

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, March 2, 1939, at 10:15 a. m.

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

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

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 1, 1939, were approved unanimously.

Memorandum dated February 27, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Lottie Kriegel, a secretary in that division, be retained on a permanent basis when her probationary appointment expires at the close of business on May 7, 1939, and that her salary be continued at the rate of \$1,620 per annum.

Approved unanimously.

Memorandum dated March 1, 1939, from Mr. Smead, Chief of the Division of Bank Operations, recommending that the Board's weekly member bank statement be amended to show separately reporting member

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banks' holdings of Treasury notes, Treasury bills, and United States bonds, which heretofore had been published as a single item. The memorandum stated that this classification of United States Government obligations had been made possible by the revision of the weekly member bank condition report which was put into effect on February 8.

Approved unanimously.

Telegram to Dr. Alfred H. Williams, Dean, Wharton School of Finance, University of Pennsylvania, Philadelphia, Pennsylvania, reading as follows:

"Board of Governors of Federal Reserve System has appointed you class C director of Federal Reserve Bank of Philadelphia for unexpired portion of three-year term ending December 31, 1941, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board will be pleased to know that you have taken time out from a busy life to study the excerpts from the Annual Report for 1938 relating to problems of banking and banking supervision and also that you propose to intensify the work of increasing membership in the System.

"The reasons that are most effective with nonmember banks vary so much in the different districts and in individual cases that the Board has never attempted to prepare a formal statement of the arguments that might be presented. However, it will no doubt be of interest to you to know that the most successful work of this kind is being done in the Chicago district by and under the direction of Vice President Young, of the Chicago Bank. The

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"Chicago Bank has been able not only to sell the idea of membership directly to many individual banks but also, in some instances, to obtain the cooperation of correspondent banks. It has been evident that the best results are obtained from working everlastingly at the problem through the medium of personal, friendly contacts and correspondence rather than merely through formal solicitation. Emphasis on maintaining continuous touch with banks generally through the bank relations activities and through extension of every reasonable service and facility to members should be advantageous in this connection.

"In the circumstances, if I might venture the suggestion, it seems to me that one of the most helpful things you could do in developing plans along the lines you have in mind in your letter would be to get in touch with the Chicago Bank and I believe that arrangements could be made to have Vice President Young meet you for the purpose of giving you the benefit of their methods and experience."

Approved unanimously.

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

"There is enclosed herewith a copy of a letter received by the Board from the President of The Barnett National Bank of Jacksonville, Jacksonville, Florida, inquiring whether the provisions of section 22(c) of the Federal Reserve Act prohibit a director of a member bank, who is in the real estate business and the business of making mortgage loans, from receiving a commission from the borrower on a real estate mortgage loan made by the bank or by the trust department of the bank. It will be appreciated if you will reply to this inquiry from the President of The Barnett National Bank.

"For your information in connection with your reply, it may be stated that, while it is not clear to us on what basis a transaction such as that described would be excepted from the law, violations of section 22(c) of the Federal Reserve Act are misdemeanors punishable by fine or imprisonment and, accordingly, the determination of the question whether any particular transaction constitutes a violation of the provision is a matter within

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"the jurisdiction of the Department of Justice. The Board of Governors is not given authority to prescribe regulations with regard to this provision of the law, and the Board is therefore not in a position to express an opinion on a question arising thereunder which could be considered controlling. However, with respect to the acceptance of a fee in connection with a loan by the trust department of a member bank, attention is invited to a ruling made by the Board of Governors on a somewhat analagous question, i. e., whether a loan made by the trust department of a member bank to one of its executive officers is a violation of the provisions of section 22(g) of the Federal Reserve Act with regard to loans to executive officers of member banks. This ruling is published at page 324 of the 1936 Federal Reserve Bulletin."

Approved unanimously.

Letter to Mr. McRae, Chief Examiner of the Federal Reserve Bank of Boston, reading as follows:

"Consideration has been given to your letter of January 30, 1939, and the enclosed memorandum opinion of counsel for your bank regarding the applicability of section 32 of the Banking Act of 1933 to the service of Mr. Lawrence Coolidge as a director of The National Shawmut Bank of Boston and as a director of Fidelity Fund, Inc.

"It appears that Fidelity Fund, Inc. is an investment trust and has never engaged in underwriting or distributing securities, except its own. The question whether section 32 as amended applies in the present case, therefore, depends solely on whether the Fund is 'primarily engaged' in selling its own shares.

"According to the information submitted, Fidelity Fund, Inc. has been in operation for about nine years and during the past three years it has sold and repurchased approximately one-third of its shares each year with a net increase of about 5 per cent each year of the total number of shares outstanding. In his memorandum opinion counsel for your bank has drawn a distinction between an investment trust to which the issue and sale of shares is of primary importance in order to obtain the necessary

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"working capital, and an investment trust which has been operating for some time, where the sale of its own shares is no longer of primary importance or one of its primary activities but where its primary activity is the investment and reinvestment of its funds. Your counsel consider that by reason of its history and the nature of its operations Fidelity Fund, Inc. should be regarded as coming within the latter classification and that while the question is not entirely free from doubt, the investment trust is not primarily engaged in the issue and sale of its shares or in any of the other activities described in section 32 of the Banking Act of 1933.

"As your counsel point out, each case of this kind must be decided on its own facts, and in view of all the information submitted in this case, the Board sees no reason to differ with the conclusion reached by your counsel that section 32 is not applicable."

Approved unanimously.

Thereupon the meeting adjourned.

Lester Morris
Secretary.

Approved:

W. S. ...
Chairman.