A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, May 9, 1940, at 2:00 p.m.

PRESENT: Mr. Eccles, Chairman
          Mr. Szymczak
          Mr. McKee
          Mr. Davis
          Mr. Draper
          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 May 8, 1940, were approved unanimously.

Memorandum dated May 8, 1940, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated May 2 from Mr. Day, President of the Federal Reserve Bank of San Francisco, which requested approval by the Board of a change in the personnel classification plan of the bank to provide for the creation of the new position of "Assistant General Auditor" with a maximum annual salary of $4,800. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

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

"At the completion of the examination of the Federal Reserve Bank of Dallas, made as of February 24, 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 Gilbert.

"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 Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"It has been noted from the reports of examination of The Louisville Trust Company, Louisville, Kentucky, as of December 3, 1938, and October 28, 1939, that such bank had deposited real estate mortgage loans with its trust department with the view of complying with the following condition of membership:

'If trust funds held by such bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.'

"As you know, the securities used for this purpose must come within one of the following classes of securities approved by the Board in section 9(b) of Regulation F:

'(1) Bonds, notes, bills, certificates of indebtedness or other direct obligations of the United States, or obligations fully guaranteed by the United States as to principal and interest; or

'(2) Other readily marketable securities of the classes in which State trust companies or State banks exercising trust powers are authorized or permitted to invest trust funds under the laws of the State in which such national bank is located; or
"(3) Other readily marketable securities of the classes defined as "investment securities" pursuant to section 5156 of the Revised Statutes of the United States, as amended."

"The examiner apparently considered the real estate mortgage loans as coming within the second class of approved securities. However, in view of the fact that the securities are required to be readily marketable, the Board has frequently expressed the view that real estate mortgage loans do not qualify unless they comply with the requirements relating to marketability contained in the regulation of the Comptroller of the Currency concerning investment securities, and that the usual real estate mortgage loan does not comply with such requirements.

"It is requested that at the time of the next examination of The Louisville Trust Company, or prior thereto if you deem it desirable, the matter be discussed with the bank in order that it may, as soon as practicable, take such action as may be necessary to comply with the condition of membership as so construed."

Approved unanimously.

Letter to Honorable Guy T. Helvering, Commissioner of Internal Revenue, reading as follows:

"This refers to your letter (IT:Rec:F:G-MSG) of March 29, 1940, relating to the credit claimed under section 26(d) of the Revenue Act of 1936 by Atlantic Trust Company, Jacksonville, Florida, in its income tax return for 1936.

"Upon the basis of the information contained in such tax return and the related papers, inspected at your Bureau by representatives of the Board, and the information otherwise available to the Board, the Board certifies that during the calendar year 1936 Atlantic Trust Company devoted earnings or profits in the amount of $15,000 to the acquisition of readily marketable assets other than bank stock in compliance with section 5144 of the Revised Statutes."

Approved unanimously.
Letter to Honorable Sumner Welles, Under Secretary of State, reading as follows:

"The Board is aware of the unusual significance that attaches to the Eighth American Scientific Congress which is to be held under the auspices of the Government in connection with the celebration of the fiftieth anniversary of the founding of the Pan American Union and, in response to the cordial invitation contained in your letter to Chairman Eccles, of May 3, 1940, has designated Mr. Walter Wyatt, General Counsel of the Board of Governors, and Mr. Walter R. Gardner of the Board's Division of Research and Statistics, as representatives to the Congress."

Approved unanimously.

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

"This refers to your letter of April 25, 1940, with enclosures, regarding the applicability of the Clayton Act to Mr. Edwin W. Hunt, who is president and director of the Home National Bank of Brockton, Brockton, Massachusetts, and a director of The Whitman National Bank, Whitman, Massachusetts.

"It is understood that the 'City of Brockton' constitutes an incorporated political subdivision of a county; that its population is approximately 65,000; that its total area is slightly more than twenty-one square miles; that within this area is a community without corporate boundary lines known also as Brockton, the area of which is approximately five square miles; and that the Home National Bank of Brockton is located within this community. It is understood that the 'Town of Whitman' constitutes an incorporated political subdivision of a county; that its population is approximately 7,500; that its total area is seven square miles; that within this area is a community without corporate boundary lines known also as Whitman, the population of which (together with an adjoining community known as East Whitman) is approximately 5,500; and that The Whitman National Bank is located within the community of Whitman. It is also
understood that, although the corporate limits of the incorporated political subdivisions known as the 'City of Brockton' and 'Town of Whitman' touch, the communities known also as Brockton and Whitman, respectively, are a few miles distant from each other, thus presenting the question whether exception numbered (5) of section 8 of the Clayton Act is applicable to Mr. Hunt's services with the banks named above.

"From the information which you have submitted it appears that the distance between the business centers of the communities known as Brockton and Whitman, where the respective banks are located, is about five miles; that the distance between the edges of the two communities on their nearest sides is about three and one-half miles and that the territory within this three and one-half mile section consists of a rural or sparsely settled area containing only about twenty houses; that the community known as Whitman is located on a different railroad branch from the community known as Brockton, and has its own churches, theatre and community interests; that while the community known as Brockton is a trading center which draws from a wide portion of the surrounding country, there are ten depositors of the Home National Bank of Brockton who are residents of the 'Town of Whitman', eleven depositors of The Whitman National Bank who are residents of the 'City of Brockton', and The Whitman National Bank serves many of its customers to the east and south in the opposite direction from Brockton.

"On the basis of the foregoing, it appears that the situation presented in this case is similar, in its essential respects, to that discussed in the Board's letter of February 27, 1940 (S-205) to President Young regarding the 'Towns' of Guilford and Dover-Foxcroft, Maine, wherein the Board said that it 'is of the opinion that the word "town" in section 8 of the Clayton Act does not refer to a "Town" such as Guilford, and that the question whether two communities such as those . . . discussed are "contiguous or adjacent" is similar to the question which would be presented in the case of two unincorporated villages in another State having a different system of subdivisions. In such a case, unless the two communities were, geographically, a single community . . . it would be necessary to apply the principles stated in footnote
"§ 8 of Regulation L for determining whether or not two places are "adjacent"."

"Accordingly, the Board sees no reason to differ from the conclusion reached by your counsel that the communities known as Brockton and Whitman are not 'contiguous or adjacent' within the meaning of exception numbered (5) of section 8 of the Clayton Act, and that such exception is applicable to the services of Mr. Hunt as president and director of the Home National Bank of Brockton and The Whitman National Bank."

Approved unanimously.

Thereupon the meeting adjourned.

Chairman.

Assistant Secretary.