

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, May 26, 1941, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
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 May 19, 1941, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on May 19, 1941, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on May 21, 22, and 23, 1941, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated May 23, 1941, from Mr. Smead, Chief of the Division of Bank Operations, recommending, with the concurrence of Mr. Nelson, Assistant Secretary, that Miss Sarah L. Trott, a stenographer in the Office of the Secretary, be transferred to the Division of Bank Operations in the same capacity, with no change in her present salary at the rate of \$1,620 per annum, effective immediately.

Approved unanimously.

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Memorandum dated May 23, 1941, from Mr. Nelson, Assistant Secretary, submitting the resignation of D. P. Weaver as a guard, to become effective as of the close of business on June 17, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Memorandum from Mr. Paulger, Chief of the Division of Examinations submitting the resignation of Harvey J. Wishart as an Assistant Federal Reserve Examiner, to become effective as of the close of business on June 8, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter dated May 24, 1941, to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Referring to your letter of May 16, 1941, your understanding is correct that it is not expected the Reserve Bank will make such investigation of employees of the Priorities Division as it makes of its own employees as to their physical and moral well-being and their ability and capacity to do the work expected of them, but rather that the Priorities Division will not employ any persons who, for any reason, might be unsatisfactory to the Bank.

"With reference to the suggestion contained in the last paragraph of your letter, previous discussions with Mr. Mehornay lead us to believe that it would not be advisable to take up with the Office of Production Management at this time the feasibility of having salaries of employees of the District Coordinator's Office of Defense Contract Service paid directly by check from Defense Contract Service in Washington, D. C."

Approved unanimously.

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

"Reference is made to your letter of May 1, 1941 and the enclosed copies of correspondence and two opinions of your Counsel relating to the question whether section 32 of the Banking Act of 1933 is applicable to Mr. William Wallace Mein who is an officer and director of Commonwealth Investment Company and of North American Investment Corporation and a director of Bank of America National Trust and Savings Association, San Francisco, and to Mr. Joseph D. Grant who is a director of North American Investment Corporation and a director of The Bank of California N. A., San Francisco.

"It appears that North American Investment Corporation and Commonwealth Investment Company are organizations of the kind sometimes called 'investment trusts'. North American Securities Company, a wholly-owned subsidiary of the former, was apparently created for the purpose of selling and distributing the shares of the former, and after all of such shares had been sold, Commonwealth Investment Company was organized and the principal activity of North American Securities Company is now the sale and distribution of the shares of Commonwealth Investment Company, for which it receives a premium of 8 per cent of the offering price. The portfolio of Commonwealth Investment Company is managed by North American Investment Corporation, for which the latter receives a quarterly fee of 1/8 of 1 per cent of the asset value of the outstanding shares of the former. A fourth organization in the group, Commonwealth Fund, was organized to handle installment sales of the shares of Commonwealth Investment Company, but is no longer active.

"For the purpose of his opinion, your Counsel treats North American Investment Corporation and North American Securities Company as one, and he further states that it appears from the information available that the Commonwealth Investment Company was created at the direction of, and exists only as a convenience and source of income for, North American Investment Corporation. Therefore, it would appear to be proper to consider all three organizations as one in determining the applicability of section 32.

"As stated above, North American Investment Corporation is no longer engaged in issuing or distributing its

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"shares, but Commonwealth Investment Company is so engaged, through the medium of North American Securities Company. During 1939, 47,442 shares were thus sold, and during 1940, 10,088 were sold. During these two years a total of 87,206 were redeemed, and at the end of 1940 there were 431,233 shares outstanding. Therefore the case has many points of similarity with that discussed in the Federal Reserve Bulletin for 1941 at page 399 (Loose-Leaf #7610), the principal difference being the volume of sales.

"On this point, however, your Counsel expresses the opinion that a decision as to whether or not a corporation of this kind is 'primarily engaged' in the issue, flotation, public sale or distribution of securities should not be predicated upon the volume of sales effected during a given period, but upon the purpose for which the corporation is organized and operated, the manner in which it functions, and the sources from which it derives its operating revenue, because otherwise it could be said, during a period of depression when sales were at a low ebb, that it was not 'primarily engaged' in the business described in the statute. In other words, the purpose and functions of the organization are the important factors, and although they may be apparent from a large volume of sales actually effected, they may be apparent from a number of other facts (including, for example, the extent of the sales organization maintained by the corporation and the extent of its sales efforts) even in the absence of a large volume of sales.

"With respect to Commonwealth Investment Company your Counsel concludes: 'The structure, history and purposes for which this organization was organized, the manner in which its operating capital is acquired, and the manner in which it functions, in my opinion, mark it as a corporation "primarily engaged" in the issue, public sale and distribution of its stock.' He further concludes that section 32 is applicable both to Mr. Mein and Mr. Grant.

"On the basis of the information submitted, the Board sees no reason to differ with this opinion. Incidentally, since the amendment of section 32 by the Banking Act of 1935, the Board has not regarded 'turnover' in the portfolios of such organizations (as distinguished from underwriting, distributing, etc.) as constituting the kind of business described in the section. However, it does not appear that this affects the opinion above stated."

Approved unanimously.

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Memorandum dated May 22, 1941, from Mr. Smead, Chief of the Division of Bank Operations, recommending, for the reasons stated in the memorandum, that \$300 be added to the miscellaneous item in the 1941 non-personal budget of the Division of Bank Operations.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. S. Smead
Chairman.