A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 13, 1940, at 12:15 P.M.

PRESENT: Mr. Eccles, Chairman
Mr. McKee
Mr. Draper
Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairmen

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

Memorandum dated March 11, 1940, from Mr. Morrill recommending, for the reasons stated in the memorandum, that, effective immediately, Joseph E. Kelleher, Sergeant of the Guard, be transferred to the position of Supervisor of Duplicating, Mails and Supplies, in the Secretary's Office, on a probationary basis, with no change in his present salary at the rate of $1,740 per annum, but with the understanding that the transfer will be made permanent and his salary increased to $2,100 per annum at the end of three months if in the judgment of the Secretary he has fully measured up to expectations.

Approved unanimously.

Memorandum dated March 5, 1940, from Mr. Paulger, Chief of the Division of Examinations, recommending, for the reason stated in the memorandum, that the Board grant Mrs. Lulu C. Medeiros, a stenographer-clerk in the Division, 27 1/2 days sick leave with pay, which
had been taken by Mrs. Medeiros in excess of her accumulated sick leave, and that such leave be not charged to any future accumulated sick leave.

Approved unanimously.

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

"Reference is made to your letter of March 5 regarding the Farmers and Merchants Bank, Lodi, California, a prospective applicant for membership in the System.

It is the Board's view that the provisions of Section 5136 of the Revised Statutes do not make it necessary for a bank applying for membership to reduce excessive holdings of individual issues of securities to within the limitations prescribed for member banks or to dispose of nonconforming issues acquired prior to membership. Furthermore, it is not the general practice of the Board to require, as a condition of membership, that banks bring their securities account into conformity with Section 5136 and the regulations issued thereunder. Whether requirements should be made in an individual case depends upon the circumstances in that case.

With regard to the Farmers and Merchants Bank of Lodi, it appears from the information submitted by you, and from the latest report of examination of the bank by the Federal Deposit Insurance Corporation, that the bank is in good asset condition except for its securities account, and the securities account does not seem to present an insurmountable problem. The total carrying value of securities represents a relatively small portion of the bank's total assets and provision has been made for probable losses in the account. Therefore, if your office is satisfied with the character of the new management and with its ability to effect the improvements needed, the Board would not make any requirements of the bank regarding the securities account, unless, of course, the bank is now subject to requirements imposed by the Federal Deposit Insurance Corporation or the State authorities in this connection."
"With respect to the other question presented in your letter, the Board is not inclined to the view that the filing of the application for membership by the Farmers and Merchants Bank should necessarily be deferred pending the outcome of present efforts of the bank to adjust and improve its securities portfolio. Such conclusion is based on the fact that the bank is apparently in acceptable asset condition and under capable management, and on the assumption that better progress can be made by the bank within the System than without.

"If the bank files its application for membership, it will, of course, be necessary to clear the case with the office of the supervising examiner for the Federal Deposit Insurance Corporation and it is assumed that you will ascertain, also, whether the bank is subject to any requirements which the State authorities may have imposed."

Approved unanimously.

Letter to Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Atlanta, made as of January 4, 1940, by the Board's examiners, a copy of the report of examination was left for your information and the information of the directors. A copy was also furnished President Parker.

"The report does not appear to contain any matters requiring further comment at this time. The Board will appreciate advice, however, that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

Letter to "The Union National Bank of Superior", Superior, Wisconsin, reading as follows:
"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, 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 Wisconsin, 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. Young, President of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to Mr. McPae's letter of March 7, 1940, advising the Board that the Menotony Trust Company, Arlington, Massachusetts, had reduced its common capital, effective March 1, 1940, from $200,000 to $200,000 and enclosing a certified copy of the Articles of Amendment, also a copy of your letter of December 28, 1939, to the president of the member bank approving the then proposed transaction on behalf of the Board.

"It is assumed that your approval was given pursuant to the Board's letter of May 1, 1937, (X-9882) but that letter confers authority to approve on behalf of the Board only reductions of preferred stock or capital notes or debentures.

"In view of the action taken and the condition of the member bank as indicated by the last report of examination, the Board approves the transaction as effected."

Approved unanimously."
Letter to Mr. Preston Delano, Comptroller of the Currency, reading as follows:

"The Board of Governors has received, through the Federal Reserve Bank of Kansas City, an inquiry from The Farmers National Bank, Great Bend, Kansas, as to whether its Vice President, L. L. Gunn, who is also a member of the discount committee, is an executive officer within the meaning of the Board's Regulation 0. It is understood that this matter has been the subject of correspondence between your office and The Farmers National Bank.

"From the facts presently available to the Board, it appears that the bank regards Vice President Gunn as inactive to the extent that he does not perform any of the customary duties of a Vice President; that he receives no compensation for his work on the discount committee; and that the board of directors of the bank has adopted a resolution to the effect that he is not authorized to participate in the operating management of the bank. He is, however, a member of the discount committee, which under the by-laws consists of 'the president, cashier and three directors appointed by the board', and which has 'power to discount and purchase bills, notes and other evidences of debt, and to buy and sell bills of exchange'. It also appears that Mr. Gunn is a member of the examining committee.

"We also wish to point out as having a possible bearing in connection with this matter that the board of directors of the bank has adopted a resolution to the effect that President Duckwall is not authorized to participate in the operating management of the bank; but, like the Vice President, he is a member of the discount committee in addition to being a director. No question, however, has been raised as to the status of President Duckwall.

"Before the Board undertakes to rule upon this matter, it will be appreciated if you will advise us whether in your judgment, based upon reports of examination and any other information available to your office, Vice President Gunn participates in the operating management of the bank otherwise than in the capacity of a director."

Approved unanimously.
3/13/40

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

"Reference is made to your letter of January 26, 1940, regarding the Clayton Act status of Mr. Kenneth K. McLaren, who is serving as a director of Commercial Trust Company of New Jersey, Jersey City, New Jersey, as chairman of the board of The Corporation Trust Company, New York, New York, and as chairman of the board of The Corporation Trust Company, Jersey City, New Jersey.

"You have submitted information to the effect that Commercial Trust Company of New Jersey is a member of the Federal Reserve System and does a general banking and individual trust business. On the other hand, The Corporation Trust Company of New York and The Corporation Trust Company of New Jersey are members of a group of associated companies organized primarily to furnish domestic and foreign statutory representation to organizations throughout the country and to assist counsel in the organization of new corporations. The activities of the companies cover a wide field of specialized services for corporations including furnishing information and official forms pertaining to the organization of corporations under the laws of the various States; conducting organization meetings; procuring necessary stock books and seals; keeping stock books in regular form; holding annual meetings of the corporations and supplying inspectors of elections and filing reports and statements; qualifying corporations to transact business in foreign States; informing attorneys of all taxes and required reports affecting corporations which they represent.

"The Corporation Trust Company of New York showed approximately $30,000 of deposits in a recent published report of condition, but Mr. McLaren has explained to you that these moneys were not 'deposits', that they were not subject to check and that they represented principally funds left with the Company to pay dividends for several corporations and some minor items connected with corporations which the Company represents. He further advised that deposits of approximately $71,000 shown by a recent report of condition of The Corporation
Trust Company of New Jersey are of substantially the same nature as those of the New York corporation.

All three Companies which Mr. McLaren is serving act as transfer agent and registrar for a number of different corporations. The Commercial Trust Company acts as dividend paying agent for six corporations and both Corporation Trust Companies do so for approximately the same number. As far as corporate trust business is concerned, the situation seems to be as follows: Commercial Trust Company does not act as corporate trustee, having discontinued such business many years ago, the only exception being that the Company was substituted as trustee for two bond issues of the Erie Railroad Company when it was placed in bankruptcy and the New York banks which had been trustees had conflicting interests. The two Corporation Trust Companies did at one time engage in this class of business 'in a rather small way' but do not solicit it at present, being now indenture trustees only in one and two instances, respectively.

You state that you do not believe that it was intended that the Clayton Act should prohibit an interlocking relationship between Commercial Trust Company of New Jersey, which does a general banking and individual trust business, and the two nonmember institutions, which do not engage in the banking business as that term is generally understood since they do not accept deposits or make loans of any kind. You point out that the only activities engaged in by the two nonmember institutions which are engaged in by Commercial Trust Company are those described above and that if their activities as transfer agent and registrar are eliminated as merely an adjunct to the kind of business in which they are engaged and not the kind of business contemplated by the Clayton Act, there would be little left. In fact, all that would be left would be the instances in which the three Companies act as dividend paying agents, and the instances, which have practically reached the vanishing point, where they act as indenture trustee.

The Corporation Trust Companies are a special type of organization operating in a special field, and the Board agrees with you that it was not intended that the Clayton Act should prohibit interlocking relationships between such organizations and member banks. Accordingly,
"the Board is of the opinion that the statute is not applicable to Mr. McLaren's relationships described above."

Approved unanimously.

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

"This refers to your letter of February 28, 1940, enclosing a copy of a letter dated February 26, 1940, from Mr. Yale C. Porch, Comptroller of the California Bank, Los Angeles, California, presenting for consideration the question whether under the provisions of Section 8 of the Clayton Act, a director of California Bank may, after June 1, 1940, continue to serve as a director of a title and trust company in Los Angeles.

"The question apparently arose because of the fact that, although California Bank does not exercise trust powers, it owns California Trust Company, which does exercise such powers and is understood to constitute, in practical effect, a trust department for California Bank. However, California Bank and California Trust Company are separate legal entities; and the fact that an individual is a director of California Bank does not make him a director of California Trust Company and this must be recognized in determining the applicability of Section 8 of the Clayton Act to the existing interlocking relationship.

"The question whether a director of California Bank may, after June 1, 1940, continue to serve as a director of the title and trust company to which Mr. Porch refers, depends upon the question whether such institutions are engaged in any of the same classes of business within the meaning of the exception set forth in Section 2(d) (6) of the Board's Regulation L or whether the relationship is such as to come within Section 3(c) (as amended January 3, 1940) of Regulation L. The Board is not in a position to reach any conclusion on this question on the basis of the limited information submitted with your letter.

"If, in the light of the pertinent information and footnote numbered 9 of Regulation L, you and counsel for your bank are of the opinion that California Bank and the title and trust company referred to are not engaged
"in any of the same class or classes of business, or the
interlocking relationship is such as to come within sec-
tion 3(c) (as amended January 3, 1940) of Regulation L,
it is suggested that you advise the California Bank ac-
cordingly. However, if you still desire a ruling by the
Board on the question, it will be helpful if you will sub-
mit detailed facts with respect to the business done by
the institutions involved, particularly that of the title
and trust company, together with a statement of your
views."

Approved unanimously.

Thereupon the meeting adjourned.

Approved: [Signature]

Chairman.