

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 4, 1936, at 11:40 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Broderick  
Mr. McKee

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

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Telegrams to Messrs. Delano and Thomas, Chairmen of the Federal Reserve Banks of Richmond and Kansas City, respectively, stating that the Board approves the establishment without change by the banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of April 29, in which you refer to the Board's letter X-9324 of September 20, 1935, and inquire whether, in the circumstances described in your letter, it will be satisfactory to defer adjustments of Federal Reserve bank stock holdings of member banks when it appears that an existing impairment in the book surplus account (by reason of a deficit in the undivided profits account) will be eliminated within a reasonably short period.

"It is noted that in the case in question the member bank holds Federal Reserve stock issued on a basis of \$100,000 capital and \$12,500 surplus; that the December 31, 1935, and March 4, 1936, recall reports showed net surplus of \$5,234.92 and \$7,737.08, respectively; that the bank has advised you that its net surplus account has been increased to \$9,328.64 and that it anticipates

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"that the book surplus of \$12,500 will show no impairment by June 30, 1936; and that the bank has inquired whether, in view of the circumstances, an immediate adjustment of Federal Reserve bank stock holdings is necessary.

"It is also noted that you feel that it would be better from a practical standpoint to base the Federal Reserve bank stock holdings on the amount of book capital and surplus, with a possible exception in cases in which a deficit in the undivided profits account is greater than the amount of book surplus, on the theory that any impairment in the book surplus account is a purely temporary condition which, unless corrected promptly through the accumulation of earnings, profits, or recoveries, will be corrected by a reduction in the amount of surplus shown by the books. This suggestion is in harmony with the ruling contained in the Board's letter X-7459 of June 19, 1933, that, while any impairment in a member bank's capital stock or surplus should be corrected as soon as possible, its holdings of Federal Reserve bank stock should be based upon the amount of issued and outstanding capital stock and surplus as shown on its books, rather than upon unimpaired capital and surplus. That ruling was somewhat modified by the Board's letter X-9324 primarily to avoid the issuance of any Federal Reserve bank stock against book surplus in cases where the book surplus was less than the deficit in the undivided profits account. To be consistent, letter X-9324 also provided that, if a bank shows a deficit in its undivided profits account not in excess of the amount of surplus shown by its books, the deficit should be deducted from the book surplus in determining the basis for required Federal Reserve bank stock holdings.

"The Board feels that, if a bank has a deficit in its undivided profits account, the ruling contained in letter X-9324 should continue to be observed. If, however, the deficit in the undivided profits account is relatively small and the Federal Reserve bank is satisfied that it is likely to be extinguished either by accumulation of earnings or by a formal reduction in surplus, there is no objection to deferring the adjustment of Federal Reserve bank stock holdings until the end of the current semi-annual period. As you know, the procedure outlined in paragraph number 6 of the Board's letter X-9371 of November 26, 1935, contemplates that as a general rule semi-annual adjustments in holdings of Federal Reserve bank stock will be sufficient."

Approved unanimously, with the understanding that copies of the letter would be sent to the Federal reserve agents at all Federal reserve banks for their information and guidance.

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Letter to the Presidents of all Federal reserve banks, reading  
as follows:

"In the Board's letter of April 16, 1936, (X-9550) you were advised that no objection would be offered to your granting employees of your bank sufficient leave, in addition to their regular annual leave, to enable them to attend the special two weeks' course offered by the Graduate School of Banking at Rutgers University.

"The Board has since decided to grant members of its staff attending the summer session leave of absence with pay, in addition to the regular annual leave, of sufficient duration to enable them to attend the session, and also to assume the transportation expenses of such employees to and from the University."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. S. ...  
Chairman.