect to silver, would want to be fully informed as to what we have been doing during the last six years to carry out the duties and responsibilities that have been placed upon us by the Silver Purchase Act. Accordingly, I have brought with me today records of our acquisitions since 1933 of silver other than newly-mined domestic silver. I have also brought with me the experts and technicians from the Treasury and the Federal Reserve Bank of New York who will be able to supply the Committee with any available information concerning the administration of the Silver Purchase Act and the acquisition of silver.
I have had prepared for the convenience of the Committee summary tables showing the silver contracted for by the Treasury, the acquisitions of silver by the Treasury, and the imports of silver into the United States since 1933. I should like to mention that the difference between the figures of silver contracted for and the figures of silver acquisitions shown in the tables lies in the fact that the first set of figures records the silver purchased regardless of when delivery is to be made; and the acquisition figures record the actual silver received by the mints and assay offices pursuant to such purchases. Incidentally it is the latter figures which have been made public from time to time and appear in the monthly Bulletin of the Treasury Department. I might also mention that none of these figures include acquisitions of newly-mined domestic silver or silver which was nationalized pursuant to the Executive Order of August 9, 1934.

I would also like to leave with your Committee several statements which are a consolidation of all silver purchases up to February 15, 1940. These consolidated statements were prepared for the use of this Committee by our fiscal agent, the Federal Reserve Bank of New York, at the direction of the Treasury Department. These statements show the country which is the source of silver purchased by the Treasury wherever such information was known to the Treasury.

I presume the Committee is also interested in figures showing the relative proportions of gold and silver in the monetary stocks of the United States at various dates. I have here a statement of such figures for the use of the Committee. You will note that notwithstanding continued acquisitions of silver,
both domestic and foreign, by the Treasury during the six year period, the ratio of silver to our total monetary stocks has not reached the ratio stipulated in the Silver Purchase Act. The obvious reason for this has been the increase in our gold acquisitions.

In order that the committee may have before it a complete picture of the silver required by the United States since 1933 the Department has also prepared a statement showing the amounts of newly-mined domestic silver and nationalized silver acquired since 1933.

I have also prepared a statement showing the amounts collected each year by virtue of the 50% silver profits tax. You will note that the amount of taxes collected in each of the first three years of the silver profits tax is substantially greater than the amount of tax collected in each year thereafter. The reason for this is that the yield of the tax is higher during a period of rising silver prices than during a period of stable or declining silver prices.

The Committee may have a number of questions which it would like to ask in connection with these tables. The members of my staff, who are here with me today, are available to answer such inquiries.
I should also like to explain how we have been purchasing silver. Firstly, we acquire silver for spot delivery. That means that the silver is delivered to us no later than the working day following the purchase of the silver. Generally speaking, silver which we purchase for spot delivery comes from the stocks or inventories of refining companies, or other dealers in silver such as banking institutions, etc. Secondly, silver which is newly-mined silver production of foreign countries is purchased by us for future delivery. Under our present practice we permit up to 5 months' time for delivery thus purchased. Thirdly, the Treasury acquires silver pursuant to special arrangements with certain foreign countries. The Treasury normally requires that the silver which it purchases bear the stamp of a refinery located in the United States; and, carrying out the silver purchase program, the Treasury has sought to divert to American refining companies a considerable amount of business which otherwise would have gone to foreign refiners.

In all the instances in which the Treasury purchased silver directly from a foreign government the price which the Treasury paid for the silver did not exceed the market price for silver prevailing at the time of the purchase. This was, of course, also true of all other purchases of silver under the Silver Purchase Act.

As you know the Treasury has made special arrangements with various foreign countries relating to the purchase of silver. The first, and perhaps-
important of such arrangements was made with China. In June, 1936, representatives of the Chinese Government came to see and requested us to work out arrangements for the orderly sale by China of some of its large silver holdings. At that time and from time to time thereafter the Treasury entered into arrangements with China pursuant to which it acquired approximately 565,855,000 ounces of Chinese silver. The arrangements by which we have purchased this silver from China have been of inestimable assistance to China.

Beginning with January, 1936, and up to March 31, 1938, the Treasury had a special arrangement with Mexico pursuant to which the Treasury purchased directly from Mexico up to 5-million ounces a month of newly-mined Mexican production. This special arrangement with Mexico expired on April 1, 1938, and has not been renewed since that date. Mexican newly-mined silver has been imported into the United States and has been sold in American markets. Some of it has been purchased by the Treasury. The silver when acquired by the Treasury is acquired as any other silver in this country and bears the stamp of an American refiner located in this country and the purchase was actually made from Mexican sources. The third special arrangement is the one which the Treasury has with Canada. Pursuant to this arrangement as acquire up to 1,200,000 ounces of newly-mined Canadian silver monthly. This arrangement is on a monthly basis and continues in full operation and effect.

Canada is given the privilege of they have offering to us offered for sale on the New York Market.
In every case where foreign silver has been purchased, payment has, of course, been in dollars. The foreign seller obtained dollars for the silver that he sold in the United States. These dollars were used chiefly for payment of goods purchased from the United States whether by the country selling us the silver or by some third country. In other words, our purchases of foreign silver have enabled foreign countries to increase their purchases from the United States. This has obviously increased the level of business activity and employment in the United States. These purchases of foreign silver have, of course, not increased the public debt. It has been possible thus to obtain benefits for our economic life without increasing the public debt since, as you know, the Treasury is paid for silver purchases through the issuance of silver certificates in an amount equal to the cost to the Treasury of the silver thus purchased. To be sure the amounts involved are not large, the Treasury is now buying about $5,000,000 worth of silver per month so that the economic advantages of our purchases are not as great as they were during that period when our monthly purchases were.

However, though the economic advantages that flow from the program of foreign silver are not large, they are sufficient to warrant continuing that policy during these disturbed economic and political periods.

I feel that the proposal at this time to discontinue purchases of foreign silver is premature. Pursuant to mandate of Congress the Government has acquired a large stock of silver. In more recent years there has been greater stability in silver than in prior years. Many countries with whom we have friendly relations have, or produce, substantial
quantities of silver and it is of the greatest necessity to such
countries that they be able to use such silver in order to acquire
such needed dollars. If there were to be a substantial decline in the
price of silver such countries would suffer a profound economic check
and would of necessity curtail their purchases of commodities in this
country. We are trying to build up our economy and we are trying to
build up friendly and sound relations with foreign countries. To
stop purchasing silver at this time would serve only to increase the
difficulty of obtaining such aids. Furthermore, this Committee has been
authorized directed by the Senate to study and recommend a national monetary and
banking policy and to consider and recommend the character of governmental
machinery best calculated to carry out such a policy. Such a study, I
assume, would be comprehensive in its nature and would necessarily
include a study of the entire silver problem and the relation of silver
to the other problems in the monetary field. It serves no good purpose to attempt to dispose of the silver problem
independently and prior to the completion of such a study. There is no
reason to believe that the Treasury acquisitions of silver during the
period of study will be of large enough quantities to change substantially
the silver situation as it exists today. Accordingly, I repeat the silver
situation should be dealt with as one part of the entire monetary policy
and should not be dealt with prior to the completion of such investigation.
PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro
NO.: 76
DATE: March 18, 1940

In its acknowledgment of receipt of Aranha's letter to you regarding repatriation (your 102, March 9, 3 p.m.) Council inquires "whether the Brazilian Government will advise bondholders in advance of purchases for repatriation of bonds to be made under Section 6 of Article I of the Aranha plan".

The following is confidential for Ambassador Caffery: If the Foreign Bondholders Council should wish to stress the importance of this question, it is obvious that there are potentialities of trouble in this situation in view of the fact that the Council definitely based its promise with regard to the public statement which it was to issue on the understanding that the offer of the Brazilian Government would disclose the whole picture to bondholders, including any repatriation of bonds. (See the Department's telegram no. 56 of March 6, 7 p.m.) It would therefore seem to be desirable that the Brazilian Government give assurances that it will make full disclosure in suitable detail. The Department hopes that you will be able to make arrangements for such a reply.

EA:EB

HULL (AAB)
I understand that Mr. Gaston informed you Saturday night of the situation with respect to the refusal of a Norwegian vessel and an Icelandic vessel to carry United States mails.

Saturday afternoon the Norwegian Minister agreed to permit the Norwegian vessel to carry the mails. After making the agreement, he communicated with his government, but because no one was at the foreign office over the weekend, he was unable to put the agreement into effect. Permission was finally given by the State Department to the vessel to clear with or without the mail. It accordingly sailed this morning at 10:00 a.m. with some diplomatic pouches but with no regular mail.

The Icelandic vessel consented to carry the mail and cleared this morning at 10:30 a.m. with the regular consignment of mail.

Another Norwegian vessel plans to sail on Wednesday, March 20. Mail will be tendered to it, and the present intention is to hold the vessel in the event the mail is refused unless something is worked out in the meantime. The British are behind the refusal of the lines to carry the mail, and the State Department is negotiating with them at the present time.
TO Secretary Morgenthau
FROM Mr. Haas

Subject: Railroad freight movement for export.

**Export freight receipts lower**

Carlot receipts of freight at New York routed for export fell off somewhat during the second week of March, though remaining within the previous month's range. (See Chart 1 and table attached.) A preliminary estimate for the third week of March, based on incomplete data, shows a slight upturn.

Receipts for export at nine other North Atlantic ports (lower section of chart) remain at the high level reached during the first week of March.

**Decline in export freight stored at New York**

Lighterage freight in storage and on hand for unloading at New York Harbor (largely representing freight destined for export) declined somewhat during the second week of March (see Chart 2), partly because of the reduced volume of incoming export freight previously mentioned.

There is no indication of a congestion of storage space at New York. On March 12, space for 5,268 carload units was occupied, of a total of 14,673 units (including covered piers, open piers and ground storage). About 40 per cent of the covered storage space is now in use.

The volume of freight actually exported from New York, according to our estimates derived from these figures, reached a new high for recent months during the first week of March, but fell off somewhat in the following weeks. (See Chart 3.)
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK AND AT NINE OTHER NORTH ATLANTIC PORTS

<table>
<thead>
<tr>
<th>Week ended</th>
<th>New York 1/ (In carloads)</th>
<th>Nine other North Atlantic ports 2/</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 28</td>
<td>3,707</td>
<td></td>
</tr>
<tr>
<td>November 4</td>
<td>3,562</td>
<td></td>
</tr>
<tr>
<td>November 11</td>
<td>3,547</td>
<td></td>
</tr>
<tr>
<td>November 18</td>
<td>3,334</td>
<td></td>
</tr>
<tr>
<td>November 25</td>
<td>3,497</td>
<td></td>
</tr>
<tr>
<td>December 2</td>
<td>3,435</td>
<td>1,548</td>
</tr>
<tr>
<td>December 9</td>
<td>3,922</td>
<td>1,558</td>
</tr>
<tr>
<td>December 16</td>
<td>4,088</td>
<td>1,602</td>
</tr>
<tr>
<td>December 23</td>
<td>4,848</td>
<td>1,104</td>
</tr>
<tr>
<td>December 30</td>
<td>3,856</td>
<td></td>
</tr>
</tbody>
</table>

1940

| January 6  | 4,000                     | 1,251                             |
| January 13 | 4,056                     | 1,433                             |
| January 20 | 4,060                     | 1,557                             |
| January 27 | 4,389                     | 1,625                             |
| February 3 | 4,274                     | 1,496                             |
| February 10| 4,617                     | 1,590                             |
| February 17| 3,974                     | 1,637                             |
| February 24| 4,550                     | 1,667                             |
| March 2    | 4,577                     | 2,388                             |
| March 9    | 4,059                     | 2,448                             |
| March 16   | 4,109p                    | 2,383p                            |


LIghterage freight in storage and on hand for unloading in New York harbor.

* Largely export freight, but about 10% represents freight for local and coastal shipment. Figures exclude grain.
CAR LOADS OF FREIGHT EXPORTED FROM NEW YORK

* AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.

Office of the Secretary of the Treasury
Division of Research and Statistics

Regraded Unclassified
MEMORANDUM FOR THE SECRETARY:

Shipping Situation

The Pacific Coast freight and charter market was not particularly active or exciting last week, although business to Scandinavian countries, especially Sweden, had picked up considerably from its slump of a month ago. There was no explanation for the improvement, other than that operators imagined buying interest had been stimulated by low inventories. There was a fair amount of citrus fruit being booked, but lumber was quiet at rates ranging between $50 and $65. Space conditions to the United Kingdom, of course, were exceedingly tight and operations continued on a basis of secrecy where British lines were concerned.

In the trade to the Orient there was more cargo offering than ship space was available to accommodate it, especially in the Northwest where trans-Pacific services have been cut more drastically. Berth rates for most of bulk commodities such as lumber, wheat, pulp, flour, and metals remained below the charter level. Most business out of the Northwest was being done on a charter basis. The situation was a little easier at California ports, although space was not begging. During the past week or so scrap offerings have been piling up and berth quotations were advanced to about $12 for rails and between $14 and $15 for high grade metals. No scrap charters were reported closed, but it was believed that any business in this direction could command up to between $13 and $14 f.i.o. General cargo movement was only fair. A vessel was fixed to lift a cargo of coal at Comox for Japan. Some increase in berth rates were announced by the Conference lines in the trans-Pacific route.

Intercoastal space conditions were still menacing and no relief was apparent. Cargo offerings in both directions were more than the lines could handle. One line was sending ships eastward in tandem fashion in order to accommodate as much cargo as possible.

It is interesting to note that Japan which is regarded as a first-rate power and a coal producing country who claim to have gone into China in order to secure more breathing space for her millions of population, is now importing coal from the United States because she does not have sufficient man power to fully produce her mines. The freight rate on coal from British Columbia to Japan is $9.25 per ton.

Basil Harris
MEMORANDUM FOR THE SECRETARY:

Shipping Situation.

While extreme confusion exists as to the future course of business, due to the end of the war in Finland, the indices show that the movement of export freight through the Port of New York holds at a remarkably uniform level from week to week. There is a trend however toward lower levels.

For the month of February the railroads lightered for export an average of 739 cars per day. On March 14th the number was 668 cars.

In February the number of cars on hand to be delivered averaged 3723; on March 1st there were 3506 and on March 14th 3268.

Export freight in railroad storage facilities on March 14th were 5126 cars, with about one third of the available space occupied.

Railroad lighters on demurrage as of noon March 14th numbered 59.

Grain on hand in railroad cars, elevators and barges at New York is slightly over 2,000,000 bushels. There are large quantities in store at Buffalo, from whence it is ordered out to ships as required, so as to take advantage of the nominal storage charges at Buffalo awaiting the establishment of special summer rate of 10¢ per 100 lbs. from Buffalo to New York which will be put in to enable the railroads to compete with the barge canal.

The export grain market is dormant, practically no business being done in any direction this week. The rate on grain from the River Plate to Antwerp dropped from $32.00 to $28.50 per ton. Several American-flag ships were fixed for bulk grain from Australia to the North Atlantic at $17.50 per ton.
Net form and time charter rates are pointing higher. The Black Diamond Line paid $8.00 per deadweight ton per month for the Estonian steamer "MARET". North Atlantic to Havre net form was done at 36¢, with 38¢ paid from the Gulf to Havre.

Another indication of shrinkage in current business is carloadings which, while running strongly ahead of the same week last year, declined from the previous week. All the major classifications were off with the exception of a nominal increase in the movement of ore.

England has banned the importation of fruits in cans and glass. There are still large quantities of other types of canned goods offering, such as tomatoes, pork and beans, etc., but unless there is an intensification of war activities it is likely that all types of canned goods will be barred as the stocks in storage in Great Britain must be very large.

The French Government has just about completed the movement of some 6000 motor trucks and no information is available in the trade as to additional orders having been placed.
TO: Secretary Morgenthau  
FROM: Mr. White  
Subject: Shipments to U.S.S.R.

Following are details of the S.S. Texas which sailed March 15th for Russia:

Domestic exports:
- Industrial machinery: $1,718,636
- Copper and products: 710,883
- Brass ingots, strips and castings: 701,448
- Electrical machinery and apparatus: 156,914
- Tin plate: 85,498
- Other ferro-alloys: 68,305
- Other metals and alloys: 62,903
- Motor trucks (over 2½ tons): 48,700
- Iron and steel pipe and fittings: 47,732
- Stainless steel sheets: 38,734
- Wheels of artificial abrasives: 26,661
- Pure nickel scrap: 16,168
- Nichrome resistance wire: 11,061
- All other commodities: 30,925

Total domestic exports: $3,724,568

Re-exports:
- Standard T/N Shellac: 21,252
- Liquor: 14,909
- Motion picture film: 5,426
- Preserved mushrooms: 552

Total re-exports: 42,139

Total cargo: $3,766,707

CC:
- Mr. Gaston
- Mr. Basil Harris
- Mr. Cochran
March 18, 1940

Secretary Morgenthau

Mr. White

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CC:
- Mr. Gaston
- Mr. Basil Harris
- Mr. Cochran

JMW: Ir
3/18/40

Regraded Unclassified
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: March 18, 1940, 7 p.m.
NO.: 357

FOR TREASURY FROM MATTHEWS.

I had lunch today with M. Henry Jahan, the managing director of the Banque de Paris et des Pays Bas. Jahan a number of years ago was the director of the Mouvement General des Fonds.

Jahan told me that he understands the French authorities are actively engaged at present in drafting legislation to requisition French holdings of foreign exchange - references, telegrams of February 9, No. 190, and of February 27, No. 262, from the Embassy. In confidence he told me that his bank holds about $23,000,000 of dollar exchange for clients, and he considers a "fair estimate" of total French private holdings of dollar exchange to be $150,000,000 - reference, telegram of February 27, No. 262, from the Embassy. With regard to dollar securities, he does not anticipate any early similar move - which confirms similar indications to me by Couve de Murville, reference, telegram of February 9, No. 190, from the Embassy. He remarked that quite a substantial amount of French owned dollar securities is in Switzerland, and I have heard American bankers in Paris express similar views. Such securities are held both by residents in France.
France and by French individuals who live in Switzerland, either in their own names or through Swiss or other foreign holding companies. He was in agreement with others with whom I have talked that for the French authorities to get their hands on such securities would be very difficult.

END SECTIONS ONE AND TWO.

MURPHY.
PARAPHRASE, SECTIONS THREE TO NINE, INCLUSIVE,
NO. 357 OF MARCH 18, 1940, FROM PARIS

He believes that a sizeable amount of declared French-owned American securities has already been disposed of by means of "arbitrage operations" - for instance, an American stock is sold and Canadian Pacific purchased in New York with the proceeds; subsequently the Canadian Pacific is sold at a profit of around 10 percent on the Paris market.

Jahan also confirmed the definite reports I had been given by Royall Tyler with regard to the recent practice of banks in Italy authorized to deal in foreign exchange which are purchasing dollar and other checks in foreign currencies at negotiated rates above the official quotation for the lira. Reference: telegram of March 13, No. 335 from the Embassy. Also reference: telegram of March 15, No. 348, from the Embassy - in which I reported that Pennachio declined to admit that this "authorized" practice exists.

The sterling and franc drop on the New York free market did not seem to greatly disturb Jahan; he felt that "political" considerations were partly to blame for the fall. There will always be sizeable fluctuations on such a market, he feels, because of its thinness.

Jahan expressed some criticism of the way the exchange control authorities have been handling the franc accounts.
of foreigners - that is, nonresidents. In January, during the fright of German invasion of Belgium, he said that many Belgians who had substantial French franc holdings wanted to transfer them to accounts in France quickly, but they were not permitted to do this, the French exchange control authorities stating that it was because of their subsequent possible conversion into foreign exchange, even though the Belgian owners expressed willingness to give undertakings that they would not be converted. Such a "rigid" point of view, he believed, had been a mistake and it constituted a wasted opportunity to reduce the free market supply of francs.

This year there may be difficulties for French agriculture, he believes, unless the Army would release more agricultural labor than it has up to the present. He expressed skepticism as to how useful the 200,000 colonial agricultural laborers would be which were promised for work in metropolitan France by the Labor Minister, reference, telegram of March 7, No. 301, from the Embassy. However, he finds that progress is being made by industry though there is still a lag in exports, of which one of the main reasons is the lack of transportation. He hoped that the conversations between Mandel and MacDonald on colonial trade would produce real results.

There
There is still prominent discussion of the question of higher profits for industry and wages for labor. In this morning's AGENCE ECONOMIQUE ET FINANCIERE, PARIS, an article commenting on the encouraging sign when agreement can be reached by a De Wendel and a Spinasse - reference, telegram of March 13, No. 335, from the Embassy, third paragraph - states that in time of war they must put an end to fatal demagogy, that every one employer or workman must work according to his ability and be paid what is due him, with the result that production and consumption will benefit thereby. It continues that if the peace-time policy is continued, that is, the seeking to avoid criticism of some fiscal measure affecting industrial (omission) by the Extreme Left or of certain advantages granted to labor by the Extreme Right, certain disappointment will come. It states that more than ever today the community's interest is in not breaking the incentive of the profit motive, and that the overtime work of the employer, as that of the workman, should not be penalized but should be encouraged. This it says is the price of victory for the democracies over autarchy regimes.

As time goes on, such criticism of the firm policy of the Government in limiting both profits and wages will probably increase - see the remarks of Ardant in telegram of March 13, No. 335, from the Embassy. The AGENCE editor
Bollack, in the above instance shows in stronger terms than heretofore expressed his personal dislike of Reynaud and his policies.

END SECTIONS THREE TO NINE, INCLUSIVE.

MURPHY.
Secretary of State,
Washington.

357, March 18, 7 p. m. (SECTION TEN)

The Chamber of Deputies Friday evening approved the bill submitted by Reynaud calling for the necessary authorizations to contract national defense expenditures for the second quarter of 1940 (55,000,000,000 francs) and the opening of the necessary financial credits (my telegrams Nos. 335, March 13, 7 p. m. and 346, March 14, 7 p. m.).

Yesterday's JOURNAL OFFICIEL published a decree designed to effect stricter control over the activities of middlemen in the placement of national defense contracts, sub-contracts, or orders. Hereafter unless specifically authorized to do so by the Minister of National Defense, commission agents may not intervene in such transactions and any firm which has received a national defense contract or order through the intermediary of such an agent is required immediately to report the matter to the Minister of National Defense.

MURPHY

NPL
357, March 18, 7 p.m. (SECTION ELEVEN)

The securities market today was less active and in a mood of caution influenced by the surprise meeting of Hitler and Mussolini. Rentes and French bank issues were down fractionally whereas gains and losses were mixed in French industrial issues.

French public opinion and Parliament in view of the "moral defeat" as it is viewed here of the Allies in Finland are demanding as a prelude to a more energetic prosecution of the war changes within the government. It is therefore expected that Daladier will announce such changes within the next several days. He is keeping his own counsel closely and whether he envisages a small "war cabinet", a government of "national union" with a broad base from Extreme Left to Extreme Right on merely "filling in the vacancies" is not known. For the time being his relations with Reynaud, however, seem better (probably influenced by the difficulty of finding a successor) and today's crop of rumors does not indicate a change of Finance Minister.
(END OF MESSAGE)

MURPHY
Secretary of State,
Washington.

681, March 18, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

In announcing that the £300 million three percent war loan had been over-subscribed the Chancellor of the Exchequer made the following declaration to the House of Commons this afternoon:

"The policy of the Government is to aim at stability of interest rates and to secure that the yields offered on future loans, whatever their type, shall after making due allowance for such factors as the period of the loans, be in agreement with the level of interest rates established by the terms of the recent two per cent conversion loan and of the three per cent loan just issued.

"In these circumstances I welcome the action taken today by the committee of the London stock exchange in announcing a revised list of minimum prices for government securities. The new minima bear a closer relationship to existing prices than those fixed on the outbreak of the war and may be taken as evidence of the desire..."
ham -2- No.681, March 18, 7 p. m., from London

on the part of the authorities concerned to cooperate in the policy of maintaining interest rates at the present level."

From city sources I understand that war loan applicants below £50,000 were allotted in full; above that figure they received 80 percent. The loan can be publicly called a "success", but given the probability that the government controlled agencies made applications to the requisite amount, and the fact that it is the first loan of the war issued 6½ months after war began the performance is not impressive.

As implied in Simon's statement the announcement of new minimum prices for British Government securities was made at the instigation of the British monetary authorities and was not designed to meet any immediate contingency but to consolidate the interest rate position thus far established by preparations to limit the financial repercussions arising out of future war developments. Unlike the former, the new minimum prices are actuarily computed and can be illustrated by the 3½ percent perpetual war loan which is now fixed at 95 ex dividend as compared with the previous minimum rate of 88½ cum accrued interest. Incidentally war loan closed last week at 99½ which, if accrued interest be deducted, meant a net price of 97½.
The British monetary authorities obviously timed the minimum price announcement with a view to giving psychological aid to the market in the present despondent circumstances. The city’s psychology seems to have worked otherwise. The new war loan opened at a discount due not to the intrinsic merits or demerits of the individual issue but to the general market feeling which responded to the minimum price announcement by letting British Government securities drift towards those prices.

KENNEDY

CSB
Attached are (1) a copy of S. E. C.'s Investment Trust Bill and (2) a statement concerning the Bill prepared for Senator Wagner (who will introduce and sponsor the Bill in the Senate) by S. E. C.

Generally speaking, the purpose of the bill seems to be to regulate investment companies and investment advisers so as to insure that investors will have a means of obtaining accurate information concerning them and their activities, and to prevent the abuses indicated by the S. E. C. studies over the past several years as being responsible for the $3,000,000,000 in losses sustained by holders of investment trust shares since the early 1920's.

The constitutional bases for the bill appear to be the postal powers (compliance with the Act is made a condition of the use of the mails) and the interstate commerce powers.

There are two titles in the bill. Title I relates to investment companies, while Title II covers investment advisers. The highlights of each title follow:

Title I of the bill requires every investment company to register with the S. E. C. and give certain information regarding its officers, directors, depositors, underwriters, distributors, etc., and its investment policy; provides that no new company can offer its securities to the public unless it has a net worth of at least $150,000, and that no company can supervise assets worth more than $150,000,000; makes provision for revocation of registration for cause after notice and hearing by S. E. C.; places limitations upon the kind of stock companies may issue and the voting rights which may be conferred thereby; makes the exercise of certain important management functions subject to approval by shareholders; prohibits...
for a five year period the promoters of one investment company from promoting and participating in another such company; prohibits assignment of distribution contracts; authorizes the S. E. C. to adopt rules governing pricing practices; prohibits companies from trading on margin; restricts the borrowing and loan making powers of companies; provides for the elimination of conflicting interests on the part of directors and managers; prohibits "self-dealing" by directors and other managers; subjects inter-company transactions to close scrutiny by S. E. C.; makes reorganization plans subject to S. E. C. approval; authorizes S.E. C. to prescribe and regulate accounting practices; restricts payment of dividends; and protects investors of small means by limiting sales on installment plan and preventing excessive penalties and forfeitures for lapses or defaults in payments.

Title II regulates people who furnish investment advice to others for compensation. It requires registration with S. E. C.; the furnishing of information relative to their organization, facilities, methods of operation, etc.; prohibits their engaging in transactions in which they have a personal interest; prohibits compensation based on profits realized by investor; and, provides for revocation of registration in cases of violation of the Act, etc.

The last four pages of the statement prepared for Senator Wagner contain a more comprehensive summary of the bill.
SENIOR WAGNER INTRODUCES INVESTMENT TRUST LEGISLATION

Senator Robert F. Wagner of New York today (Thursday, March 14, 1940) introduced in the Senate comprehensive legislation to regulate investment companies and investment advisors, and issued the following statement concerning its purposes and provisions:

NATIONAL PUBLIC INTEREST IN INVESTMENT TRUSTS AND INVESTMENT COMPANIES

Investment trusts and investment companies constitute one of the important fields for the investment of savings of the American public and an important factor in our national economy. At the present time, these organizations have total assets of approximately $4,000,000,000. In addition, they control or exercise a significant influence in a great variety of industrial enterprises, public utilities, insurance companies, banks, etc., with aggregate resources of approximately $20,000,000,000.

During the past ten years there have been approximately 4,000,000 holders of certificates or shares of investment trusts and investment companies located in every State. American investors have sustained losses amounting to approximately $7,000,000,000, out of a total investment in such companies aggregating about $10,000,000,000. During the period between the early 1920's—when the investment companies first made their appearance in this country—and the present, approximately 1,800 investment enterprises of all types were created. However, only about 650 trusts and companies are still in existence, the remainder having disappeared either through mergers, receivership, dissolution or bankruptcy. In addition, numerous companies continue to be influenced by investment companies even though their ability to continue operations has been impaired by substantial losses.

A large portion of these losses is directly attributable to those arrangements which failed to recognize their fiduciary obligation to their shareholders and subordinated the interest of the investor to their own pecuniary advantage.

The problems with respect to investment trusts and investment companies are still acute, for new organizations of this type are still being formed in large numbers and are raising substantial funds. From the middle of 1934 up to the end of 1939, approximately 22,400,000,000 of securities of investment trusts and companies have been registered with the Commission. Although not all of these securities have been distributed, approximately 4,400,000,000 of investment company securities were sold during 1936 and 1937 alone, or approximately one-sixth of all non-refunding corporate issues sold during those years. During the last few years, sales campaigns have been vigorously conducted and investment trust certificates are being sold upon the installment plan to individuals in the lowest economic and income strata of our population—individuals who are particularly susceptible to devices high-pressure selling methods and who have been subjected to unconscionable penalties and forfeitures in all-too-many instances.

SECURITIES AND EXCHANGE COMMISSION INVESTIGATIONS

The abuses and deficiencies of investment trusts and companies which occasioned these losses to the American public are not academic, and not solely attributable to the financial and economic crises which prevailed during the 1930's. Some of the most flagrant abuses and serious violations of fiduciary duty were perpetuated during the very time that the Securities and Exchange Commission was conducting its comprehensive study of investment trusts and investment companies pursuant to Section 30 of the Public Utility Holding Company Act of 1935. That study conclusively demonstrates that, unless these organizations are subject to appropriate registration and regulation, the interest of many of almost 2,000,000 American investors in these institutions will be substantially threatened.

GENERAL PURPOSES OF THE LEGISLATION

This bill provides for the registration and regulation of investment trusts and investment companies and for the registration of investment counselors and other investment advisory services. The underlying purpose of the legislation is not merely to ensure to investors a full and fair disclosure of the nature and activity of the investment trusts and investment companies in which they are interested but to eliminate and prevent those deficiencies and abuses in these organizations which have contributed to the tremendous losses sustained by their security holders.

INVESTMENT TRUSTS NOW LARGELY UNREGULATED

Investment trusts and investment companies, like banks, insurance companies and similar financial institutions, represent large pools of liquid funds of the public entrusted to individuals for management and investment. Yet unlike those other financial institutions, investment trusts and investment companies, although their field of activity is unlimited, have been subject to virtually no regulation and
Because of this absence of safeguards, promoters and managers of investment companies have been able to determine every aspect of their affairs in an atmosphere of self-dealing and conflicting interests devoid of arm's-length bargaining. Independent scrutiny, in behalf of public stockholders, of the transactions and activities of promoters and controlling groups in the organization and operation of investment companies has been and is virtually non-existent. Too often, the organization of investment trusts and companies has been motivated not by a desire of their sponsors to engage in the business of furnishing investment management to the small investor but rather to accumulate large pools of wealth which would provide a variety of sources of profit and encouragement to their sponsors and controlling persons.

Only a small amount of capital is required to form investment trusts and companies. As a consequence, these organizations are still experiencing an unwise mushroom growth and various individuals, regardless of their background, have been able to promote or acquire control of these organizations, with their large pools of leverage, with a minimum of investment. In many instances, control of these institutions has been made impermeable by devices such as management voting stock; voting trusts; the common law or business trust form of organization in which security holders have no vote; long-term management contracts which also assured substantial compensation irrespective of the company's performance; option warrants to purchase the company's stock which have the potentiality of substantially diluting the value of the public stockholder's interest; and finally, domination of the proxy machinery for the solicitation of authority to vote the shares held by public stockholders.

In many instances, the pecuniary interest of the promoters, distributors and managers has dictated almost every phase of the organization and operation of investment companies to the detriment of investors. Capital structures, which are often confusing and incomprehensible to investors, have been created with the ulterior motive of vesting in the controlling groups complete control of public stockholders' funds and a disproportionate share of the company's profits. The capitalization of investment companies was in many instances determined solely by the amount of securities the public would absorb. As a consequence, amount capital structures have been created—structures which fostered and perpetuated sharp conflicts of interests between the holders of senior securities and junior securities. These conflicts have often been resolved to the detriment of the public senior security holders and to the advantage of the common stock held by insiders, security holders of junior securities and to an advantage to the holders of the common stock held by investors. Many senior security holders had no protective features, or inadequate features which were circumvented and nullified by the controlling common stockholders; and the public investors were powerless to prevent unfair and injurious practices. These companies with senior securities have been, in essence, margin accounts—margin accounts subject to further margin calls—for trading in common stocks for the benefit of the inside common stockholders. Unrequited speculative activities have resulted.

In addition, these capital structures have more than one class of security which are peculiar to that type of organization. Investment companies are permitted to be organized with the broadest powers, and in essence, constitute skillful devices of public liens. As a result, sponsors, promoters and controlling groups in many instances have directed the investment of the public's funds in a variety of activities without the consent of the stockholders and irrespective of the announced investment policies which induced the public to invest in the enterprise. In addition, the assets of investment trusts and investment companies consist of cash or marketable securities virtually indistinguishable from cash, which could be used to acquire any type of asset which is reasonably similar to cash. This has not been the case.

Investment trusts and investment companies have suffered many abuses which are peculiar to that type of organization. Investment companies are permitted to be organized with the broadest powers, and in essence, constitute skillful devices of public liens. As a result, sponsors, promoters and controlling groups in many instances have directed the investment of the public's funds in a variety of activities without the consent of the stockholders and irrespective of the announced investment policies which induced the public to invest in the enterprise. In addition, the assets of investment trusts and investment companies consist of cash or marketable securities virtually indistinguishable from cash, which could be used to acquire any type of asset which is reasonably similar to cash. This has not been the case.

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the market in securities underwritten by such managing groups; and to purchase substantial blocks of stocks in industrial companies, railroads, banks and insurance companies in order to expand the banking and brokerage business and build up the financial empires of these insiders.

To augment and intensify all of these opportunities for control and personal profits at the expense of public stockholders, insiders have often fostered excessive pyramidung of investment companies into complicated corporate systems. Funds, securities and other property were shifted by the dominant persons among the various investment companies in the system and their controlled industrial and other enterprises, in order to promote their own personal pecuniary interests, to create misleading values and fictitious profits for the purpose of deceiving stockholders, and to centralize and perpetuate their control. In many instances, the pyramiding of investment companies involved a complete rearrangement of the policies the stockholders had been led to believe their companies would pursue; management costs have inappropriately been allocated among the various pyramided companies, and expenses have maliciously been duplicated.

Wholesale trafficking in, and buttering of control of the management of investment companies without the knowledge or consent of the investor has also been a frequent abuse in the history of investment companies. Stockholders have suffered serious losses as a result of undisclosed rearrangement of the control of their funds to new interests who have either been incompetent or dishonest. Under existing conditions, investors are powerless to protect themselves against the consequences of such shifts in control.

Managements have also used their control of the applicable corporate and statutory machinery to subject stockholders to iniquitous readjustments of the rights, privileges, preferences and values of their securities, by judicial reorganizations, recapitalization plans, mergers, consolidations, dissolutions and sales of the corporate assets to other companies. Existing remedies for the protection of stockholders against iniquitous plans of readjustment are inadequate, cumbersome and impractical. The financial resources of the average stockholder are usually insufficient to meet the burden of complicated and long-drawn-out judicial and other proceedings which may be necessary to oppose successfully unfair management-prepared plans.

Another fundamental abuse has been that many promoters and managers of investment companies have a greater interest in the profits which they can realize from the distribution of investment company securities than in compensation for the doubled function of furnishing expert, disinterested investment service to investors. As a consequence, management may be subordinated to distribution. Unsound investment trusts and companies may be organized in an effort to create securities or mercenaryamotoes for which the true value of the assets of the companies may be made, not on the basis of their soundness, but on the basis of their effect on sales of the company's shares. Selling charges are often fixed so as to yield a maximum of fees to distributors and frequently include many "hidden" fees exacted from the purchasing public. The profits to be derived in the merchandising of investment company securities has also prompted the rapid formation of investment trusts and companies by the same operators in order to "switch" investors from old companies into new companies, each switch being accompanied by exaction of a new selling "load" from the security holders.

In the case of those investment trusts and companies which continuously sell their shares to the public, practices have often been misused which have reappeared in substantial dilution of the investors' equity in the fund. Such dilutions have taken place as recently as last Autumn. The small investor, purchasing investment trust shares or contracts on the installment payment plan, has often been subjected to excessive sales loads and numerous penalties and forfeitures.

Implementing the perpetuation of all these abuses is the management's desirability of the accounting practices and the scope and content of the financial reports transmitted to the stockholders. The absence of uniform accounting principles has facilitated the transmission to stockholders of annual reports which are often misleading and incomplete.

This is not a complete catalogue of the deficiencies and abuses which have existed in the investment company industry. Of course, these abuses do not exist to equal degree in all classes of investment companies or in companies within each such classification. Some abuses are peculiar to certain types of companies only. In addition, some managements have taken steps to eradicate some of the described malpractices prevailing in the industry. However, considering the investment company industry as a whole, fundamental deficiencies and abuses appear as potentially exist in all classes of investment companies, and in the absence of legislative regulation, will continue or recur. The problem of the protection of the investor, regulation, will continue or recur.
and the national economy is too vital to permit of haphazard voluntary solutions.

"Investment trusts and investment companies have furnished but comparatively little capital to industry. For the most part, these organizations have invested their funds in securities which have been outstanding for some time. On the other hand investment trusts and investment companies could be capable of performing important functions in the national economy and of becoming one of the important institutions in this country for the investment of savings, along with banks and insurance companies. As media for investment in securities, particularly equity securities, investment companies may be able to offer more diversification and more competent management than the ordinary individual himself can provide, if they are not present temptations to management, unrestrained by effective compulsory standards or fair conduct, are removed. Certain types of investment companies could be particularly useful to the national economy in supplying the needs of new industrial enterprises, through equity financing and loans, thereby making available to these enterprises sources of capital funds which would otherwise be beyond their reach. Finally, investment companies, if made into real representatives of the participating investors and not of other interests, could become more effective advocates of the great body of investors in our industrial system than the new individual small stockholder.

INVESTMENT COUNSEL AND ADVISORS

"The activities of investment counsel and other investment advisory persons in many respects offer the same opportunity for abuse of trust reposed in them by investors as exists in the case of managers of investment companies. The extent of their influence is only partially indicated by the fact that the portion of these advisers studied by the Securities and Exchange Commission managed or gave advice with respect to over $4,000,000,000 of funds. The bill does not attempt to deal comprehensively with the problem of investment advisers, but is intended only to eliminate the more obvious basic abuses relating to the type of individual who may register as an investment adviser, profit sharing compensation, unloadings and perpetration of frauds upon clients, and assignment of clients' contracts.
SUMMARY OF THE BILL

The bill contains two titles. Title I relates to investment trusts and investment companies of all types. Title II relates to investment counsel and other investment advisory services. The bill deals with abuses and deficiencies in the registration, sale, of the securities, and operation of investment companies. In general, the theory of the bill is to eliminate wherever possible such abuses by direct prohibition of their continuance. Only in the comparatively few cases where the abuses are complex and technical is a regulatory power vested in the Commission to control such practices by rules and regulations, or orders promulgated in accordance with procedures prescribed in the bill. The following resume is not a complete description of all the provisions of the bill nor of the abuses which the bill is designed to remedy.

Investment Companies

Definitions. Exceptions and Classifications of Investment Companies are substantially defined as issuers holding themselves out as engaging primarily in the business of investing, reinvesting and trading in securities or in the business of acquiring securities (other than government securities and securities of investment company subsidiaries) having a value exceeding 20 per cent of their total assets (other than government securities and such items). The bill does not cover companies which are not investment companies. It therefore excludes companies primarily engaged, directly or through subsidiaries, in the management and operation of a noninvestment business or businesses. It also specifically excludes brokers, dealers, investment banking, holding companies, subject to the Public Utility Holding Company Act of 1955 and certain other types of companies. The bill was designed for the exemption of employees' investment companies upon such conditions as may be prescribed by the Commission. (Sections 3, 4)

Investment companies as so defined are classified into various types and categories, according to corporate structures and investment policies, with the power in the Commission to make further subclassifications. (Sections 4, 5)

Registration, Disclosure of Investment Policies and Size: As a condition to the use of the mails and the facilities and instrumentalities of interstate commerce, every investment company is required to register with the Securities and Exchange Commission to keep current the information contained in its registration statement. The registration statement must clearly describe the investment policy of the company. It is made for the simplification of the registration procedure by permitting the filing of copies of registration statements already filed under the acts now administered by the Commission. (Sections 7, 8). No statement in the company's investment policy may be made without the vote of the holders of a majority of the company's voting securities. (Section 14).

To prevent the indiscriminate formation of investment companies, an investment company organized hereafter may not be a public offering of its securities unless it has a net worth of at least $500,000 prior to such offering. To eliminate registration to the efficient supervision of investment company size and safety, and to prevent excessive concentration of wealth and control over industry, $250,000,000 is the maximum amount of assets which may be supervised by one management investment company. (Section 14).

Registration of Management, Officers and Directors: The bill provides for a federal registration with the Commission of individuals serving as officers, directors, investment advisers, depositors, principal underwriters and directors of the management of investment trusts and companies. Registration can be denied or revoked only upon a hearing and only upon the ground of violation of a rule; an injunction, at the request of the Commission, against any person having been convicted of a violation of any of the provisions of this bill; or a determination of material facts in the registration statement. (Section 9).

Capital Structure, Devices for, and Transfers of Control: Provision is made to limit the future the effect of complex capital structures, to preserve voting power equally among the security holders of existing companies, and to prevent unlawful control of the stockholders' interest in the company. The bill provides hereafter that investment companies may issue only common stock having equal voting rights with every outstanding share of the company's stock and that the Commission shall on application of security holders and may on its own motion, after two years from the effective date of the bill, take steps to effect an equitable redistribution of the voting rights and privileges among the security holders. The common law preemptive right of stockholders to purchase additional shares issued by their companies is restored. (Section 10) The sale of voting trust certificates is made unlawful, and sales and regulations may be made with respect to the solicitation of sales. (Section 20) The bill does not contain any provision requiring the elimination from capital structure of senior securities outstanding at the present time.
In order to prevent the circumvention of the stockholders' fundamental right to elect directors (a circumstance frequently accomplished by wholesale resignations and their replacement by insiders, without the knowledge of stockholders), the bill provides that directors may be replaced without a stockholders' vote only to the extent of one-third of their number. (Section 15)

To safeguard against the complete delegation of the duties of officers and directors, and against long-term and oppressive management contracts, such contracts may run for a period of not exceeding two years, if approved by the company's stockholders, and may be renewed only on a year-to-year basis, subject to the disapproval of stockholders. Management contracts must state precisely all compensation to be paid to the managers, may not provide for profit-sharing schemes of compensation, and may not be assigned. (Section 15)

Distribution and Repurchases of Investment Company Securities: To prevent the rapid and unwise formation of investment companies by promoters interested primarily in "organizing" securities and in "switching" investors from old to new companies, and to eliminate conflicting interests, the bill prohibits the promoters of any investment company within any five-year period, from promoting and then participating in the management or securities distributions of the new investment companies. The decision is empowered to exempt companies and individuals from this and other closely related provisions on the basis of certain prescribed standards. (Section 14) As a further deterrent to switching operations, contracts to distribute the securities of open-end investment companies may not be long-term agreements and may not be assigned. (Section 15)

While publicly offered securities of investment companies must be registered under the Securities Act of 1933, provision is made to eliminate duplication in the material filed under that Act and the present bill. (Section 24) The Commission is authorized to adopt and regulations to protect investors against dilution of their equity caused by various abuses in the distribution and redemption of the companies' securities. (Sections 25, 26) To prevent excessive excessive sales loads on securities of open-end companies and unit investment trusts, the Commission, after a hearing and after giving weight to various factors prescribed in the bill, is empowered to order the correction or modification of such charges. (Section 22)

To prevent discriminatory repurchases of their own securities by investment companies whose security holders do not have the right to require redemption, the bill authorizes the Commission to promulgate rules, regulations and orders to prevent such discrimination. (Section 22)

Liability on Speculative and other activities: Investment companies may not trade on margin or participate in joint trading accounts in portfolio securities. The Commission is authorized to prevent the short sale of portfolio securities by rules and regulations. Some types of investment company participation in underwriting activities (consistent with the declared financial and investment policies) while other types may engage in such activities only to a limited extent. (Section 22)

Sales by investment companies to natural persons are prohibited, loans to corporations may be made under certain specified conditions. Generally, investment companies are prohibited from borrowing, except for temporary purposes, in an amount not exceeding 5% of the value of the company's total assets. (Section 21)

Elimination of Conflicting Interests: The bill requires that a majority of the board of directors of each registered investment company be persons, having no common outside affiliation and independent of those receiving brokerage, management or converting compensation. Certain other specific limitations upon the outside affiliations of persons who occupy important relations in the conduct of the investment company's business are also imposed. Each of such provisions is directed to a specific and dangerous conflict of duty or interest. (Section 16)

Abuse of Transactions by Insiders with the Investment Companies: The bill prohibits "self-dealing" between insiders and the investment companies — transactions with the company in which its officers, directors, managers, etc., or their affiliated companies or firms have a personal pecuniary interest. These prohibitions are concerned primarily with sales and purchases of securities and other property to or from the investment company, the obtaining of loans by the company and joint participations with the company in underwritings and other financial ventures. Unlawful, fraudulent, or abuse of trust by directors, officers, managers, investment advisors, principal underwriters and distributors is also made unlawful. (Section 17) To prevent the use of the proceeds of investment companies to aid affiliated underwriters in their investment banking business, investment companies may not purchase securities underwritten by such affiliated persons until more than one year after the public distribution of such securities. (Section 16)
Purchases and sales of securities between companies in the same investment company system are subject to the scrutiny of the Securities and Exchange Commission in order to insure their fairness and their consistency with the investment policies of the companies involved and the purposes of the bill. (Section 17) The Commission is authorized, by rules, regulations, or order to require that a company in an investment company system supplying management services to the constituent companies render such services at cost, equitably allocated among the various companies. (Section 15)

Cross-ownership and circular ownership of voting securities between and among investment and other companies is prohibited. (Section 20) Cross-ownership and circular ownership have had the effect in the past of giving a deceptive appearance of advanced valuation of the assets of the investment companies concerned, attributable solely to the mirroring in each company of increased values of its own cross- or circularly-held securities.

Voluntary and Involuntary Reorganization: In order to prevent unfair plans of voluntary and involuntary reorganization, recapitalization and dissolution, the bill provides that such plans may be disapproved by the Commission if it finds, after a hearing, that they are not fair and equitable to all classes of security holders affected. (Section 26)

Accounting Practices: The Commission is authorized to prescribe uniform accounting and auditing methods and the scope of such audits; to require investment companies to file with it and to transmit to its security holders annual or other periodic and special reports and to examine the books of investment companies. Independent accountants for investment companies must be elected by the stockholders. Principal accounting officers including controllers of such companies, who participate in the preparation of financial statements filed with the Commission, must be elected by the stockholders or appointed by the directors. (Sections 20, 21, 30)

Dividends: Investment companies are prohibited from paying dividends derived from sources other than their net income from interest and dividends ("ordinary income"). unless expressly authorized to do so by their charter or by vote of their security holders. Investment companies with more than one class of securities outstanding may pay dividends, unless the securities senior to the security on whose dividend is to be paid are protected by a prescribed asset coverage. (Section 19)

Land Trusts and Certificates Sold on the Installment Plan: To prevent the "orphanage" of fixed trusts and periodic payment plans, the bill provides that only banks or trust companies may act as trustees; requires the trust indenture to contain provisions enabling the trustee to be remunerated out of the trust funds; and permits the trustee or depositor from resigning except under prescribed conditions. The Commission is empowered, when any such trust here in fact become an "orphan", to bring proceedings in an appropriate Federal District Court for the distribution of its assets to its security holders. (Sections 26, 27)

To prevent the perpetuation of fines upon investors in the low income levels the may purchase investment certificates upon the installment plan, provision is made against excessive sales loads and excessive penalties and forfeitures for late and default. (Section 27)

How Amount Certificates Companies: Companies which sell this type of investment contract are required to have a maximum paid-in capitalization of $250,000 and must maintain reserves in an amount sufficient to meet the maturity value of their certificates on their due dates. Such reserves must be invested in securities of a character similar to those usually required for the investment of life insurance company reserves, and the Commission may require such investments to be deposited with corporate trustees. To eliminate successive penalties and forfeitures, provision is made with respect to cash surrender values. (Section 28) The Bankruptcy Act is amended to provide that deposits of securities and property made with State authorities for the benefit of future certificate holders shall be void as against the trustees in bankruptcy of such companies. It is also provided that any such trustee in bankruptcy shall be appointed by the court, after giving the Commission an opportunity to be heard. (Section 29)

Since Provisional Settlements of claims against investment companies and their officers and directors for breaches of official duty, and settlements of class suits by security holders must be approved by a court. The Commission is empowered to submit advisory reports to the courts with reference to such settlements. (Section 23)
The remaining sections of the title follow the pattern already established in the three Acts now being administered by the Commission. These sections relate to penalties; the general powers of the Commission with respect to the issuance of regulations; the administration and enforcement of the Title; the right to judicial review of orders of the Commission; liability for misleading statements; and penalties for violation of the provisions of the Title.

Investment Advisers

Registration, Revocation and Exemption: Title II of the bill deals with investment advisory services — individuals or organizations engaged in the business of furnishing for a consideration investment advice with respect to the purchase or sale of securities. Banks, attorneys, accountants, engineers, etc., who give investment advice only as an incident of their primary activities, are excluded from the provisions of this Title. (Title I, § 46 (16).) Investment advisers are required to register with the Securities and Exchange Commission and to disclose pertinent information as to their organization, nature and character of their personal and methods of operation.

The Commission is empowered, after a hearing, to deny or revoke the registration of any investment adviser, on grounds identical with those provided for the denial or revocation of registration of officers, directors, etc. of investment companies. (Section 304)

Conflicts of Interest and Unlawful Activities: The bill provides that it shall be unlawful for investment advisers to employ fraudulent devices in administering the funds of clients, or to engage in any transaction which would operate as fraud on the clients.

An investment adviser acting as principal in selling any security to a client is required to disclose to the client his personal interest in the transaction. (Section 306) The bill also prohibits compensation to investment advisers on a profit-sharing basis. (Section 306)
IN THE SENATE OF THE UNITED STATES

MARCH 12, 1940

Mr. introduced the following bill; which was read twice and referred to the Committee on

A BILL

To provide for the registration and regulation of investment companies and investment advisers, and for other purposes.

1 Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

3 TITLE I—INVESTMENT COMPANIES

4 FINDINGS

5 Section 1. Upon the basis of facts disclosed by the record and reports of the Securities and Exchange Commission made pursuant to section 30 of the Public Utility Holding Company Act of 1935, and facts otherwise disclosed and ascertained, it is hereby found that investment companies are affected with a national public interest in that, among other things—

J. 215852—1
(1) the securities issued by such companies, which constitute a substantial part of all securities publicly offered, are distributed, exchanged, transferred, redeemed, and repurchased by use of the mails and means and instrumentalities of interstate commerce, and in the case of the numerous companies which issue redeemable securities this process of distribution and redemption is continuous and constant;

(2) the principal activities of such companies—investing, reinvesting, and trading in securities issued by other companies—are conducted by use of the mails and means and instrumentalities of interstate commerce, including the facilities of national securities exchanges, and constitute a substantial part of all transactions effected in the securities markets of the Nation;

(3) such companies customarily invest and trade in securities issued by, and may dominate and control or otherwise affect the policies and management of, companies engaged in business in interstate commerce;

(4) such companies are media for the investment in the national economy of a substantial part of the national savings and may have a vital effect upon the flow of such savings into the capital markets; and

(5) the activities of such companies, extending over many States, and the wide geographic distribution of their security holders, make difficult, if not impossible, any effective State regulation of such companies in the interest of investors.

DECLARATION OF POLICY

Sec. 2. Upon the basis of facts disclosed by the record and reports of the Securities and Exchange Commission made pursuant to section 30 of the Public Utility Holding Company Act of 1935, and facts otherwise disclosed and ascertained, it is hereby declared that the national public interest and the interest of investors are adversely affected—

(1) when investors purchase, pay for, exchange, receive dividends upon, vote, refrain from voting, sell, or surrender securities issued by investment companies without adequate, accurate, and explicit information, fairly presented, concerning the character of such securities and the circumstances, policies, and responsibility of such companies and their management;

(2) when investment companies are organized, operated, or managed in the interest of directors, officers, managers, investment advisers, depositors, or other affiliated persons thereof, in the interest of underwriters, brokers, or dealers, in the interest of special classes of their security holders, or in the interest of other investment companies or persons engaged in other lines
of business, rather than in the interest of all classes of such companies' security holders and of the public;

(3) when investment companies issue securities containing inequitable, discriminatory, or anomalous provisions, or fail to protect the preferences and privileges of their outstanding securities;

(4) when the control or management of investment companies is unduly concentrated, inequitably distributed, or irresponsibly held;

(5) when investment companies, in keeping their accounts, in maintaining reserves, and in computing their earnings and the asset value of their outstanding securities, employ unsound or misleading methods, or are not subjected to adequate independent scrutiny;

(6) when investment companies are reorganized, dissolved, become inactive, or change the character of their business, or when the control or management thereof is transferred, without the consent of their security holders and without adequate public supervision;

(7) when investment companies engage in manipulative or unduly speculative transactions, have excessive investments in securities or property of a speculative or unmarketable character, or by borrowing and the issuance of senior securities increase the speculative character of their junior securities; or

(8) when investment companies operate without adequate assets or reserves, or attain such great size as to preclude efficient investment management and to have excessive influence in the national economy.

It is hereby declared that the policy and purposes of this title, in accordance with which the provisions of this title shall be interpreted, are to mitigate and, so far as is feasible, to eliminate the abuses enumerated in this section.

DEFINITION OF INVESTMENT COMPANY

SEC. 3. (a) When used in this title, "investment company" means any issuer which—

(1) holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities; or

(2) is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposes to acquire investment securities having a value exceeding 40 per centum of the value of such issuer's total assets (exclusive of Government securities and cash items) on an unconsolidated basis.

As used in this subsection, "investment securities" includes all securities except (A) Government securities, (B) securities issued by employees' securities companies, and (C)
1. securities issued by majority-owned subsidiaries of the owner
2. which are not investment companies.
3. (b) Notwithstanding paragraph (2) of subsection (a),
4. none of the following issuers is an investment company within
5. the meaning of this title:
6. (1) Any issuer primarily engaged, directly or through
7. wholly-owned subsidiaries, in a business or businesses other
8. than that of investing, reinvesting, or trading in securities.
9. (2) Any issuer which the Commission, upon application
10. by such issuer, finds and by order declares to be primarily
11. engaged, directly or through majority-owned subsidiaries, in
12. a business or businesses other than that of investing, rein-
13. vesting, or trading in securities. The filing of an application
14. under this paragraph by an issuer other than a registered
15. investment company shall exempt the applicant from all pro-
16. visions of this title for a period of sixty days. For cause
17. shown, the Commission by order may extend such period of
18. exemption for an additional period or periods. Whenever the
19. Commission, upon its own motion or upon application, finds
20. that the circumstances which gave rise to the issuance of an
21. order granting an application under this paragraph no longer
22. exist, the Commission shall by order revoke such order.
23. (c) Notwithstanding subsections (a) and (b), none
24. of the following persons is an investment company within
25. the meaning of this title:

(1) Any issuer whose outstanding securities (other
2. than short-term paper) are beneficially owned by not more
3. than one hundred persons and which is not making and
4. does not propose to make a public offering of its securities.
5. For the purposes of this paragraph, beneficial ownership
6. by a company shall be deemed to be beneficial ownership
7. by one person; except that, if such company is an affiliated
8. company of the issuer, the beneficial ownership shall be
9. deemed to be that of the holders of such affiliated company's
10. outstanding securities (other than short-term paper).
11. (2) Any person substantially all of whose gross income
12. from securities and securities transactions is derived from
13. acting as broker and from the distribution of securities issued
14. by other persons.
15. (3) Any bank or insurance company; any common
16. trust fund, as defined in section 169 of the Revenue Act of
17. 1938; any savings and loan association substantially all the
18. business of which is confined to the making of loans to mem-
19. bers; or any person engaged exclusively in the business of
20. making small loans and licensed under the laws of a State
21. to engage in such business.
22. (4) Any company effectively registered as a holding
23. company under the Public Utility Holding Company Act
24. of 1935.
25. (5) Any company, other than a face-amount certificat
company, substantially all the intangible assets of which consist of mortgages and other liens on real estate.

(6) Any person substantially all of whose business consists of owning or holding oil, gas, or other mineral royalties or leases, or fractional interests therein, or certificates of interest or participation in or investment contracts relative to such royalties, leases, or fractional interests.

(7) Any company organized and operated exclusively for religious, educational, benevolent, fraternal, charitable, or reformatory purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

(8) Any voting trust the assets of which consist exclusively of securities of a single issuer which is not an investment company.

(9) Any security holders' protective committee or similar issuer having outstanding and issuing no securities other than certificates of deposit and commercial paper.

CLASSIFICATION OF INVESTMENT COMPANIES

Sec. 4. For the purposes of this title, investment companies are divided into three principal classes, defined as follows:

(1) "Face-amount certificate company" means an investment company which is engaged in the business of issuing face-amount certificates, or which has been engaged in such business and has any such certificate outstanding.

(2) "Unit investment trust" means an investment company which (A) is organized under a trust indenture, contract of custodianship or agency, or similar instrument, (B) does not have a board of directors, and (C) issues only redeemable securities, each of which represents an undivided interest in a unit of specified securities; but does not include a voting trust, or any trust which issues and has outstanding no securities other than short-term paper and periodic payment plan certificates.

(3) "Management investment company" means any investment company other than a face-amount certificate company, a unit investment trust, or a company which issues and has outstanding no securities other than short-term paper and periodic payment plan certificates.

SUBCLASSIFICATION OF MANAGEMENT INVESTMENT COMPANIES

Sec. 5. (a) For the purposes of this title, management investment companies are divided, according to the securities which they issue, into open-end and closed-end management investment companies, defined as follows:

(1) "Open-end management investment company" means a management investment company which is offering for sale or has outstanding any redeemable security of which it is the issuer.

(2) "Closed-end management investment company"
1 means any management investment company other than an open-end management investment company.

(b) Management investment companies are further divided, according to the character of their assets, their investment policy and capital structure, into diversified investment companies, securities trading companies, and securities finance companies, defined as follows:

1. "Diversified investment company" means a management investment company which meets the following requirements:

(A) the value of its investment in the securities of any one issuer (other than Government securities) does not exceed 5 per centum of the value of its total assets;

(B) at least 85 per centum of the value of its total assets is represented by cash items, by Government securities, and by marketable securities of issuers of which it does not own more than 5 per centum of any class of securities outstanding;

(C) its portfolio turn-over during its last fiscal year did not exceed 150 per centum;

(D) it has outstanding only one class of securities other than short-term paper; and

(E) it does not control or own any voting security issued by any other investment company.

(2) "Securities trading company" means any management investment company other than a diversified investment company, which meets the requirements of subparagraphs (A) and (B) of paragraph (1).

(3) "Securities finance company" means any management investment company other than a diversified investment company or securities trading company.

(d) A registered diversified investment or securities trading company which at the time of its registration meets the requirements of subparagraphs (A) and (B) of paragraph (1) of subsection (b) shall not lose its status as a diversified investment or securities trading company because of any subsequent discrepancy between the value of its various investments and the requirements of said subparagraphs, so long as any such discrepancy existing immediately after its acquisition of any security or other property is neither wholly nor partly the result of such acquisition.

(e) The Commission shall have authority, by rules and regulations in the public interest or for the protection of investors, to make further classifications and subclassifications of investment companies according to organization, capital structure, nature of assets, amount of assets, investment policy, character of business done, or any one or more other characteristics which the Commission deems significant and which are consistent with the definitions contained in this section and section 4.
S1C. 6. (a) The following investment companies are exempt from every provision of this title except section 7:

(d):

(1) Any company not organized under the laws of the United States or of a State.

(2) Any company organized under the laws of and having its principal office and place of business in Alaska, Hawaii, Puerto Rico, the Philippine Islands, the Canal Zone, the Virgin Islands, or any other possession of the United States; but such exemption shall terminate if any security of which such company is the issuer is offered for sale or sold, after the effective date of this title, by such company or an underwriter therefor, to a resident of any State other than the State in which such company is organized.

(3) Any company for which, in a proceeding in any court of the United States or of a State, a receiver, trustee in bankruptcy, or similar officer had been appointed or elected prior to the effective date of this title, and every such officer so appointed or elected prior to the effective date of this title; but such exemption shall continue only so long as (A) the conduct of such company's business remains subject to the supervision of such court or officer thereof, and (B) such company does not sell exclusively for cash any security of which it is the issuer, except short-term paper and ordinary receiver's or trustee's certificates.

(b) Upon application by any employees' securities company, the Commission shall by order exempt such company from the provisions of this title and of the rules and regulations hereunder, if and to the extent that it finds such exemption consistent with the protection of investors. In determining the provisions to which such an order of exemption shall apply, the Commission shall give due weight, among other things, to the form of organization and the capital structure of such company, the persons by whom its voting securities, evidences of indebtedness, and other securities are owned, controlled, and held, the prices at which securities issued by such company are sold and the sales load thereon, the disposition of the proceeds of such sales, the character of the securities in which such proceeds are invested, and any relationship between such company and the issuer of any such security.

(c) The Commission, by rules and regulations upon its own motion, or by order upon application, may conditionally or unconditionally exempt any person, security, or transaction, or any class or classes of persons, securities, or transactions, from any provision or provisions of this title or of any rule or regulation thereunder, if and to the extent that
the Commission finds such exemption necessary or appropriate in the public interest and consistent with the protection of investors.

(d) If, in connection with any rule, regulation, or order under this section exempting any investment company from any provision of section 7, the Commission deems it necessary or appropriate in the public interest or for the protection of investors that certain specified provisions of this title pertaining to registered investment companies shall be applicable in respect of such company, the provisions so specified shall apply to such company, and to other persons in their transactions and relations with such company, as though such company were a registered investment company.

TRANSACTIONS BY UNREGISTERED INVESTMENT COMPANIES

Sec. 7. (a) No management investment company or face-amount certificate company, unless exempted from the provisions of this subsection pursuant to section 6 or effectively registered under section 8, shall directly or indirectly—

(1) offer for sale, sell, or deliver after sale, by the use of the mails or any means or instrumentality of interstate commerce, any security or any interest in a security, whether the issuer of such security is such investment company or another person; or offer for sale, sell, or deliver after sale any such security or

interest, having reason to believe that such security or interest will be made the subject of a public offering by use of the mails or any means or instrumentality of interstate commerce;

(2) purchase, redeem, retire, or otherwise acquire or attempt to acquire, by use of the mails or any means or instrumentality of interstate commerce, any security or any interest in a security, whether the issuer of such security is such investment company or another person;

(3) control any investment company which does any of the acts enumerated in paragraphs (1) and (2);

(4) engage in any business in interstate commerce;

or

(5) control any company which is engaged in any business in interstate commerce.

The provisions of this subsection shall not apply to transactions of an investment company which are merely incidental to its dissolution.

(b) No depositor or trustee of or underwriter for a unit investment trust, unless such trust is exempted from the provisions of this subsection pursuant to section 6 or effectively registered under section 8, shall directly or indirectly—

(1) offer for sale, sell, or deliver after sale, by use of the mails or any means or instrumentality of interstate commerce—
commerce, any security or any interest in a security of
which such trust is the issuer; or offer for sale, sell, or
deliver after sale any such security or interest, having
reason to believe that such security or interest will be
made the subject of a public offering by use of the mails
or any means or instrumentality of interstate commerce;
(2) purchase, redeem, or otherwise acquire or at-
tempt to acquire, by use of the mails or any means or
instrumentality of interstate commerce, any security or
any interest in a security of which such trust is the
issuer; or
(3) sell or purchase for the account of such trust,
by use of the mails or any means or instrumentality of
interstate commerce, any security or interest in a security,
by whomever issued.
(c) No promoter of a proposed investment company,
and no underwriter for such a promoter, shall make use of the
mails or any means or instrumentality of interstate commerce,
directly or indirectly, to offer for sale, sell, or deliver after
sale, in connection with a public offering, any preorganization
certificate or subscription for such a company.
(d) No investment company, unless organized under
the laws of the United States or of a State, and no under-
writer for a company otherwise organized, shall make use
of the mails or any means or instrumentality of interstate
commerce, directly or indirectly, to offer for sale, sell, or
deliver after sale, in connection with a public offering, any
security of which such company is the issuer.
REGISTRATION OF INVESTMENT COMPANIES
SEC. 8. (a) Any investment company organized under
the laws of the United States or of a State may register for
the purposes of this title by filing with the Commission a
notification of registration, in such form as the Commission
may by rules and regulations prescribe as necessary or
appropriate in the public interest or for the protection of
investors. An investment company shall be deemed to be
registered upon receipt by the Commission of such notifi-
cation of registration.
(b) It shall be the duty of every registered investment
company to file with the Commission, within such reason-
able time after registration as the Commission shall fix by
rules and regulations or order, an original and such copies
of a registration statement, in such form and containing
such of the following information and documents, as the
Commission shall by rules and regulations or order prescribe
as necessary or appropriate in the public interest or for the
protection of investors:
(1) A description of the investment and manage-
ment policies of the business done and to be done
by the registrant, including a designation of—
J. 215852—2
(A) the class and subclasses of investment company, as defined in or pursuant to sections 4 and 5, within which the registrant falls and within which the registrant proposes to operate in the future;

(B) the activities other than investment in which the registrant is engaged and proposes to engage, such as trading, underwriting, acting as investment adviser, and participating in or influencing the management of companies outstanding securities of which are held by the registrant; and

(C) the characteristics, amounts, and relative amounts of securities and other assets which the registrant has acquired and proposes to acquire in the course of its business;

(2) the information and documents which would be required to be filed in order to register under the Securities Act of 1933 all securities which the registrant is authorized to issue; and

(3) additional pertinent information and documents regarding the registrant, affiliated persons thereof, and underwriters therefor.

(e) In lieu of filing information and documents required pursuant to paragraph (2) of subsection (b), any registrant which has filed a registration statement under the Securities Act of 1933 or the Securities Exchange Act of 1934, which registration statement is currently effective, may file—

(1) such copies of such registration statement or portions thereof, and such copies of reports theretofore filed by the registrant pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934, as the Commission shall designate by rules and regulations or order; and

(2) a report containing such current information and documents, regarding the matters included in such registration statement and reports, as the Commission shall prescribe by rules and regulations or order as necessary or appropriate in the public interest or for the protection of investors.

(d) Whenever the Commission, on its own motion or upon application, finds that a registered investment company has ceased to be an investment company, it shall so declare by order and upon the taking effect of such order the registration of such company shall, upon such terms and conditions as the Commission finds and in such order prescribes as necessary for the protection of investors, cease to be in effect. The Commission's denial of any application under this subsection shall be by order.
REGISTRATION OF CERTAIN AFFILIATED PERSONS AND UNDERWriters

SEC. 9. (a) It shall be unlawful for any person, unless registered under this section, to serve or act in any of the following capacities for a period exceeding sixty days:

(1) as officer, director, manager, or investment adviser of or for a registered management investment company or registered face-amount certificate company;

(2) as depositor, manager, or investment adviser of or for a registered unit investment trust;

(3) as principal underwriter for a registered open-end management investment company, registered unit investment trust, or registered face-amount certificate company; or

(4) as a distributor who makes use of the mails or any means or instrumentality of interstate commerce to engage in the business of selling periodic payment plan certificates, or as a salesman for such a distributor.

(b) Any person whose registration under this section is required solely because such person is an investment adviser for a registered investment company shall be deemed registered under this section so long as such person is registered under section 204 of title II of this Act.

(c) Any of the persons enumerated in subsection (a), and any person who presently contemplates becoming such

an officer, director, manager, investment adviser, depositor, principal underwriter, distributor, or salesman may be registered under this section by filing with the Commission an application for registration. Such application shall contain such information and documents, in such form and such detail, as to such person and affiliated persons of such person as the Commission may by rules and regulations prescribe as necessary or appropriate to effectuate the purposes of this title. Except as hereinafter provided, such registration shall become effective thirty days after receipt of such application by the Commission, or within such shorter period of time as the Commission may determine. Any amendment of an application filed not more than fifteen days after the filing of such application shall be deemed to have been filed with and as a part of such application. Any amendment of an application filed more than fifteen days after the filing of such application shall be deemed a new application incorporating by reference the unamended items of the earlier application.

(d) The Commission shall by order deny registration to, or revoke or suspend the registration of, an applicant under this section, if the Commission finds that such denial, revocation, or suspension is in the public interest and that—

(1) the applicant, within ten years of the issuance of such order, has been convicted of any felony or misdeemeanor involving the purchase or sale of any security
or arising out of the applicant's conduct as an under-
writer, broker, dealer, or investment adviser, or as an
affiliated person, salesman, or employee of any invest-
ment company, bank, or insurance company;
(2) the applicant, at the time of the issuance of
such order, is permanently or temporarily enjoined by
order, judgment, or decree of any court of competen
court jurisdiction from acting as an underwriter, broker, dealer,
or investment adviser, or as an affiliated person, sales-
man, or employee of any investment company, bank,
or insurance company, or from engaging in or contin-
uing any conduct or practice in connection with any
such activity or in connection with the purchase or sale
of any security;
(3) the application, as amended, omits any material
fact required to be stated therein; or
(4) the applicant has willfully violated section
34 (b), of this title, or that portion of section 203 of
title II of this Act which incorporates the provisions
of said section 34 (b).
(e) The commencement of a proceeding to deny regis-
tration under this section shall operate to postpone the
effective date of registration pending final determination of
such proceeding.

AFFILIATIONS INVOLVING CONFLICTS OF INTEREST
SEC. 10. (a) After one year from the effective
date of this title, no registered investment company
shall have a board of directors or an executive com-
mittee more than a minority of the members of which
consists of --
(1) affiliated persons of any one company
other than such registered company; or
(2) persons who regularly act as manager,
investment adviser, broker, or principal under-
writer of or for such registered company, or
affiliated persons of such persons.
(b) Notwithstanding subsection (a), more than a
minority of the members of such a board or committee
may consist of persons whose only common affiliation
(except with such registered company) is with --
(1) an investment company in the same in-
vestment company system with such registered
company;
(2) a bank, if each such person was a member
of such board or committee on the effective date
of this title; or
(3) an investment adviser registered under
section 204 of title II of this Act, if (A) such
investment adviser is engaged in no business
other than that of an investment adviser; (B) the
sales load on securities issued by such registered
company does not exceed 1 per centum of the price
to the public; (C) such registered company has no
...
manager other than such investment adviser, and
such investment adviser does not receive a manage-
ment fee exceeding one-half of 1 per centum per annum
of the value of such company's net assets averaged
over the year or taken as of a definite date
within the year; (D) all expenses of such regis-
tered company, excepting only taxes and brokerage
expenses, are paid by such investment adviser; and
(E) at least one-third of the members of the board
of directors and of the executive committee of
such registered company are persons other than
such investment adviser or affiliated persons of
such investment adviser.

(c) After one year from the effective date of this
title, no registered investment company shall have as
director any person who is an investment banker, a
broker, or an affiliated person of an investment banker
or broker, if such person is a director, officer, or
manager of an investment company which is not in the
same investment company system with such registered
company.

(d) After one year from the effective date of
this title, it shall be unlawful for any of the follow-
ing persons to serve or act as investment officer or
manager of a registered investment company:
(1) any officer or manager of an investment
company which is not in the same investment com-
pany system with such registered company;
(2) any director or officer of a bank who
director or officer of such registered company on the
effective date of this title;
(3) any person who regularly acts as broker for
such registered company;
(4) if such registered company is an open-end
management investment company, any principal under-
writer therefor; or
(5) any affiliated person of any of the foregoing.

No provision of this subsection shall be construed to prohibit
a person from serving or acting as investment officer,
manager, broker, or principal underwriter of or for an invest-
ment company, merely because such person, though not a
manager of any other investment company, is an investment
adviser of another such company.

(e) After one year from the effective date of this
title, it shall be unlawful for any director or officer of a registered
investment company to serve or act as director or officer of
an issuer any outstanding security of which is owned by such
registered company, if—
(1) such registered company owns less than 5 per
centum of the outstanding voting securities of such is-
ssuer; or
(2) such director or officer is an investment banker,
a broker, or an affiliated person of an investment banker
or broker.
(f) It shall be unlawful for any director or officer of a registered investment company, or any investment banker or broker of which such a director or officer is an affiliated person, to serve or act as principal underwriter for any issuer of which such registered company owns more than one-half of 1 per centum of any class of securities outstanding.

(g) No registered investment company shall purchase or otherwise acquire any security a principal underwriter of which is a director, officer, or manager of such company, or is an investment banker or broker of which such a director, officer, or manager is an affiliated person, unless—

(1) in acquiring such security such registered company is itself acting as a principal underwriter for the issuer; or

(2) such security was first offered to the public by the issuer or by or through an underwriter more than one year prior to such acquisition.

(h) Any reciprocal arrangement for the purpose of evading the provisions of subsection (d) or (f) shall be deemed a violation of this title by the persons concerned, and if such arrangement is known to the registered investment company concerned, a violation of this title by such company.

(i) In the case of a registered management investment company which is an unincorporated company not having a board of directors, the provisions of this section, instead of applying to such company and affiliated persons thereof, shall apply, respectively, to every depositor or manager of such company and to affiliated persons of such depositor or manager.

RECURRENT PROMOTION OF INVESTMENT COMPANIES

SEC. 11. (a) It shall be unlawful for any promoter of a registered investment company organized on or after March 1, 1940, to serve or act as director, officer, manager, investment adviser, depositor, trustee, or principal underwriter of or for such company, if within five years such person, or any company of which such person was then an affiliated person, has been a promoter of another investment company.

(b) It shall be unlawful for any promoter of a registered investment company organized on or after March 1, 1940, to serve or act as investment adviser of or principal underwriter for such company if at the same time such person, or any company of which such person is an affiliated person, is serving or acting as officer, manager, investment adviser, depositor, or principal underwriter of or for another registered investment company.

(c) No registered investment company (other than a face-amount certificate company) shall issue any security (other than short-term paper) representing an interest in or claim against only a class of the issuer's assets, unless such
class of assets was created, and securities representing interests
exclusively in or claims exclusively against such class were
offered and sold to the public prior to March 1, 1940.
(d) Upon application by a registered investment com-
pany, or by a promoter of a registered investment company
or of a proposed investment company, the Commission shall
by order conditionally or unconditionally exempt such com-
pany or promoter from a provision or provisions of this
section, if the Commission finds that such exemption is
consistent with the purposes of this title. In considering
such application the Commission shall give due weight to
the organization and practices of the company concerned, the
history and practices of any promoter concerned, the history
and practices of the investment companies with which such
promoter has been associated, and the possibility that the
granting of such application will subject such company or
promoter to conflicting duties or interests.
FUNCTIONS OF INVESTMENT COMPANIES; FORMATION OF
INVESTMENT COMPANY SYSTEMS
Sec. 12. (a) It shall be unlawful for any registered
investment company—
(1) to purchase any security on margin or credit
(except such short-term credits, necessary for the clearance
of transactions, as the Commission may designate
by rules and regulations or order);
(2) to participate on a joint or a joint and several
basis in any trading account in securities;
(3) to effect a short sale of any security, in con-
travention of such rules and regulations as the Commiss-
ion may prescribe as necessary or appropriate in the
public interest or for the protection of investors; or
(4) to act as a dealer in or distributor of securities
of which it is the issuer, in contravention of such rules
and regulations as the Commission may prescribe as
necessary or appropriate in the public interest or for
the protection of investors.
(b) It shall be unlawful for any diversified investment
company to act as underwriter, whenever the amount of its
outstanding underwriting commitments, plus the value of its
investments in securities other than marketable securities
and in securities of issuers of which it owns more than 5
per centum of any class of securities outstanding, exceeds
15 per centum of the value of its total assets.
(c) It shall be unlawful for any registered investment
company to purchase or otherwise acquire any security issued
by, or any other interest in the business of—
(1) any other investment company, except (A) in
connection with a plan of reorganization or offer of
exchange for which a declaration is effective under sec-
tion 25, or (B) with the proceeds of payments on
periodic payment plan certificates, pursuant to the terms
of the trust indenture under which such certificates are
issued; or

(2) any person who is a broker, dealer, under-
writer, manager, or investment adviser, unless (A) such
person is a corporation all of the outstanding securities
of which (other than short-term paper) are, or after
such acquisition will be, owned by such registered com-
pany; and (B) the business of such person is confined to
activities in which such registered company itself may
lawfully engage.

CHANGES IN INVESTMENT POLICY

SEC. 13. (a) No registered diversified investment com-
pany shall become a securities trading company or securities
finance company, unless such change is authorized by the
vote of a majority of its outstanding voting securities.

(b) No registered investment company shall change any
fundamental investment or management policy unless each
such change is authorized by the vote of a majority of its
outstanding voting securities. The Commission, by rules and
regulations or order, shall designate those investment and
management policies which are fundamental, giving due
weight, among other things, to the representations made in
selling the outstanding securities of the company or com-
panies concerned, to the representations made in their regis-

tration statements and reports filed under this title and in
their reports to security holders, to the history of their invest-
ment and managerial policies, and to their financial condition.

SIZE OF INVESTMENT COMPANIES

SEC. 14. (a) No registered investment company or prin-
cipal underwriter therefor shall sell any security of which
such company is the issuer (other than short-term paper),
if such company has, or upon completing such sale will have,
total assets the value of which exceeds the following maximum:

(1) if such company is a diversified investment
company or a unit investment trust, $150,000,000;

(2) if such company is a securities trading or secur-
ities finance company, $75,000,000;

(3) if such company is a face-amount certificate
company, $200,000,000.

(b) The provisions of subsection (a) shall not apply
to—

(1) the sale of a security by an open-end manage-
ment investment company, if the proceeds received by
the issuer from all such sales during the fiscal quarter
within which such sale is made do not exceed such
issuer’s total disbursements for redemptions during the
same fiscal quarter; or

(2) a sale made pursuant to an offer required by
any rule, regulation or order of the Commission under paragraph (2) of section 19 (a).

(c) No person who regularly serves or acts as manager or investment adviser of a registered investment company, and no affiliated person of such a person, shall enter into, renew, or consent to the renewal of, any contract to receive remuneration for serving or acting as manager or investment adviser of another investment company, if the value of the combined total assets of such companies exceeds the following maximum:

(1) if either of such companies is a savings trading or securities finance company, \$75,000,000;

(2) if both such companies are face-amount certificate companies, \$200,000,000;

(3) under any circumstances other than those described in paragraphs (1) and (2), \$150,000,000.

(d) No registered investment company organized after March 1, 1940, and no principal underwriter for such a company, shall make a public offering of securities of which such company is the issuer, unless—

(1) such company has a net worth of at least \$100,000; or

(2) such company has previously made a public offering of its securities, and at the time of such offering had a net worth of at least \$100,000.

Compensation of Management; Management and Underwriting Contracts

Sec. 15. (a) After one year from the effective date of this title, it shall be unlawful for any person regularly to serve or act as officer, director, manager, investment adviser, or employee of any registered investment company, unless such person's compensation from such company is determined on one or more of the following bases, and no other:

(1) a definite sum of money per year, month, or other definite period;

(2) a sum of money representing a definite percentage of such company's income from interest and dividends during a definite period; or

(3) a sum of money representing a definite percentage of the value of the net assets of such company at a definite date or averaged over a definite period.

(b) After one year from the effective date of this title it shall be unlawful for any person regularly to serve or act as manager or investment adviser of a registered investment company, except pursuant to a written contract with such company, approved by the vote of a majority of the outstanding voting securities of such company, which contract—

(1) precisely describes all compensation to be paid thereunder;

J. 215852—3
(2) by its terms expires not later than two years from the date of its execution, and is renewable thereafter only by the specific approval annually of the board of directors or the security holders of such registered company;

(3) provides, in substance, that it may be terminated at any time, without the payment of any penalty, by the board of directors of such registered company or by vote of a majority of the outstanding voting securities of such company on not more than sixty days' written notice to the manager or investment adviser; and

(4) provides, in substance, for its automatic termination in the event of its assignment or attempted assignment by the manager or investment adviser.

(c) After one year from the effective date of this title, it shall be unlawful for any principal underwriter for a registered open-end management investment company or registered unit investment trust to offer for sale, sell, or deliver after sale any security of which such company is the issuer, except pursuant to a written contract with such company which—

(1) by its terms expires not later than one year from the date of its execution, and is renewable thereafter only by the specific approval annually of the board of directors or of the security holders of such registered company; and

(2) provides, in substance, for its automatic termination in the event of its assignment or attempted assignment by such underwriter.

(d) It shall be unlawful for any registered investment company having a board of directors to enter into or perform any contract or agreement, written or oral, whereby a person undertakes regularly to serve or act as manager, investment adviser, underwriter, or broker for such company, unless the terms of such contract or agreement have been approved by a majority of such directors, exclusive of any director who is himself a party to such contract or agreement or who is an affiliated person of such a party.

(a) If any registered investment company, or any company controlled by or under common control with such a company, is serving or acting, or proposes to serve or act, as manager or investment adviser of another company or companies in the same investment company system with such registered company, the Commission shall require, by such rules and regulations or orders as it finds necessary or appropriate in the public interest or for the protection of investors, that such manager or investment adviser serve such other company or companies at cost, and that such cost be...
equitably allocated between and among such registered company and such other company or companies.

CHANGES IN BOARD OF DIRECTORS

Sec. 16. No person shall serve as director of a registered investment company unless elected to that office by the holders of the outstanding voting securities of such company, at the annual or a special meeting of such security holders duly called for that purpose; except that vacancies occurring between such meetings, not exceeding in the aggregate one-third of the whole number of the board of directors, may be filled in any otherwise legal manner.

TRANSACTIONS OF CERTAIN AFFILIATED PERSONS AND UNDERWRITERS

Sec. 17. (a) It shall be unlawful for any affiliated person or principal underwriter for a registered investment company, or any affiliated person of such a person or underwriter, acting as principal—

(1) knowingly to sell any security or other property to such registered company or an affiliated company thereof (unless such sale consists solely of (A) the redemption of redeemable securities by their issuer, or (B) the deposit of securities with the trustee of a unit investment trust or periodic payment plan by the depositor thereof);

(2) knowingly to purchase from such registered company or any affiliated company thereof any security or other property (except securities of which the seller is the issuer);

(3) to borrow money or other property from such registered company or an affiliated company thereof (unless the borrower is controlled by the lender); or

(4) to effect any transaction in which such registered company or an affiliated company thereof is a joint or a joint and several participant with such person, underwriter, or affiliated person, in contravention of such rules and regulations as the Commission may prescribe for the purpose of (A) limiting or preventing participation by such company on a basis different from or less advantageous than that of such other participant, and (B) protecting the independent investment and managerial judgment of such company.

(b) Notwithstanding subsection (a), a company which controls or is controlled by a registered investment company, or which, with such registered company, is under the common control of another company, may file with the Commission an application for an order exempting a proposed transaction of the applicant from one or more provisions of that subsection. The Commission shall grant such application and issue such order of exemption if it finds that—

(1) the terms of the proposed transaction, includ...
(a) Any transaction which exceeds the usual and customary broker's commission for effecting similar transactions on a national securities exchange.

(b) Any gross misconduct or gross abuse of trust in respect of a registered investment company, on the part of any person registered under section 9 as an affiliated person of or principal underwriter for such company, shall be unlawful.

(c) Notwithstanding subsection (a), a person may sell merchandise in the ordinary course of business to any affiliated company of a registered investment company if such affiliated company is not itself an investment company.

(d) It shall be unlawful for any affiliated person of a registered investment company, or any affiliated person of such a person—

(1) acting as agent, to accept from any source any compensation (other than a regular salary or wages from such registered company) for the purchase or sale of any property to or for such registered company or any affiliated company thereof, except in the course of such person's business as an underwriter or broker; or

(2) acting as broker, to sell any security to or for such registered company or any affiliated company thereof, if such person receives from any source a commission, fee, or other remuneration for effecting such transaction which exceeds the usual and customary broker's commission for effecting similar transactions on a national securities exchange.

(e) Any gross misconduct or gross abuse of trust in respect of a registered investment company, on the part of any person registered under section 9 as an affiliated person of or principal underwriter for such company, shall be unlawful.

(f) After one year from the effective date of this title, it shall be unlawful for the charter, certificate of incorporation, articles of association, bylaws, or trust indenture of any registered investment company, for any employment, management, underwriting, or brokerage contract or agreement to which such a company is a party, or for any other instrument pursuant to which such a company is organized or administered, to contain any provision which—

(1) authorizes, or purports to authorize, the violation of any provision of this title or of any rule, regulation, or order hereunder; or

(2) relieves, or purports to relieve, any affiliated person of or principal underwriter for such company from any duty or liability to such company or the security holders thereof to which such person or underwriter would otherwise be subject.
(g) The Commission is authorized to require, by rules and regulations or order in the public interest or for the protection of investors—

(1) that securities and other investments of a registered management investment company be placed in the custody of an institution having the qualifications required by paragraph (1) of section 26 (a) for the trustees of unit investment trusts; and

(2) that any person or class of persons registered under section 9 be required to be bonded by a reputable fidelity insurance company in such minimum amount as the Commission may prescribe.

(h) Every person registered under section 9 as a distributor of periodic payment plan certificates shall be subject, in his transactions with the issuer of such certificates, to the same duties and liabilities as those imposed by this section upon affiliated persons of registered investment companies in their transactions with such companies.

CAPITAL STRUCTURE

SEC. 18. (a) It shall be unlawful for any registered management investment company to issue any security (other than short-term paper or periodic payment plan certificates), or to sell any such security of which it is the issuer, unless such security—

(1) is a common stock, or if such company is an unincorporated company organized prior to March 1, 1940, is a security having substantially the same incidents as the common stock of a corporation;

(2) has no preference as to distribution or dividends over any outstanding security of such company;

(3) is a voting security, and has equal voting rights with every voting security of such company issued since the effective date of this title; and

(4) if not a redeemable security, expressly provides that the holder thereof shall be given a reasonable opportunity, along with other holders of the company's voting securities, to subscribe for and purchase ratably any voting securities which the company may thereafter issue, before such securities are sold to any other person or persons.

If such company is an unincorporated company organized prior to March 1, 1940, the Commission shall designate, by rules and regulations or order in the public interest and for the protection of investors, those incidents which such security must have in order substantially to comply with the requirements of this subsection.

(b) The provisions of paragraphs (1) and (2) of subsection (a) shall not apply to the issuance or sale of a preferred or special stock if the only other outstanding class of the issuer's equity securities consists of a common stock
1. upon which no dividend (other than a liquidating dividend) is permitted to be paid and which in the aggregate represents not more than one-half of 1 per centum of the issuer's outstanding voting securities.

2. It shall be unlawful for any registered management investment company to issue any warrant or right to subscribe to or purchase a security of which such company is the issuer, except—

3. (1) in the form of warrants or rights to subscribe expiring not later than one hundred and twenty days after their issuance and issued exclusively and ratably to a class or classes of such company's security holders; or

4. (2) in the form of periodic payment plan certificates.

5. (d) After two years from the effective date of this title, the Commission shall, upon application by the holder of any outstanding security of a registered management investment company, and may upon its own motion, require by order that such company, and every other registered investment company in the same investment company system, take such steps as are necessary or appropriate to effect an equitable redistribution of voting rights and privileges among the holders of the outstanding securities of such company or companies.

DIVIDENDS

SEC. 19. (a) It shall be unlawful for any registered investment company to declare or pay any dividend, or make any distribution in the nature of a dividend, wholly or partly from any source other than such company's aggregate undistributed net income from interest and dividends, unless—

1. (1) the payment of a dividend from such other source is either expressly permitted by the charter, certificate of incorporation, or other instrument pursuant to which such company is organized or such payment, not being prohibited by such instrument, has been approved by the vote of a majority of such company's outstanding voting securities; and

2. (2) the dividend check is accompanied by a written statement, in such form as the Commission may by rules and regulations prescribe, which (A) fully discloses the source or sources of such dividend, and (B) gives the recipient such reasonable opportunity to invest in securities of said company, without the payment of any sales load, such substantial portion of said dividend paid out of a source other than net income from interest and dividends, as the Commission shall prescribe by rules and regulations or order.

(b) It shall be unlawful for any registered management investment company to declare or pay a dividend on a
security, unless immediately after such payment every class of the outstanding securities of such company senior to the security upon which such dividend is paid has the asset coverage hereinafter prescribed. For the purposes of this subsection, the "asset coverage" of a class of outstanding securities means the ratio which the value of the total assets of the issuer, as of the end of the period to which the dividend relates, less its liabilities not evidenced by securities, its liabilities evidenced by short-term paper and the total liquidation preferences of all outstanding securities senior to such class, bears to the total liquidation preferences of all outstanding securities of such class. The prescribed asset coverage for a class of senior securities other than evidences of indebtedness shall be 200 per centum; but the Commission, by rules and regulations or order for the protection of investors or to preserve the financial integrity of the company or companies concerned, may prescribe a higher asset coverage, in no event exceeding 300 per centum, or a lower asset coverage, in no event less than 150 per centum. The prescribed asset coverage for evidences of indebtedness shall be 300 per centum; but the Commission, by rules and regulations or order for the protection of investors or to preserve the financial integrity of the company or companies concerned, may prescribe a higher asset coverage, in no event exceeding 400 per centum, or a lower asset coverage, in no event less than 200 per centum.

(c) No provision of this section shall apply to a liquidating dividend declared or paid in connection with a plan of total or partial liquidation of the company concerned, which plan has been approved by the security holders of such company in accordance with State law.

Sec. 20. (a) It shall be unlawful for any person to solicit or to permit the use of his or its name to solicit, by use of the mails or any means or instrumentality of interstate commerce, or otherwise, any proxy, power of attorney, consent, or authorization regarding any security of a registered investment company in contravention of such rules and regulations or orders as the Commission may prescribe for the purpose of insuring to the persons solicited—

(1) a form of proxy, power of attorney, consent, or authorization which clearly presents the alternative choices available to such persons; and

(2) information sufficient to permit the exercise of an informed judgment in choosing between such alternatives.

(b) It shall be unlawful for any registered investment company or affiliated person thereof, any issuer of a voting
trust certificate relating to any security of a registered investment company, or any underwriter of such a certificate, by use of the mails or any means or instrumentality of interstate commerce, or otherwise, to offer for sale, sell, or deliver after sale, in connection with a public offering, any such voting trust certificate.

(c) No registered investment company shall purchase or otherwise acquire any voting security if, to the knowledge of such registered company, cross-ownership or circular ownership exists, or after such acquisition will exist, between such registered company and the issuer of such security.

Cross-ownership shall be deemed to exist between two companies when each of such companies beneficially owns more than 1 per centum of the outstanding voting securities of the other company. Circular ownership shall be deemed to exist between two companies if such companies are included within a group of three or more companies, each of which—

(1) beneficially owns more than 1 per centum of the outstanding voting securities of one or more other companies of the group; and

(2) has more than 1 per centum of its own outstanding voting securities beneficially owned by another company, or by each of two or more other companies, of the group.

(d) If on the effective date of this title cross-ownership or circular ownership exists between a registered investment company and any other company or companies, it shall be the duty of such registered company, within three years after such effective date, to eliminate such cross-ownership or circular ownership. If at any time after the effective date of this title cross-ownership or circular ownership between a registered investment company and any other company or companies comes into existence, it shall be the duty of such registered company, within one year after it first knows of the existence of such cross-ownership or circular ownership, to eliminate the same.

LOANS

Sec. 21. (a) It shall be unlawful for any registered management investment company to lend money or property to any natural person, directly or indirectly.

(b) It shall be unlawful for any registered management investment company to lend money or property to any company, directly or indirectly, if—

(1) the company receiving the loan is in control of or under common control with such registered company; or

(2) the investment and management policies of such registered company, as recited in its registration statements and reports filed under this title, do not specifically authorize such a loan.
(c) It shall be unlawful for any registered management investment company to borrow money, directly or indirectly, except—

(1) from a company which controls such registered company;

(2) from a natural person who is an affiliated person of such company; or

(3) from a bank or other person, for temporary purposes only and in an amount not exceeding 5 percent of the value of such registered company's total assets.

A loan shall be presumed to be for temporary purposes if it is repaid within sixty days and is not renewed or extended; otherwise it shall be presumed not to be for temporary purposes. Any such presumption may be rebutted by evidence. The provisions of this subsection shall not apply to the extension or renewal until not later than July 1, 1945, of any loan made prior to March 1, 1940.

DISTRIBUTION, REDEMPTION, AND REPURCHASE OF REDEEMABLE SECURITIES

Sec. 22. (a) No registered investment company or principal underwriter therefor shall sell, redeem, or repurchase any redeemable security of which such a company is the issuer, except at a price bearing such relation to the current asset value of such security, computed as of such time, as

the Commission shall prescribe by rules and regulations or orders, for the purpose of eliminating or reducing to a practical minimum any dilution of or accretion to the current asset value of any other securities of such company as a consequence of such sale, redemption, or repurchase.

(b) No underwriter or dealer, in connection with a primary distribution of redeemable securities of which any registered investment company is the issuer, shall purchase any such security from the issuer or from any underwriter except at the price at which he sells such security, less a commission or spread allowed him by the person selling to him.

(c) If at any time the Commission has reason to believe that any redeemable security is being offered for sale or sold to the public by the issuer or any underwriter at a price which includes an unconscionable or grossly excessive sales load, the Commission shall cause to be served upon the issuer (or if the issuer is a unit investment trust, upon its depositary), and upon every principal underwriter for the issuer, a notice to appear and show cause why such sales load should not be prohibited. If, after hearing the evidence, the Commission finds that the issuer or any principal underwriter therefor is selling such securities to the public at a price including an unconscionable or grossly excessive sales load, the Commission shall order such company, underwriter, or underwriters,
as the case may be, to cease and desist from selling at such
price. In determining whether a sales load is unconscionable
or grossly excessive, due weight shall be given to the inci-
dents, denominations, and selling price of the securities in-
volved, to the organization, investment policy, past and pros-
ppective earnings, management expenses, and management
and sales methods of the issuer, its managers, depositors,
underwriters, and dealers and its and their competitors, and
to such other factors as are relevant in the particular pro-
cceeding.

(d) The Commission is authorized, by rules and regula-
tions or order in the public interest or for the protection of
investors, to prohibit—

(1) the suspension, in whole or in part, of the
redemption privileges of any redeemable security of
which any registered investment company is the issuer;

(2) restrictions upon the transferability or negoti-
tability of any redeemable security of which any regis-
tered investment company is the issuer.

DISTRIBUTION AND REPURCHASE OF SECURITIES: CLOSED-
END MANAGEMENT INVESTMENT COMPANIES

SEC. 23. (a) No registered closed-end management in-
vestment company shall issue any security, or sell any secu-
ritv of which it is the issuer, in contravention of such rules
and regulations or orders as the Commission may prescribe
in the public interest or for the protection of investors to
prevent or limit such issuance or sale at a price below the
current asset value of the securitv.

(b) No registered closed-end management investment
company shall purchase, call, or retire any securities of
which it is the issuer in contravention of such rules and
regulations or orders as the Commission may prescribe in
the public interest or for the protection of investors to pre-
vent such purchase, call, or retirement in a manner or on a
basis which unfairly discriminates against any security hold-
ers or any class of the security holders of such registered
company.

REGISTRATION OF SECURITIES UNDER SECURITIES ACT
OF 1933

SEC. 24. (a) No registered investment company or
principal underwriter therefor shall make use of the mails
or any means or instrumentality of interstate commerce,
directly or indirectly, to offer for sale, sell, or deliver after
sale, in connection with a public offering, any security of
which such company is the issuer (other than short-term
paper), unless such security is effectively registered under
the Securities Act of 1933, any exemptive provision of said
Act to the contrary notwithstanding.

(b) In registering under the Securities Act of 1933 any
security of which it is the issuer, a registered investment
compamy, in lieu of furnishing a registration statement con-
taining the information and documents specified in Schedule
A of said Act, may file a registration statement containing
the following information and documents:

(1) such copies of the registration statement filed
by such company under this title, and of such periodic
and special reports filed by such company pursuant to
section 30 (a) of this title, or such copies of portions
of such registration statement and reports, as the Com-
misson shall designate by rules and regulations or
order; and

(2) such additional information and documents (in-
cluding a prospectus) as the Commission shall prescribe
by rules and regulations or order as necessary or ap-
propriate in the public interest or for the protection of
investors.

(e) It shall be unlawful for any of the following com-
panies, or for any underwriter for such a company, to
employ, in the sale of any security registered under the
Securities Act of 1933 of which such company is the issuer,
any pamphlet, circular, form letter, or other sales literature,
unless such literature has been filed with the registration
statement of said security under said Act, as an accompany-
ing document or as an amendment of such registration
statement:

(1) any registered open-end management investment
company;

(2) any registered unit investment trust;

(3) the issuer of any periodic-payment-plan cer-
tificate; or

(4) any registered face-amount certificate company.

(d) In addition to the powers relative to prospectuses
granted the Commission by section 10 of the Securities Act
of 1933, the Commission is authorized and directed to require,
by rules and regulations or order, that the information con-
tained in any prospectus relating to a security registered under
the Securities Act of 1933 on or after the effective date of
this title, of which any of the companies enumerated in
subsection (e) is the issuer, shall be presented in such form
and order of items, and contain such summaries of any
portion of such information, as the Commission deems neces-
\[...\]
1. permitting such declaration to become effective, it shall be
2. unlawful—
3. (1) for any person to solicit or permit the use of
4. his or its name to solicit, by use of the mails or any means
5. or instrumentality of interstate commerce, or otherwise,
6. any proxy, consent, authorization, power of attorney,
7. ratification, deposit, or dissent in respect of any plan of
8. reorganization, or of voluntary dissolution or liquidation,
9. or any plan for the restatement of the capital, of a regis-
10. tered investment company;
11. (2) for any person, by use of the mails or any
12. means or instrumentality of interstate commerce, or
13. otherwise, to issue, offer for sale, sell, or deliver after
14. sale, pursuant to any such plan, any security or other
15. property;
16. (3) for any person to submit any such plan to any
17. court of the United States for approval; or
18. (4) for any court of the United States to approve
19. any such plan.

Provided. That the provisions of this subsection shall not
apply to a plan of voluntary dissolution or liquidation of a
registered investment company more than 75 per centum
of the value of whose assets consist of marketable securities,
Government securities, and cash items.

(b) Except in accordance with a declaration filed under

subsection (c) and an order of the Commission permitting
such declaration to become effective, it shall be unlawful for
any registered investment company or principal underwriter
thereof to issue or sell for any consideration other than
cash, any security (other than short-term paper) of which
such company is the issuer.

(c) A declaration regarding any of the acts enumerated
in subsections (a) and (b) shall be filed with the Com-
mission in such form, and shall contain such information
and documents, as the Commission may by rules and regu-
lations or order prescribe as necessary or appropriate in
the public interest or for the protection of investors. If
the declaration relates to a reorganization or other plan in
which the declarant has no bona fide interest, the Com-
mission shall by order dismiss such declaration. Unless the
declaration is so dismissed, or is withdrawn by the declarant,
the Commission shall enter an order either permitting
such declaration to become effective as filed or amended,
or refusing to permit such declaration to become effective.

Amendments to a declaration may be made upon such terms
and conditions as the Commission may prescribe.

(d) An order under subsection (c) refusing to permit
a declaration to become effective shall be entered by the
Commission only if the Commission finds that the plan of
offer of exchange to which the declaration relates—
(1) is not fair and equitable to all persons and
classes of persons affected thereby;
(2) in the case of a plan of reorganization, is not
feasible; or
(3) is inconsistent with the purposes of this title.
(e) The Commission, by rules and regulations on its own
motion, or by order on its own motion or upon application,
shall conditionally or unconditionally exempt from any pro-
vision of this title or of section 5 of the Securities Act of
1933 any transaction or class of transactions provided for in
a plan or offer of exchange for which a declaration is effective
under this section, if the Commission finds that such exemp-
tion is consistent with the public interest and the interest of
investors, that such transaction or transactions are necessary
or appropriate to the effectuation of such plan or offer of ex-
change, and that such plan or offer of exchange will tend
to effectuate the purposes of this title.

UNIT INVESTMENT TRUSTS

Sec. 26. (a) No principal underwriter for or depositor
of a registered unit investment trust shall make use of the
mails or any means or instrumentality of interstate commerce,
directly or indirectly, to offer for sale, sell, or deliver after-
sale any security of which such trust is the issuer (other than
short-term paper), unless the trust indenture or other in-
strument pursuant to which such security is issued—

(1) designates a trustee or trustees, each of which
is an institution incorporated and doing business under
the laws of the United States or of a State, is authorized
under such laws to exercise corporate trust powers, is
subject to supervision or examination by Federal or State
authority, and has a combined capital and surplus of such
minimum amount as the Commission may specify by
rules and regulations or order in the public interest or
for the protection of investors;
(2) provides, in substance, (A) that during the
life of the trust the trustee, if not otherwise remunerated,
may charge against and collect from the income of the
trust, and from the corpus thereof if no income is avail-
able, such fees for its services and such reimbursement
for its expenses as are provided for in such instrument;
(B) that no such charge or collection shall be made
except for services theretofore performed or expenses
theretofore incurred; (C) that no payment to the de-
positor of or a principal underwriter for such trust, or
to any affiliated person or agent of such depositor or
underwriter, shall be allowed the trustee as an expense;
and (D) that the trustee shall have title to and posses-
sion of all securities and other property in which the
funds of the trust are invested, all funds held for such
investment, all equalization, redemption, and other spe-
cial funds of the trust, and all income upon and accre-
tions to such property and funds, and shall segregate
and hold the same in trust (subject only to the charges
and collections allowed under classes (A), (B), and
(C)) until distribution thereof to the security holders
of the trust; and
(3) provides, in substance, (A) that a record will
be kept by the depositor or an agent of the depositor of
the name and address of, and the shares issued by the
trust and held by, every holder of any security issued
pursuant to such instrument, insofar as such information
is known to the depositor or agent; and (B) that
whenever a security is deposited with the trustee in
substitution for any security in which such security
holder has an undivided interest, the depositor or the
agent of the depositor will, within five days after such
substitution, either deliver or mail to such security holder
a notice of substitution, including an identification of
the securities eliminated and the securities substituted,
and a specification of the shares of such security holder,
affected by the substitution.
(b) It shall be unlawful for any trustee of a registered
unit investment trust to resign, unless—
(1) the Commission, on application by such trus-
tee, has by order consented to such resignation; or
(2) a successor trustee has been appointed by a
court of competent jurisdiction.
(e) It shall be unlawful for any depositor of a registered
unit investment trust voluntarily to resign as depositor, to
make or attempt to make an assignment of any of his or its
rights or duties with respect to such trust, to dissolve or to
pay any liquidating dividend to its security holders, unless
the Commission, upon application by such depositor, finds and
by order declares that such action by the depositor will not
substantially prejudice the interest of the security holders
of such trust.
(d) Whenever the Commission has reason to believe
that a unit investment trust is inactive and that its liquida-
tion is necessary or appropriate in the public interest or for
the protection of investors, the Commission may file a com-
plaint seeking the liquidation of such trust in the district
court of the United States in any district wherein any trustee
of such trust resides or has its principal place of business. A
copy of such complaint shall be served on every trustee of
such trust, and notice of the proceeding shall be given such
other interested persons in such manner and at such times as
the court may direct. If the court determines that such liqui-
dation is necessary or appropriate in the public interest or
for the protection of investors, the court shall order such
liquidation and after payment of necessary expenses, the
distribution of the proceeds to the security holders of the
trust in such manner and on such terms as may to the court
appear equitable.

PERIODIC PAYMENT PLANS

SEC. 27. (a) It shall be unlawful for any person to
make use of the mails or any means or instrumentality of
interstate commerce to engage in the business of selling
periodic payment plan certificates, if—

(1) the sales load on any such certificate exceeds 9
per centum of the total payments to be made thereon;

(2) more than one-half of any payment during the
first year of the plan is deducted for sales load;

(3) the amount of sales load deducted from any
payment during the first year of the plan exceeds the
amount deducted from any other payment during such
year, or the amount deducted from any payment during
the subsequent years of the plan exceeds the amount
deducted from any other payment during such years; or

(4) either of the first two payments on any such
certificate is less than $20, or any subsequent payment
is less than $10.

(b) It shall be unlawful for any person, by use of the
mails or any means or instrumentality of interstate com-
merce, to engage in the business of selling periodic payment
plan certificates, unless—

(1) each such certificate is a redeemable security;

and

(2) the proceeds of all payments on any such cer-
certificate (except such amounts as are deducted for sales
load) are deposited with a trustee having the qualifica-
tions required by paragraph (1) of section 26 (a) for
the trustees of unit investment trusts, and are held by
such trustee under a trust indenture containing, in sub-
stance, the provisions required by paragraph (2) of
section 26 (a) for the trust indentures of unit investment
trusts.

(c) It shall be unlawful for any trustee with which the
proceeds of payments on a periodic payment plan certificate
have been deposited to resign, unless—

(1) the Commission, on application by such trustee,
has by order consented to such resignation; or

(2) a successor trustee has been appointed by a
court of competent jurisdiction.

FACE-AMOUNT CERTIFICATE COMPANIES

SEC. 28. (a) It shall be unlawful for any registered face-
amount certificate company to issue or sell any face-amoun
certificate, or to collect or accept any payment on any such
certificate issued by such company on or after the effective
date of this title, unless—

(1) capital stock of such company in an amount
not less than $250,000 has been bona fide subscribed and paid for in cash; and 

(2) such company maintains minimum certificate reserves on all its issued and outstanding face-amount certificates in an aggregate amount calculated and adjusted as follows:

(A) out of each payment required to be made by the holder of every such certificate of the installment type in order to complete one full year's installment payments, a portion of such payment equal to 50 per centum of the amount thereof;

(B) out of every other payment made on any such certificate by the holder thereof, such portion of the payment as will, together with similar portions of all other such payments on such certificate and any portions required by paragraph (A) hereof, with accumulations on all such portions at the rate of 3½ per centum per annum, compounded annually, attain upon the maturity of such certificate an amount equal to the maturity or face amount thereof;

(C) any portion of the profits of such company which such company has undertaken to hold for the account of the holder of any such certificate;

(D) an amount equal to accumulations at the rate of 3½ per centum per annum, compounded annually, on such portions of all past payments on, and such portions of profits credited to, any such certificate; and

(E) such appropriate reserves for contingencies for death and disability benefits, on any such certificate providing for such benefits, as the Commission shall prescribe by rules and regulations.

(b) It shall be unlawful for any registered face-amount certificate company to sell any face-amount certificate, or to collect or accept any payment on any such certificate issued by such company on or after the effective date of this title, unless such company has, in cash or qualified investments, assets having a value not less than the aggregate amount of the capital stock requirement and certificate reserve requirement provided for in subsection (a) hereof. As used in this subsection, "qualified investments" means investments of a kind in which life insurance companies are generally permitted to invest. The Commission is authorized, by rules and regulations or order in the public interest or for the protection of investors, to designate those investments which are qualified and to prescribe the basis of valuation of any such investment.
of investors, to require any registered face-amount certificate
company to deposit and maintain, with an institution having
the qualifications required by paragraph (1) of section 26
(a) for the trustees of unit investment trusts, all invest-
ments maintained by such company pursuant to the require-
ments of subsection (b) hereof.
(d) It shall be unlawful for any registered face-amount
certificate company to issue or sell any face-amount cer-
tificate, unless such certificate provides, in substance, that
upon the surrender thereof to the company the holder thereof
shall be entitled to receive from the company the following
minimum amounts:
(1) an amount equal at all times to 50 per centum
of the sum of all past payments on such certificate by
the holder thereof; and
(2) such additional amounts, representing such
percentages of the certificate reserves of such company,
as the Commission shall have prescribed by rules and
regulations or order for the purpose of providing an
equitable graduation of surrender values.
Any such certificate may provide that the surrender value
thereof shall be adjusted to take into account any unpaid
balance on any loan made by such company to the holder
of such certificate, and to make allowance for such other
matters, including a reasonable surrender charge, as the

1. Commission may permit or prescribe by rules and regula-
tions or order in the public interest or for the protection of
investors.

2. (e) It shall be unlawful for any registered face-amount
certificate company to issue or sell any face-amount certifi-
cate which provides that the holder shall be liable for or
charged with any unpaid amount on such certificate.

(f) It shall be unlawful for any registered face-amount
certificate company, in the event of a default by the holder
in any installment payment on a face-amount certificate of
which such company is the issuer, to cancel such certificate,
to suspend accumulations at the rate provided for in the
certificate upon payments previously made by such holder, or
to postpone the maturity date of such certificate, in contra-
vention of such rules and regulations or orders as the Com-
mission may prescribe in the public interest or for the
protection of investors.

BANKRUPTCY OF FACE-AMOUNT CERTIFICATE COMPANIES

Sec. 29. (a) Section 67 of an Act entitled "An Act to
establish a uniform system of bankruptcy throughout the
United States", approved July 1, 1898, as amended, is
amended by adding at the end thereof the following:
"f. (1) For the purposes of, and exclusively applicable
to, this subdivision f: (a) "Debtor" shall mean a face-amount
certificate company, as defined in section 4 of the Invest-
J. 215852—5
ment Company Act of 1940; (b) 'depositary' is a person with whom securities or other property of a debtor is deposited, or to whom property of a debtor is transferred, in trust or otherwise, pursuant to a State law requiring such deposit or transfer and providing for the distribution of such property or its proceeds to creditors or security holders of the debtor in the event of the insolvency of the debtor or under other specified circumstances; and (c) 'State agency' is an official or agency of a State designated to act as depositary or to distribute property, or the proceeds of property, held by a depositary.

"(2) Every deposit or transfer of securities or other property made by or on behalf of a debtor with or to any depositary or State agency for the benefit of the holder of any security sold by or on behalf of the debtor on or after October 1, 1940, shall be null and void as against the trustee of such debtor, and such deposit or transfer and every lien created thereby shall be avoided by the trustee for the benefit of the estate."

"(3) The court shall have summary jurisdiction of any proceeding to hear and determine the rights of any parties under this subdivision i. Due notice of any hearing in such proceeding shall be given to every depositary and State agency which is a party in interest."

(b) Section 44 of said Act of July 1, 1898, as amended, is amended by adding at the end of subdivision a thereof the following sentence:

"If the bankrupt is a face-amount certificate company, as defined in section 4 of the Investment Company Act of 1940, the court alone shall make the appointment; but the court shall not make such appointment without first notifying the Securities and Exchange Commission and giving it an opportunity to be heard."

PERIODIC AND OTHER REPORTS

Sec. 30. (a) Every registered investment company, and every manager, investment adviser, principal underwriter, depositor, or distributor registered under section 9, shall file with the Commission such annual, semiannual, quarterly, and other periodic and special reports, the answers to such specific questions and the minutes of such directors', stockholders', and other meetings, as the Commission may by rules and regulations or order prescribe as necessary or appropriate in the public interest or for the protection of investors. The financial statements of such reports, if required by the rules and regulations of the Commission, shall be certified by an independent public accountant, and shall be made and filed at such time and in such form and detail as the Commission shall prescribe. The Commission may require that there be included in reports filed with it such information and documents as it deems necessary or appro-
to keep reasonably current the information filed by
such persons under section 8 or 9, and such further informa-
tion, of a kind which the Commission might require to be
included in or to accompany a registration statement filed
under section 8 or 9, as the Commission deems necessary or
appropriate in the public interest or for the protection of
investors.

(b) The Commission shall provide by rules and regula-
tions for the filing with the Commission and with any na-
tional securities exchange concerned of copies of periodic
and special reports, or of portions of such reports, filed by any
registered investment company pursuant to subsection (a),
in lieu of any reports required of such company under section
13 or 15 (d) of the Securities Exchange Act of 1934.

(c) The Commission shall require by rules and regula-
tions or order, if and to the extent that the Commission
finds such action necessary or appropriate in the public
interest or for the protection of investors, that a registered
investment company transmit periodic and special reports or
notices to the security holders, or specified classes of the
security holders, of such company, at such times and in such
form and detail as the Commission shall prescribe. Such
reports and notices shall contain such of the information
contained in registration statements, applications, reports,
and other documents relating to such company filed under
this title, as the Commission may prescribe by rules and
regulations or order as necessary or appropriate in the
public interest or for the protection of investors.

(d) Every person who is directly or indirectly the
beneficial owner of more than 10 per centum of any class
of outstanding securities (other than short-term paper)
of which a registered investment company is the issuer, or
who is a director or an officer of such a company, shall
be subject to the same duties and liabilities as those imposed
upon certain beneficial owners, directors, and officers by

(e) It shall be the duty of every person registered
under section 9 as an affiliated person of any registered
management investment company, within thirty days after
the end of every fiscal quarter of such company, to submit
to the board of directors of the company a statement show-
ing the amounts and dates of every purchase or sale made
directly or indirectly for the account of such person, during
such fiscal quarter, of the securities of any issuer any out-
standing security of which was purchased or sold by such
registered company at any time during such fiscal quarter.

ACCOUNTS AND RECORDS

SEC. 31. (a) Every registered investment company,
every underwriter, broker, dealer, or investment adviser
which is a majority-owned subsidiary of such a company, and

The provisions of this subsection shall not apply to purchases
or sales of Government securities or short-term paper.
every manager, investment adviser, principal underwriter, depositor, or distributor registered under section 9, shall make, keep, and preserve for such periods, such accounts, cost-accounting procedures, correspondence, memoranda, papers, books, and other records as the Commission may prescribe by rules and regulations or order as necessary or appropriate in the public interest, for the protection of investors or for the enforcement of this title.

(b) All accounts, cost-accounting procedures, correspondence, memoranda, papers, books, and other records kept or required to be kept by any person subject to subsection (a) shall be subject at any time and from time to time to such reasonable periodic, special, and other examinations by the Commission, or any member or representative thereof, as the Commission may prescribe. It shall be the duty of any such person to furnish to the Commission, within such reasonable time as the Commission may prescribe, any information with respect to such records which the Commission may by order require.

c) The Commission, or any member or representative thereof designated by it, shall have power at any time and from time to time to make an examination of all the affairs of any registered investment company.

d) The Commission, by rules and regulations in the public interest or for the protection of investors, may prescribe for registered investment companies or classes or subclasses of registered investment companies—

(1) uniform methods for keeping accounts and other records required to be kept pursuant to subsection (a), including, among other things, uniform methods of (A) classifying and segregating accounts, (B) recording and carrying securities and other assets, and (C) differentiating between capital and income; and

(2) the methods, practices, and procedures to be followed in determining the entries to be made in accounts, books, and other records required to be kept pursuant to subsection (a), including, among other things, methods, practices, and procedures of determining (A) cost of assets; (B) the value of assets; (C) profits, losses, income, and expenses; (D) the incurrence and discharge of liabilities and contingent liabilities; (E) the entries to reflect the issuance, sale, exchange, acquisition, redemption, or retirement of any security of which such a company is the issuer; (F) the adjustment of accounts upon the restatement of any asset or liability or any capital or surplus account; and (G) the entries providing for depreciation or reflecting appreciation of assets.

e) For the purpose of enforcing the rules and regulations of the Commission under subsection (d) and prevent-
(1) to prescribe by order the account or accounts in which particular outlays, receipts, expenses, income, profits, losses, depreciation, appreciation, dividend distributions, and other transactions shall be entered, charged, or credited; and the manner in which any such entry, charge, or credit shall be made;

(2) to require by order that an entry be modified or supplemented;

(3) to prohibit, by rules and regulations or order, the keeping of accounting records other than those prescribed or approved by the Commission, or the keeping of such records in a manner other than those prescribed or approved by the Commission.

(f) No rule, regulation, or order shall be issued under this section prohibiting a person from subclassifying an account, or from maintaining supplementary records reflecting subclassifications of an account, in any manner which does not impair the integrity of the account subclassified.

ACCOUNTANTS AND AUDITORS

Sec. 32. (a) After one year from the effective date of this title, it shall be unlawful for any registered management investment company to file with the Commission any financial statement signed or certified or based upon an examination or audit by any independent public accountant, unless such accountant was selected by vote of the holders of such company's voting securities at the annual or a special meeting of such security holders duly called; except that any vacancy between such meetings may be filled by the board of directors of such company.

(b) No registered management investment company or registered face-amount certificate company shall file with the Commission any financial statement in the preparation of which the principal accounting officer or employee of such company participated, unless such officer or employee was selected, either by vote of the holders of such company's voting securities at the last annual meeting of such security holders, or by the board of directors of such company.

(c) The Commission is authorized, by rules and regulations or order in the public interest or for the protection of investors—

(1) to prescribe the minimum scope of and procedures to be followed in any audit of a registered investment company; and

(2) to require accountants and auditors to keep reports, work sheets, and other documents and papers relating to registered investment companies and to make the same available for inspection by the Commission or any member or representative thereof.
SETTLEMENT OF CIVIL ACTIONS

SEC. 33. (a) It shall be unlawful for any registered investment company or affiliated person thereof to settle or compromise any claim of the following classes, unless such claim is the subject of a civil action or suit in a court having jurisdiction to approve such settlement or compromise:

1. any claim by a registered investment company or a security holder thereof against an officer, director, manager, trustee, or depositor of such company for an alleged breach of official duty; or

2. any claim by a security holder of a registered investment company against such company or an officer, director, manager, trustee, or depositor thereof for an alleged injury done such security holder together with other security holders of the same class.

(b) Whenever any claim of the classes enumerated in subsection (a) is made the subject of a civil action or suit in a court of the United States, such court shall not approve any proposed settlement or compromise of such action or suit, or permit confession of judgment therein without trial, until after the Commission has filed with the court a report concerning the fairness of the proposed settlement, compromise, or confession of judgment, or has notified the court that it will not file a report, or until the expiration of such reasonable time for the filing of a report as the court has fixed.

(c) The Commission is authorized, at the request of any court of a State to which such a proposed settlement, compromise, or confession of judgment has been submitted, to file such a report with such court.

(d) Every report filed pursuant to this section shall be based upon facts established before the court or an officer thereof, or before a member or officer of the Commission pursuant to an investigation by the Commission, and shall be advisory only.

DESTRUCTION AND FALSIFICATION OF REPORTS AND RECORDS

SEC. 34. (a) It shall be unlawful for any person, except as permitted by rule, regulation, or order of the Commission, to destroy, mutilate, or alter any account, cost-accounting procedure, correspondence, memorandum, book, paper, or other record kept pursuant to this title.

(b) It shall be unlawful for any person to make any untrue statement of a material fact in any registration statement, application, report, account, record, or other document
filed, transmitted, or kept pursuant to this title. It shall be
unlawful for any person filing, transmitting, or keeping any
such document pursuant to this title to omit to state therein
any fact necessary in order to prevent the statements made
therein from being materially misleading. For the purposes
of this subsection, any part of any such document which is
signed or certified by an accountant or auditor in his capacity
as such shall be deemed to be made, filed, transmitted, or
kept by such accountant or auditor, as well as by the person
filing, transmitting, or keeping the complete document.

UNLAWFUL REPRESENTATIONS AND NAMES

SEC. 35. (a) It shall be unlawful for any person in
issuing, selling, or offering for sale any security of which a
registered investment company is the issuer, to represent
or imply in any manner whatsoever that such security or
company, or any affiliated person of or principal underwriter
for such company, has been guaranteed, sponsored, recom-
mented, or approved by the United States or any agency
or officer thereof.

(b) It shall be unlawful for any person registered under
any section of this title to represent or imply in any manner
whatsoever that such person has been sponsored, recom-
mented, or approved, or that his abilities or qualifications
have in any respect been passed upon by the United States
or any agency or officer thereof.

(c) No provision of subsection (a) or (b) shall be
construed to prohibit a statement that a person or security
is registered under this Act, the Securities Act of 1933, or
the Securities Exchange Act of 1934, if such statement is
true in fact and if the effect of such registration is not mis-
represented.

(d) It shall be unlawful for any registered investment
company, as part of the name or title of such company or
of any security of which it is the issuer, to use any word or
words which, in the light of the business and history of such
company, the Commission finds and by order declares to be
deceptive or misleading.

RULES, REGULATIONS, AND ORDERS; GENERAL POWERS
OF COMMISSION

SEC. 36. (a) The Commission shall have authority
from time to time to make, issue, amend, and rescind such
rules and regulations and such orders as it finds necessary
or appropriate to carry out the provisions of this title, in-
cluding rules and regulations defining accounting, technical,
and trade terms used in this title, classifying investment
companies and other persons to whom this title relates, and
prescribing the form or forms in which information required
in registration statements, applications, reports, and other
documents filed with the Commission shall be set forth.

(b) The Commission, by such rules and regulations or
order as it deems necessary or appropriate in the public interest or for the protection of investors or consumers, may authorize the filing of any information or documents required to be filed with the Commission under this title, the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, or the Trust Indenture Act of 1939, by incorporating by reference any information or documents theretofore or concurrently filed with the Commission under this title or any of such Acts.

(e) No provision of this title imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule, regulation, or order of the Commission, notwithstanding that such rule, regulation, or order may, after such act or omission, be amended or rescinded or be determined by judicial or other authority to be invalid for any reason.

HEARINGS BY COMMISSION

SEC. 37. Hearings may be public and may be held before the Commission, any member or members thereof, or any officer or officers of the Commission designated by it, and appropriate records thereof shall be kept. In any proceeding before the Commission, the Commission, in accordance with such rules and regulations as it may prescribe, shall admit as a party any interested State or State agency, and

may admit as a party any representative of interested security holders, or any other person whose participation in the proceeding may be in the public interest or for the protection of investors.

ENFORCEMENT OF TITLE; INVESTIGATIONS

SEC. 38. (a) The Commission, in its discretion, may investigate any facts, conditions, practices, or matters which it may deem necessary or appropriate to determine whether any person has violated or is about to violate any provision of this title or any rule or regulations thereunder, or to aid in the enforcement of the provisions of this title, in the prescribing of rules and regulations thereunder, or in obtaining information to serve as a basis for recommending further legislation concerning the matters to which this title relates. The Commission may require or permit any person to file with it a statement in writing, under oath or otherwise as it shall determine, as to any or all facts and circumstances concerning a matter which may be the subject of investigation. The Commission, in its discretion, may publish information concerning any of the foregoing matters.

(b) For the purpose of any investigation or any other proceeding under this title, including any examination pursuant to section 31, any member of the Commission, or any officer thereof designated by it, is empowered to administer oaths and affirmations, subpoena witnesses, compel their
attendance, take evidence, and require the production of any
books, papers, correspondence, memoranda, contracts, agree-
ments, or other records which are relevant or material to
the inquiry. Such attendance of witnesses and the produc-
tion of any such records may be required from any place
in any State or in any Territory or other place subject to
the jurisdiction of the United States at any designated place
of hearing.

(c) In case of contumacy by, or refusal to obey a
subpoena issued to, any person, the Commission may invoke
the aid of any court of the United States within the juris-
diction of which such investigation or proceeding is carried
on, or where such person resides or carries on business, in
requiring the attendance and testimony of witnesses and
the production of books, papers, correspondence, memoranda,
contracts, agreements, and other records. And such court
may issue an order requiring such person to appear before
the Commission or member or officer designated by the
Commission, there to produce records, if so ordered, or to
give testimony touching the matter under investigation or
in question; and any failure to obey such order of the court
may be punished by such court as a contempt thereof. All
process in any such case may be served in the judicial dis-

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1 fail or refuse to attend and testify or to answer any lawful
inquiry or to produce books, papers, correspondence, memo-
randa, contracts, agreements, or other records, if in his or
its power so to do, in obedience to the subpoena of the Com-
mission, shall be guilty of a misdemeanor, and upon con-
viction shall be subject to a fine of not more than $1,000
or to imprisonment for a term of not more than one year,
or both.

(d) No person shall be excused from attending and
testifying or from producing books, papers, correspondence,
memoranda, contracts, agreements, or other records and docu-
ments before the Commission, or in obedience to the subpoena
of the Commission or any member thereof or any officer des-
ignated by it, or in any cause or proceeding instituted by the
Commission, on the ground that the testimony or evidence,
documentary or otherwise, required of him may tend to in-

criminate him or subject him to a penalty or forfeiture; but
no individual shall be prosecuted or subject to any penalty or
forfeiture for or on account of any transaction, matter, or
thing concerning which he is compelled to testify or produce
evidence, documentary or otherwise, after having claimed his
privilege against self-incrimination, except that such individ-
ual so testifying shall not be exempt from prosecution and
punishment for perjury committed in so testifying.

(e) Whenever it shall appear to the Commission that
any person has engaged or is about to engage in any act or
practice constituting a violation of any provision of this title,
or of any rule, regulation, or order hereunder, it may in its
discretion bring an action in the proper district court of the
United States, the Supreme Court of the District of Columbia,
or the United States courts of any Territory or other place
subject to the jurisdiction of the United States, to enjoin such
acts or practices and to enforce compliance with this title or
any rule, regulation, or order hereunder. Upon a showing
that such person has engaged or is about to engage in any
such act or practice, a permanent or temporary injunction
or decree or restraining order shall be granted without bond.
In any proceeding under this subsection to enforce compli-
ance with section 7, the court as a court of equity may, to
the extent it deems necessary or appropriate, take exclusive
jurisdiction and possession of the investment company or
companies involved and the books, records, and assets
thereof, wherever located; and the court shall have jurisdi-
cion to appoint a trustee, who with the approval of the court
shall have power to dispose of any or all of such assets and,
subject to such terms and conditions as the court may pre-
scribe, may make such disposition in accordance with a plan
of reorganization as to which a declaration is effective under
section 25. The Commission may transmit such evidence
as may be available concerning any violation of the provi-
sions of this title, or of any rule, regulation, or order there-
under, to the Attorney General, who, in his discretion, may
institute the appropriate criminal proceedings under this title.

COURT REVIEW OF ORDERS

SEC. 39. The provisions of section 24 of the Public
Utility Holding Company Act of 1935 are hereby incor-
porated in this title as though fully set forth herein.

JURISDICTION OF OFFENSES AND SUITS

SEC. 40. (a) The provisions of section 25 of the Public
Utility Holding Company Act of 1935 are hereby incor-
porated in this title as though fully set forth herein.

(b) Any criminal proceeding based upon a violation of
section 34, or upon a failure to file a report or other document
required to be filed under this title, may be brought in the
district wherein the defendant is an inhabitant or maintains
his or its principal office or place of business.

INFORMATION FILED WITH COMMISSION

SEC. 41. (a) The information contained in any regis-
tration statement, application, report, or other document filed
with the Commission pursuant to any provision of this title
or of any rule or regulation thereunder shall be made available
to the public, unless and except insofar as the Commission, by
rules and regulations upon its own motion, or by order upon
application, finds that public disclosure is neither necessary
nor appropriate in the public interest or for the protection of
investors. It shall be unlawful for any member, officer, or employee of the Commission to use for personal benefit, or to disclose to any person other than an official or employee of the United States or of a State, for official use, any information contained in any document so filed, if such information is not available to the public.

(b) Photostatic or other copies of information contained in documents filed with the Commission under this title and made available to the public shall be furnished any person at such reasonable charge and under such reasonable limitations as the Commission shall prescribe.

ANNUAL REPORTS OF COMMISSION; VALIDITY OF CONTRACTS; LIABILITY OF CONTROLLING PERSONS; PREVENTING COMPLIANCE WITH TITLE; EMPLOYEES OF THE COMMISSION

SEC. 42. The provisions of sections 23, 26, 27, and 31 of the Public Utility Holding Company Act of 1935 are hereby incorporated in this title as though fully set forth herein.

PENALTIES

SEC. 43. Any person who willfully violates any provision of this title or of any rule, regulation, or order hereunder shall upon conviction be fined not more than $10,000 or imprisoned not more than two years, or both; but no person shall be convicted under this section for the violation of any rule, regulation, or order if he proves that he had no knowledge of such rule, regulation, or order.

EFFECT ON EXISTING LAW

SEC. 44. Except where specific provision is made to the contrary, nothing in this title shall affect (1) the jurisdiction of the Commission under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, or the Trust Indenture Act of 1939, over any person, security, or transaction, or (2) the rights, obligations, duties, or liabilities of any person under such Acts; nor shall anything in this title affect the jurisdiction of any other commission, board, agency, or officer of the United States or of any State or political subdivision of any State, over any person, security, or transaction, insomuch as such jurisdiction does not conflict with any provision of this title or of any rule, regulation, or order hereunder.

GENERAL DEFINITIONS

SEC. 45. (a) When used in this title, unless the context otherwise requires—

1. "Person" means a natural person or a company.

2. "Company" means a corporation, a partnership, an association, a joint-stock company, a trust, or any organized group of persons whether incorporated or not, or any receiver, trustee in bankruptcy, or similar official or any liqui
dating agent for any of the foregoing, in his capacity as such.

(3) "Security", "prospectus", and "underwriter" have the same meanings as in the Securities Act of 1933.

(4) "Exchange", "facility" (when used with respect to an exchange), "broker", "dealer", "bank", "director", "State", and "interstate commerce" have the same meanings as in the Securities Exchange Act of 1934.

(5) "Voting security" means any security presently entitling the owner or holder thereof to vote in the direction or management of the affairs of a company. A specified percentage of the outstanding voting securities of a company means such amount of its outstanding voting securities as entitles the holder or holders thereof to cast said specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such company are entitled to cast. The vote of a majority of the outstanding voting securities of a company means the vote, at the annual or a special meeting of the security holders of such company duly called, (A) of 67 per centum or more of the voting securities present at such meeting, if more than 50 per centum of the outstanding voting securities of such company are present; or (B) or more than 50 per centum of the outstanding voting securities of such company.

(6) "Senior security" means a security, other than short-term paper, which is entitled to a preference in its

distribution of assets over another security of the same issuer.

(7) "Redeemable security" means any security, other than short-term paper, under the terms of which the holder, upon its presentation to the issuer or to a person designated by the issuer, is entitled to receive approximately his proportionate share of the issuer’s current net assets, or the cash equivalent thereof.

(8) "Face-amount certificate" means any certificate, investment contract, or other security which represents an obligation on the part of its issuer to pay a stated or determinable sum or sums at a fixed or determinable date or dates, in consideration of the payment of a sum certain or of periodic installments of a stated or determinable amount.

(9) "Periodic payment plan certificate" means any certificate, investment contract, or other security providing for a series of periodic payments by the holder, and representing an undivided interest in certain specified securities or in a unit or fund of securities purchased wholly or partly with the proceeds of such payments.

(10) "Short-term paper" means any note, draft, bill of exchange, or banker’s acceptance payable on demand or having a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof payable on demand or having a maturity likewise
limited; and such other classes of securities, of a commercial
rather than an investment character, as the Commission may
designate by rules and regulations.

   (11) "Government security" means any security issued
or guaranteed as to principal or interest by the United States,
or by a person controlled or supervised by and acting as an
instrumentality of the Government of the United States pur-
suant to authority granted by the Congress of the United
States; or any certificate of deposit for any of the foregoing.

   (12) "Marketable security" means any security which
is listed or admitted to undated trading privileges on a na-
tional securities exchange or on an exchange exempted from
registration pursuant to section 5 of the Securities Exchange
Act of 1934, or for which a market price is regularly ascer-
tainable from publications or other readily accessible sources.

   (13) "Issuer" means every person who issues or pro-
poses to issue any security, or has outstanding any security
which it has issued.

   (14) "Principal underwriter" means any underwriter
who, in connection with a primary distribution of securities,
(A) is in privity of contract with the issuer or an affiliated
person of the issuer; (B) acting alone or in concert with
one or more other persons, initiates or directs the formation
of an underwriting syndicate; or (C) is allowed a rate of
gross commission, spread, or other profit greater than the
rate allowed another underwriter participating in the dis-
tribution.

   (15) "Investment officer" means any officer of an
investment company who is empowered to execute or order
the execution of purchases or sales of securities for the
account of such company.

   (16) "Investment adviser" means any person who, for
compensation, engages in the business of advising others,
either directly or through publications or writings, as to
the value of securities or as to the advisability of investing in,
purchasing, or selling securities, or who, for compensation
and as part of a regular business, issues or promulgates
analyses or reports concerning securities; but does not in-
clude (A) a bank; (B) any lawyer, accountant, engineer,
or teacher whose performance of such services is solely
incidental to the practice of his profession; (C) the pub-
lisher of any bona fide newspaper or newsjournal of gen-
eral circulation; or (D) such other persons, not within the
intent of this paragraph, as the Commission may designate
by rules and regulations or order.

   (17) "Manager" of an investment company means a
person empowered by contract or otherwise to determine
what securities and other investments shall be purchased or
sold by such company; but does not include (A) a bona
fide officer, director, trustee, deposit, or employee of such
company in his capacity as such; (B) an investment adviser each of whose recommendations for purchase or sale must be approved, before such purchase or sale is executed, by an investment officer, director, or trustee of such company who is not an affiliated person of such investment adviser; or (C) any person the character and amount of whose compensation from such company must be approved by a court. 

(18) "Affiliated person" of another person means (A) any person directly or indirectly owning, controlling, or holding with power to vote, 5 per centum or more of the outstanding voting securities of such other person; (B) any person 5 per centum or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other person; (C) any person directly or indirectly controlling, controlled by, or under common control with, such other person; (D) any officer, director, partner, or copartner of such other person; (E) if such other person is an investment company, any manager thereof or any person who regularly acts as investment adviser thereof; and (F) if such other person is a unit investment trust, the depositor thereof. 

(19) "Affiliated company" means a company which is an affiliated person. 

(20) "Majority-owned subsidiary" of a person means a company 50 per centum or more of the outstanding voting securities of which are owned by such person, or by a company which, within the meaning of this paragraph, is a majority-owned subsidiary of such person. 

(21) "Wholly-owned subsidiary" of a person means a company 95 per centum or more of the outstanding voting securities of which are owned by such person, or by a company which, within the meaning of this paragraph, is a wholly-owned subsidiary of such person. 

(22) "Investment company system" means two or more investment companies one of which through its ownership of voting securities directly or indirectly controls the others. 

(23) "Insurance company" means a company which is organized as an insurance company under the laws of a State, whose primary and predominant business activity is the writing of insurance, and which is subject to supervision by the insurance commissioner or a similar official or agency of such State; or any receiver or similar official or any liquidating agent for such a company, in his capacity as such. 

(24) "Employees' securities company" means any investment company or similar issuer all of the outstanding securities of which (other than short-term paper) are owned (A) by the employees of a single employer or of two or more employers each of which is an affiliated company of the other, (B) by former employees of such employer or employers, (C) by members of the immediate
1 family of such employees or former employees, (D) by
2 any two or more of the foregoing classes of persons, or (E)
3 by such employer or employers together with any one or
4 more of the foregoing classes of persons.
5 (25) "Sale", "sell", "offer to sell", or "offer for sale"
6 includes every contract of sale or disposition of, attempt
7 or offer to dispose of, or solicitation of an offer to buy, a
8 security or interest in a security, for value. Any security
9 given or delivered with, or as a bonus on account of, any
10 purchase of securities or any other thing, shall be conclu-
11 sively presumed to constitute a part of the subject of
12 such purchase and to have been sold for value.
13 (26) "Sales load" means the difference between the
14 price of a security to the public and that portion of the
15 proceeds from its sale which is received and invested or
16 held for investment by the issuer, or in the case of a unit
17 investment trust, by the depositor or trustee. In the case
18 of a periodic payment plan certificate, "sales load" includes
19 the sales load on any investment company securities in
20 which the payments made on such certificate are invested,
21 as well as the sales load on the certificate itself.
22 (27) "Lend" includes a purchase coupled with an
23 agreement by the vendor to repurchase; "borrow" includes
24 a sale coupled with a similar agreement.
25 (28) "Assignment" includes any direct or indirect
26 transfer or hypothecation of a contract or chose in action
27 by the assignor, or of a controlling block of the assignor's
28 outstanding voting securities by a security holder of the
29 assignor; but does not include an assignment of partnership
30 interests incidental to the death or withdrawal of a minority
31 of the members of the partnership having only a minority
32 interest in the partnership business.
33 (29) "Value", as used in sections 3, 5, and 12, means
34 (A) with respect to marketable securities acquired before
35 the end of the owner's last fiscal quarter, the market value
36 of such securities at the end of such fiscal quarter, and (B)
37 with respect to other assets (including other securities), the
38 cost thereof to the owner, or if the Commission finds that
39 such cost is not ascertainable without undue effort or expense
40 or does not fairly reflect the value thereof, a valuation on
41 such other reasonable basis as the Commission may prescribe
42 by rules and regulations or order. As used elsewhere in
43 this title, the term "value" or any other term importing
44 value means the valuation given in, or a valuation based on
45 the accounting principles followed in, the most recent regis-
46 tration statement or periodic report filed under this title by
47 the company concerned.
48 (30) "Portfolio turnover" means the ratio which the
49 sum of the dollar amount of a company's sales and purchases
50 of portfolio securities (other than Government securities)
during a given fiscal year, minus the dollar amount of net
sales during the same year of securities of which such com-
pany is the issuer, bears to the value of such company's
security assets (exclusive of Government securities) at the
beginning of such year or at the end of any quarter thereof,
whichever is the highest.

(31) "Convicted" includes a verdict, judgment, or plea
of guilty, or a finding of guilt on a plea of nolo contendere,
if such verdict, judgment, plea, or finding has not been
reversed, set aside, or withdrawn, whether or not sentence
has been imposed.

(32) "National securities exchange" means an exchange
registered under section 6 of the Securities Exchange Act
of 1934.

(33) "Means or instrumentality of interstate commerce"
includes any facility of a national securities exchange.

(34) "Commission" means the Securities and Exchange
Commission.

(35) "Securities Act of 1933", "Securities Exchange
Act of 1934", "Public Utility Holding Company Act of
1935", and "Trust Indenture Act of 1939" mean those Acts,
respectively, as heretofore or hereafter amended.

(b) No provision in this title shall apply to, or be
deemed to include, the United States, a State, or any politi-
cal subdivision of a State, or any agency, authority, or
instrumentality of any one or more of the foregoing, or
any corporation which is wholly owned directly or indirectly
by any one or more of the foregoing, or any officer, agent,
or employee of any of the foregoing acting as such in the
course of his official duty, unless such provision makes
specific reference thereto.

SEPARABILITY OF PROVISIONS

SEC. 46. If any provision of this title or any provision
incorporated in this title by reference, or the application
of any such provision to any person or circumstances, shall
be held invalid, the remainder of this title and the appli-
cation of any such provision to persons or circumstances
other than those as to which it is held invalid shall not
be affected thereby.

SHORT TITLE

SEC. 47. This title may be cited as the "Investment
Company Act of 1940".

EFFECTIVE DATE

SEC. 48. The effective date of this title is October 1,
1940. Except where specific provision is made to the con-
trary, every provision of this title shall take effect on said
effective date.

TITLE II—INVESTMENT ADVISERS

FINDINGS OF THE CONGRESS

SEC. 201. Upon the basis of facts disclosed by the record
and report of the Securities and Exchange Commission made
pursuant to section 30 of the Public Utility Holding Company Act of 1935, and facts otherwise disclosed and ascertained, it is hereby found that investment advisers are of national concern, in that, among other things—

(1) their advice, counsel, publications, writings, analyses, and reports are customarily furnished and distributed, and their contracts, subscription agreements, and other arrangements with clients are customarily negotiated and performed, by the use of the mails and instrumentalities of interstate commerce;

(2) their advice, counsel, publications, writings, analyses, and reports customarily relate to securities, and to the volume of trading in and the prices of securities, which are traded on national securities exchanges and in interstate over-the-counter markets, securities issued by companies engaged in business in interstate commerce, and securities issued by national banks and member banks of the Federal Reserve System;

(3) they advise and through such advice influence the policies of large financial and other institutions engaged in banking and in interstate business; and

(4) all of the foregoing transactions are carried on in such great volume as substantially to affect interstate commerce, national securities exchanges, and other securities markets, the national banking and monetary system and the entire national economy.

DECLARATION OF POLICY

SEC. 202. Upon the basis of facts disclosed by the record and report of the Securities and Exchange Commission made pursuant to section 30 of the Public Utility Holding Company Act of 1935, and facts otherwise disclosed and ascertained, it is hereby declared that the national public interest and the interest of investors are adversely affected—

(1) when investors are unable to obtain adequate information as to the activities, practices, ability, training, and integrity of investment advisers, their affiliated persons, and employees;

(2) when persons of proven lack of integrity in financial matters are permitted to engage in business as investment advisers;

(3) when the compensation of investment advisers is based upon profit-sharing contracts and other contingent arrangements conducive to excessive speculation and trading; or

(4) when the business of investment advisers is so conducted as to defraud or mislead investors, or to enable such advisers to relieve themselves of their fiduciary obligations to their clients.
It is hereby declared that the policy and purposes of this title, in accordance with which the provisions of this title shall be interpreted, are to mitigate and, so far as is presently practicable, to eliminate the abuses enumerated in this section.

APPLICATION OF TITLE I

Sec. 203. The provisions of the following sections of title I are hereby incorporated in this title as though fully set forth herein: Sections 3, 34 (b), 35 (b) and (c), 36, 37 (e) and (f), 38, 39, 40, 41, 42, 43, 45, 46, and 47.

REGISTRATION OF INVESTMENT ADVISERS

Sec. 204. (a) Except as provided in subsection (b), it shall be unlawful for any investment adviser, unless registered under this section, to make use of the mails or any means or instrumentality of interstate commerce in connection with his or its business as an investment adviser.

(b) The provisions of subsection (a) shall not apply to an investment adviser—

(1) all of whose clients are residents of the State within which such investment adviser maintains his or its principal office and place of business;

(2) who does not furnish advice or issue analyses or reports with respect to securities listed or admitted to unlisted trading privileges on a national securities exchange; and

(3) who does not furnish advice or issue analyses or reports with respect to securities for which an over-the-counter market exists in any State other than that within which such investment adviser maintains his or its principal office or place of business.

(c) Any investment adviser, or any person who presently contemplates becoming an investment adviser, may register under this section by filing with the Commission an application for registration. Such application shall contain such of the following information and documents, in such form and detail, as the Commission may by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors:

(1) information in respect of—

(A) the organization and personnel of such investment adviser, including the number of his or its employees and their duties;

(B) the education, experience, and other background, and the past and present business affiliations of such investment adviser;

(C) the nature and scope of the business of, and of the advice, analyses, and reports furnished by, such investment adviser;

(D) the nature and scope of the authority and practices of such investment adviser with respect to clients' funds and accounts; and
(E) the basis or bases upon which such investment adviser, his or its partners, officers, directors, and employees are compensated;

(2) copies of every form of contract or agreement between such investment adviser and its clients which is regularly used by such investment adviser; and

(3) such further information and copies of such further documents relating to such investment adviser, his or its affiliated persons and employees as the Commission may by rules and regulations or order prescribe as necessary or appropriate in the public interest or for the protection of investors.

Except as hereinafter provided, such registration shall become effective thirty days after receipt of such application by the Commission, or within such shorter period of time as the Commission may determine. Any amendment of an application filed not more than fifteen days after the filing of such application shall be deemed to have been filed with and as a part of such application. Any amendment of an application filed more than fifteen days after the filing of such application shall be deemed a new application incorporating by reference the unamended items of the earlier application.

(d) The Commission shall by order deny registration to or revoke or suspend the registration of an applicant under this section, if the Commission finds that such denial, revocation, or suspension is in the public interest and that such investment adviser or any partner, officer, director, or controlling person thereof—

(1) within ten years of the issuance of such order, has been convicted of any felony or misdemeanor involving the purchase or sale of any security or arising out of any conduct or practice of such investment adviser or affiliated person as an investment adviser, underwriter, broker, or dealer, or as an affiliated person or employee of any investment company, bank, or insurance company;

(2) at the time of the issuance of such order, is permanently or temporarily enjoined by order, judgment, or decree of any court of competent jurisdiction from acting as an investment adviser, underwriter, broker, or dealer, or as an affiliated person or employee of any investment company, bank, or insurance company, or from engaging in or continuing any conduct or practice in connection with any such activity or in connection with the purchase or sale of any security;

(3) has omitted to state in such application or in an amendment thereto any fact which such person is required to state therein; or

(4) has willfully violated section 34 (b) of title I of this Act, or that portion of section 208 of this title.
which incorporates the provisions of said section 34 (b).

e) The commencement of a proceeding to deny registration under this section shall operate to postpone the effective date of registration pending final determination of such proceeding.

(f) Any person registered under this section may, upon such terms and conditions as the Commission finds necessary in the public interest or for the protection of investors, withdraw from registration by filing a written notice of withdrawal with the Commission. If the Commission finds that any person registered under this section, or who has pending an application for registration filed under this section, is no longer in business or is not engaged in business as an investment adviser, the Commission shall by order cancel the registration of such person.

INVESTMENT ADVISORY CONTRACTS

Sec. 205. No investment adviser registered under section 204 shall make use of the mails or any means or instrumentalities of interstate commerce, directly or indirectly, to enter into, extend, or renew any investment advisory contract, or in any way to perform any investment advisory contract entered into, extended, or renewed on or after the effective date of this title, if such contract—

(1) provides for compensation to the investment adviser on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of the client; or

(2) fails to provide, in substance, that no assignment of such contract shall be made by the investment adviser.

As used in this section, "investment advisory contract" means any contract or agreement whereby a person agrees to act as investment adviser or to manage any investment or trading account for another person. Paragraph (1) of this section shall not be construed to prohibit an investment advisory contract which provides for compensation based upon the total value of a fund averaged over a definite period or taken as of a definite date.

PROHIBITED TRANSACTIONS BY REGISTERED INVESTMENT ADVISERS

Sec. 206. It shall be unlawful for any investment adviser registered under section 204, by use of the mails or any means or instrumentalities of interstate commerce, directly or indirectly—

(1) to employ any device, scheme, or artifice to defraud any client or prospective client;

(2) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon any client or prospective client;

(3) acting as principal, knowingly to sell any
security to or purchase any security from any client,
unless such investment adviser is a member of an
association of brokers or dealers registered with the
Commission pursuant to section 15A of the Securities
Exchange Act of 1934; or
(4) if such investment adviser is a member of
such an association, knowingly to sell any security to
or purchase any security from any client without dis-
closing to such client in writing at or before the com-
pletion of such sale or purchase whether he is acting
as a dealer for his own account, as a broker for such
customer, or as a broker for some other person.

PE NALTIES

SEC. 207. Any person who willfully violates any provi-
sion of this title shall upon conviction be fined not more
than $10,000 or imprisoned not more than two years, or
both.

SHORT TITLE

SEC. 208. This title may be cited as the "Investment
Advisers Act of 1940".

EFFECTIVE DATE

SEC. 209. This title shall become effective on October
1, 1940.
A BILL

To provide for the registration and regulation of investment companies and investment advisors, and for other purposes.

By Mr. [Name]

Read twice and returned to the Committee on...

March 22, 1940