A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, February 14, 1940, at 4:45 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 meetings of the Board of Governors of the Federal Reserve System held on February 13, 1940, (two meetings) were approved unanimously.

Memorandum dated February 8, 1940, from the Personnel Committee recommending that, subject to confirmation of his willingness to serve, Mr. O. O. Boomer, Vice President of the Girdler Corporation, Louisville, Kentucky, be appointed a director of the Louisville Branch of the Federal Reserve Bank of St. Louis for the unexpired portion of the three-year term ending December 31, 1942.

Approved unanimously.

Letter to Honorable John Thomas, United States Senate, prepared for the signature of Chairman Eccles, and reading as follows:

"Receipt is acknowledged of your letter of February 6, 1940, tendering your resignation as a director of the
"Salt Lake City Branch of the Federal Reserve Bank of San Francisco because of your acceptance of appointment as United States Senator from Idaho.

"The Board appreciates your service on the Branch directorate and has accepted your resignation as of this date with sincere regret. My colleagues on the Board join me in congratulating you on your recent appointment and in wishing you every success."

Approved unanimously.

Memorandum dated February 8, 1940, from Mr. Van Fossen, Assistant Chief of the Division of Bank Operations, submitting a summary of the information contained in statements received from the Federal Reserve banks in compliance with the Board's request of November 23, 1939, giving the name and annual salary of each employee on January 1, 1940, and on January 1, 1939, or the initial salary if hired during 1939. The memorandum stated that the salary lists, as submitted by each Federal Reserve bank, had been examined, and that the only salary payments requiring specific approval by the Board of Governors noted were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Employee</th>
<th>Salary increased</th>
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<tbody>
<tr>
<td></td>
<td>F.R. Bank</td>
<td>From</td>
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<tr>
<td>Cleveland</td>
<td>E. F. Fricek, Alternate Assistant Federal Reserve Agent</td>
<td>$1,680</td>
</tr>
<tr>
<td>Kansas City</td>
<td>W. R. Young, Federal Reserve Agent's Representative</td>
<td>2,600</td>
</tr>
<tr>
<td>Denver Branch</td>
<td>J. C. Clark, Jr., Federal Reserve Agent's Representative</td>
<td>2,460</td>
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The memorandum recommended approval of letters attached thereto advising that the Board notes without objection the salaries of employees on
January 1, 1940, the letters to the Federal Reserve Banks of Cleveland and Kansas City, respectively, stating that the Board approves the salaries fixed for Mr. Fricke and Messrs. Young and Clark.

The recommendation was approved unanimously.

Letter to Mr. Keesee, Secretary of the Federal Reserve Bank of Richmond, reading as follows:

"Referring to your letter of February 9, 1940, the Board of Governors approves the reappointment of Messrs. J. G. Holtzclaw, Walker D. Stuart, Overton D. Dennis, George E. Probest, Jr., and William L. Manning as members of the Industrial Advisory Committee for the Fifth Federal Reserve District to serve for terms of one year each beginning March 1, 1940."

Approved unanimously.

Letter to Mr. McCravey, Secretary of the Federal Reserve Bank of Atlanta, reading as follows:

"Referring to your letter of February 9, 1940, the Board of Governors approves the reappointment of Messrs. W. W. French, A. M. Lockett, I. C. Milner, John E. Sanford, and George Winship as members of the Industrial Advisory Committee for the Sixth Federal Reserve District to serve for terms of one year each beginning March 1, 1940."

Approved unanimously.

Letter to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"Referring to your letter of February 9, 1940, the Board of Governors approves the reappointment of Messrs. W. K. Norris, Jacob VanDyke, Maurice Weil, and M. E. Finch as members of the Industrial Advisory Committee for the Eighth Federal Reserve District to serve for terms of one year each beginning March 1, 1940."
"It is noted that the appointment of a successor to
Mr. Henry S. Gray was deferred until a later date."

Approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Referring to your letter of February 9, 1940, the Board of Governors approves the reappointment of Messrs. Clarence Ousley, Lewis R. Ferguson, W. B. Marsh, T. M. Cullum, and C. R. Moore as members of the Industrial Advisory Committee for the Eleventh Federal Reserve District to serve for terms of one year each beginning March 1, 1940."

Approved unanimously.

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of February 5 transmitting the request of the 'Lawyers Trust Company', New York, New York, for an extension to March 1, 1941 of the time within which to complete compliance with the following condition of membership:

19. Such bank shall, within six months from the date of its admission to membership, dispose of any loans which may be secured in whole or in part by its own stock or obtain other security for each such loan."

"According to the information submitted, 975 shares of the stock held as collateral to loans have been sold within the past year and the proceeds applied to the loan against which the stock was held, and the number of shares to which the condition of membership is applicable has been reduced to 150, as compared with 80,000 shares outstanding.

"In view of the circumstances and in accordance with your recommendation, the Board cancels condition of membership numbered 19 applicable to the Lawyers Trust Company, leaving the matter to be handled as an administrative matter in the regular course of supervision."

Approved unanimously.
Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of February 6, 1940, with enclosures concerning the purchase of assets and assumption of deposit liabilities of the Merchants and Miners Bank, Paint Borough, (Scalp Level P. O.), Pennsylvania, by the Windber Trust Company, Windber, Pennsylvania, which was effected at the close of business January 13, 1940, with the approval of the Secretary of Banking for the Commonwealth of Pennsylvania.

"It is understood that the deposits assumed by the Windber Trust Company amounted to approximately $207,500, that the assets acquired were appraised by an examiner for the Federal Reserve Bank of Cleveland and that the deficiency note received, amounting to $34,100, which is secured by unacceptable assets having a book value of approximately $100,000, is considered well secured and that liquidation is expected within a comparatively short time. It is noted, also, that the trust company which owned a majority of the stock of the Merchants and Miners Bank will have adequate capital after assuming the additional deposits and that counsel for the Reserve Bank is of the opinion that the transaction does not affect the status of the trust company as a member bank and does not involve a violation of the several conditions of membership under which it was admitted to the Federal Reserve System.

"In view of your recommendation and the information at hand, the Board will interpose no objection under the conditions of membership to the transaction as consummated."

Approved unanimously.

Letter to "The Union National Bank of Ventura", Ventura, California, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, and guardian of estates, grants you authority to act, when not in
"contravention of State or local law, as assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of California, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

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

"Receipt is acknowledged of your letter of February 3, 1940, transmitting the report of Transamerica Corporation, San Francisco, California, as of December 31, 1939, and requesting advice as to the Board’s views with respect to a question raised by Transamerica Corporation concerning the interpretation of the agreement executed by it on April 28, 1937, as a condition to the issuance of the general voting permit received by it on that date.

"The lettered paragraphs of the agreement are solely for the protection of Transamerica Corporation and do not increase in any wise the requirements contained in the numbered paragraphs. Thus, when charge-offs or eliminations in accordance with the terms of paragraphs numbered 1 and 2 have been made once, such paragraphs are no longer effective, and nothing in paragraphs lettered (B) and (C) should be deemed to imply that paragraphs numbered 1 and 2 require any action thereafter. However, it should be pointed out that, after the termination of the requirements that charge-offs or eliminations be made in accordance with the formulas contained in paragraphs numbered 1 and 2, charge-offs or eliminations still may be necessary from time to time in order for Transamerica Corporation to comply with the provisions of paragraph numbered 5 of the agreement requiring that the management of Transamerica Corporation be conducted under sound policies governing its financial and other operations, including statements.
"issued relating thereto, and that Transamerica Corporation take such action within its power as may be necessary to cause the management of each of its subsidiaries to be so conducted. The question whether Transamerica Corporation has complied with the requirements of paragraphs numbered 1 and 2 of the agreement will be considered in connection with the review of the report transmitted with your letter. Please advise Transamerica Corporation accordingly."

Approved unanimously.

Letter to the Secretary of the Treasury, prepared for the signature of Chairman Eccles, and reading as follows:

"Section 26(d) of the Revenue Acts of 1936 and 1938 provides a credit allowable to holding company affiliates of member banks for certain income tax purposes in the amounts of the earnings or profits which the Board of Governors of the Federal Reserve System certifies to the Commissioner have been devoted by such organizations to the acquisition of readily marketable assets other than bank stock in compliance with section 5144 of the Revised Statutes. Since much of the information needed by the Board in determining the amounts, if any, which should be certified to the Commissioner is contained in the income tax returns of the holding company affiliates and in the related papers, it is desirable that representatives of the Board be permitted to inspect such returns and related papers in order to avoid unnecessary work and expense on the part of the Board and the taxpayers.

"Accordingly, it is requested that the representatives of the Board designated herein, or any of them, be permitted to inspect the income tax returns filed by the following holding company affiliates pursuant to the Revenue Acts of 1936 and 1938, and the related papers:

New Hampshire Bankshares, Inc., Nashua, New Hampshire
Old Colony Trust Associates, Boston, Massachusetts
Shawmut Association, Boston, Massachusetts
Marine Midland Corporation, Jersey City, New Jersey
BancoOhio Corporation, Columbus, Ohio
Atlantic Trust Company, Jacksonville, Florida
Barnett National Securities Corporation, Jacksonville, Florida
"Citizens and Southern Holding Company, Savannah, Georgia
Trust Company of Georgia Associates, Atlanta, Georgia
Wisconsin Bankshares Corporation, Milwaukee, Wisconsin
Trustees under trust agreement with reference to stock of The First National Bank of Louisville, Ky. and other corporations, dated July 1, 1925 (commonly known as First National Bank Trustees or Trustees, First National Bank), Louisville, Kentucky
Bank Shares Corporation, Minneapolis, Minnesota
First Bank Stock Corporation, Minneapolis, Minnesota
Northwest Bancorporation, Minneapolis, Minnesota
Marine Bancorporation, Seattle, Washington
Sebastopol National Securities Co., Sebastopol, California
Union Bond & Mortgage Company, Port Angeles, Washington
United States National Corporation, Portland, Oregon
Florida National Group, Inc., Jacksonville, Florida
First Security Corporation of Ogden, Ogden, Utah
Transamerica Corporation, San Francisco, California
First National of Elmira Corporation, Elmira, New York
American Holding Corporation, Chicago, Illinois
Bankers Bond & Share Company, Omaha, Nebraska
Equitable Securities Company, Dallas, Texas
American Investment Corporation, Ogden, Utah
Rawlins Securities Company, Salt Lake City, Utah
Almours Securities, Inc., Jacksonville, Florida
Inter-America Corporation, San Francisco, California

The representatives of the Board designated to make such inspections are:

Mr. Gerald M. Conkling - Examiner
Mr. C. C. Hostrup - Examiner
Mr. Laurence H. Jones - Examiner
"Mr. C. T. Malone
Mr. J. F. Redford, Jr.
Mr. Laurence E. Skees
Mr. C. E. Cagle
Mr. John C. Baumann
Mr. B. Magruder Wingfield

- Examiner
- Examiner
- Examiner
- Assistant Chief,
  Division of Examinations
- Assistant Counsel
- Assistant General Counsel"

Approved unanimously.

Memorandum dated February 10, 1940, from Mr. Morrill recommending, for the reasons set forth in a memorandum addressed to him under date of February 9, 1940, by Mr. Bethea, Assistant Secretary, that the auditor of the Federal Reserve Bank of Atlanta be designated to audit the books and accounts of the Fiscal Agent of the Board of Governors for the calendar year 1940, with the understanding that thereafter auditors of the Federal Reserve banks selected to audit the books and accounts of the Board's Fiscal Agent will be designated to audit transactions covering a period of two consecutive calendar years.

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

"Reference is made to the Board's letter of July 8, 1939, and your reply thereto dated July 13, 1939, in which it was agreed that the Auditor of the Federal Reserve Bank of Atlanta would undertake the work of auditing the accounts of the Board's Fiscal Agent during the year ended June 30, 1940.

"It has occurred to our Division of Examinations, and I believe Mr. Paris shares this view, that it would be preferable to designate the auditor of the accounts of the Board's Fiscal Agent to audit transactions covering a specified period on a calendar year basis rather than to designate him to serve in the capacity of auditor for a specified term on a fiscal year basis. Such a change would
"Give the auditor wider latitude in selecting the date of his surprise audit and, at the same time, make it possible in every case for him to audit a full year's transactions. Aside from the fact that the Fiscal Agent's records are kept on a calendar year basis, it would be more satisfactory from the auditor's standpoint to be assigned the duty of auditing transactions covering a specified period rather than to be designated to make a stated number of audits during a given period of time. It is proposed, therefore, in the event your Bank is agreeable to the change, to designate Mr. Paris to audit the transactions recorded in the books and accounts of the Board's Fiscal Agent during the calendar year 1940. This will mean, of course, that Mr. Paris will be expected to make one surprise audit during the year, and a year-end audit as of the close of December 31, 1940, sometime during January 1941. The modifications proposed herein to the arrangements outlined in the Board's letter of July 8, 1939, do not change in any way the basis on which the Board will reimburse the Federal Reserve Bank of Atlanta for the salaries and other expenses of the auditors.

"It will be appreciated if you will advise the Board whether the proposed changes are acceptable to your Bank and, if so, notify Mr. Paris accordingly."

Telegram to Mr. Merritt, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"Referring your February 10 letter, Board interposes no objection to expenditure of approximate sum of $602,320 for completion of building program as set forth in your letter."

Approved unanimously.

Letter to Mr. Peter G. Cameron, President of the West Branch Bank and Trust Company, Williamsport, Pennsylvania, reading as follows:

"Reference is made to your letter of January 25, 1940, regarding the question whether a trustee of the Savings Institution of the City of Williamsport may continue to serve as a director of your bank, in view of the provisions of the Clayton Act."
"The answer to this question depends upon whether exception numbered (7) in section 8 of the Clayton Act is applicable. This exception applies to 'A mutual savings bank having no capital stock.'

"The charter of the Savings Institution, a copy of which you enclosed, provides that 'all trustees shall be stockholders * * * the stockholders of this institution are defined to be all persons who shall place on deposit, in the institution, within sixty days from the date of its opening for business, any sum of money, not less than one hundred dollars * * * : Depositors, being stockholders, to have one vote for every one hundred dollars, by him or her invested; * * * but no depositor, who is not a stockholder, shall be entitled to vote.' In harmony with these provisions the statement of condition of the Savings Institution as of June 30, 1939, shows, under Liabilities 'Capital Stock $10,000'. In the circumstances, the Board does not believe that it may properly take the position that Savings Institution is a mutual savings bank 'having no capital stock'.

"You refer in your letter to the provision in section 9 of the Federal Reserve Act which authorizes mutual savings banks to become members of the System. This provision is broader than the exception in the Clayton Act quoted above, and might be applicable to the Savings Institution. However, the Board does not believe that it would be proper for it to make a ruling which would in effect substitute a broad provision from the Federal Reserve Act for a narrower provision in another statute having an entirely different purpose.

"Accordingly, on the basis of the information submitted, the Board is of the opinion that exception numbered (7) in the Clayton Act is not applicable to trustees of the Savings Institution.

"As you know, the time during which interlocking directorates which are lawfully in existence may continue, has been extended so that it now expires on June 1, 1940, instead of February 1, 1940. The extension was made by substituting the former date for the latter, by amendment, in subsections 3(a) and 3(e) of Regulation L of the Board of Governors."

Approved unanimously.

Letter to Mr. George C. Hollis, President, The First National Bank of Eagle Pass, Eagle Pass, Texas, reading as follows:
"In reply to your letter of February 2, 1940, requesting confirmation of your understanding that section 8 of the Clayton Act does not prohibit the continuation of your services as a director and officer of The First National Bank of Eagle Pass, Eagle Pass, Texas, and as a director of the Banco Mercantil de Monterrey, S. A., Monterrey, N. L., Mexico, you are advised that your understanding of the matter is correct, since it appears that the two institutions are located in cities which are some two or three hundred miles apart."

Approved unanimously.

Memorandum dated February 13, 1940, from Mr. Wingfield, Assistant General Counsel, recommending that there be published in the March issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Exception Relating to Loans to Executive Officers of Member Banks

Rules and Regulations by Securities and Exchange Commission under Trust Indenture Act of 1939

Approved unanimously.

Thereupon the meeting adjourned.