

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 10, 1939, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Davis
Mr. Draper

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

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on February 8, 1939, were approved unanimously.

Telegrams to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard, Stewart and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis and Minneapolis, respectively, Mr. McKinney, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on February 7, and by the Federal Reserve Banks of New York, Richmond, Chicago, St. Louis, Minneapolis and Dallas on February 9, 1939, of the rates

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of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"This refers to your letter of February 6 in which you state that the Board of Directors of your bank, at its meeting on February 3, appointed Mr. Philip M. Poorman an officer of the bank with a title of General Auditor at a salary of \$6,500 per annum, subject to the Board's approval, and has designated Mr. Raymond M. Moore as Auditor at his present salary of \$5,000 per annum.

"From Mr. Drinnen's telephone conversation with Governor Szymczak on February 8, it is understood that the bank now proposes to designate Mr. Poorman as Auditor and Mr. Moore as Head of Audit Department. The Board of Governors approves a salary of \$6,500 per annum for Mr. Poorman as Auditor and of \$5,000 per annum for Mr. Moore as Head of Audit Department, provided those titles are approved by your Board of Directors.

"It is understood that a revised personnel classification plan form will be forwarded to the Board covering the position to be occupied by Mr. Moore."

Approved unanimously.

Letter to Mr. Parker, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the requests contained in your letters of February 6, the Board approves the designations of Assistant Federal Reserve Agent J. R. McCravey, Jr., as an examiner and of J. F. Comfort and Hudson Johnson, as assistant examiners in order that they may lend assistance to your regular examiners. Approval is given with the understanding, of course, that none of these men will be transferred permanently to examining work without the Board's approval.

"The Board approves also the designations as assistant examiners of the following employees of the Nashville

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"Branch in order that they may lend clerical assistance in the examination of the Commerce Union Bank of Nashville scheduled to be made shortly:

L. W. Starr
S. H. McGee
M. L. Miller
Jesse Hooper
Frank J. Davis"

Approved unanimously.

Letter dated February 9, 1939, to Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"Referring to your letter of February 2, 1939, the Board approves the reappointment of Messrs. F. A. Smythe, Daniel R. Davies, Edward C. Folsom, Herman R. Neff, and Dan C. Swander as members of the Industrial Advisory Committee for the Fourth Federal Reserve District to serve for terms of one year each beginning March 1, 1939."

Approved unanimously.

Letter to Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, reading as follows:

"Referring to your letter of February 3, 1939, the Board approves the reappointment of Messrs. Ralph Burnside, Shannon Crandall, Henry D. Nichols, Stuart L. Rawlings, and Walter A. Starr as members of the Industrial Advisory Committee for the Twelfth Federal Reserve District to serve for terms of one year each beginning March 1, 1939."

Approved unanimously.

Letter dated February 9, 1939, to Mr. Albert Parker, New York, New York, reading as follows:

"We regret that pressure of other matters has prevented an earlier reply to your letter of December 20, 1938, addressed to Chairman Eccles, in which, in connection

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"with a common trust fund proposed to be operated by your client, Colonial Trust Company, New York, New York, you inquire concerning the effect of the following provisions of section 17 of the Board's Regulation F:

'The trust investment committee of a bank operating a Common Trust Fund shall not permit any funds of any trust to be invested in a Common Trust Fund if it has reason to believe that such trust was not created or is not being used for bona fide fiduciary purposes.'

"The foregoing provisions should be considered in the light of the other provisions of the same section, including the following:

'The purpose of this section is to permit the use of Common Trust Funds, as defined in section 169 of the Revenue Act of 1936, for the investment of funds held for true fiduciary purposes; and the operation of such Common Trust Funds as investment trusts for other than strictly fiduciary purposes is hereby prohibited.'

"In amending Regulation F to permit the operation of common trust funds, the Board intended that a common trust fund should be used merely to aid in the administration of trusts by a trust institution through the commingled investment of funds of various trusts and that, while the operation of a common trust fund might thus enable a trust institution to accept small trusts which it otherwise would be unwilling to handle, trust guise or form should not be used to enable a trust institution to operate a common trust fund as an investment trust attracting money seeking investment alone and to embark upon what would be in effect the sale of participations in a common trust fund to the public as investments.

"In dealing with this matter, it appeared desirable to use largely general language, omitting certain exact, arbitrary restrictions which might unduly hamper the use of common trust funds for proper purposes, and, accordingly, the above-quoted provisions were incorporated in the regulation. By adopting this approach, the Board placed reliance upon the exercise of sound judgment and good faith on the part of trust institutions and their trust investment committees in carrying out the broad intent and purposes of such provisions. In determining whether a particular trust is created and used for 'bona

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"'fide fiduciary purposes', it is necessary to consider, in the light of such intent and purposes, not only the terms of the trust instrument but also other facts and circumstances concerning the creation and use of the trust. In this connection, it perhaps should be emphasized that the regulation forbids the investment of funds of a trust in a common trust fund if the trust investment committee 'has reason to believe' that the trust does not conform.

"It is trusted that the foregoing comments may be of assistance to you in connection with your problem. If you have any further questions, it is suggested that they be taken up with the Federal Reserve Bank of New York, which will submit them and all pertinent facts to the Board if it appears necessary."

Approved unanimously.

Letter dated February 9, 1939, to Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of February 2, 1939, enclosing copies of the amended by-laws of the Federal Reserve Bank of Cleveland and of the Cincinnati and Pittsburgh Branches.

"It has been noted that section 7 of article 3 of the by-laws of the Reserve Bank has been amended so as to change the duties of the cashier and that there has been added to such by-laws a new article 4 providing for a managing committee which is given certain powers with reference to the supervision of the custody of moneys, investments, and securities of the Bank.

"It is our understanding that the amendments to the by-laws of the Cincinnati and Pittsburgh Branches were adopted subject to the approval of the Board of Governors. These amendments change section 3 of article III relating to the duties of the cashier and add a new article 4 to the by-laws of each of the Branches. In addition, it appears that the by-laws of the Cincinnati Branch have been amended by changing the week-day closing hour of the Branch from 3:00 p.m. to 2:30 p.m. and by changing certain other provisions of the article now numbered VII. You are advised that the Board of Governors approves these amendments

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"to the by-laws of the Cincinnati and Pittsburgh Branches."

Approved unanimously.

Thereupon the meeting adjourned.

Cheser Morrell
Secretary.

Approved:

W. S. Lewis
Chairman.