

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, April 6, 1938, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Davis  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Goldenweiser, Director of the Division  
of Research and Statistics  
Mr. Smead, Chief of the Division of Bank  
Operations  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Wingfield, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the Division  
of Examinations  
Mr. Cagle, Assistant Chief of the Division  
of Examinations

Reference was made to the draft of statement, with respect to the treatment of depreciation in securities and the classification of assets other than securities in examination reports of banks made by Federal supervisory agencies, as revised at the informal meeting of the members of the Board and the staff yesterday afternoon at which Messrs. Harrison and Gidney, President and Vice President, respectively, of the Federal Reserve Bank of New York, were present. The statement was considered paragraph by paragraph and changed to read as follows:

4/6/38

-2-

"TREATMENT OF DEPRECIATION IN SECURITIES"

"As a general policy to be followed by the Federal bank supervisory authorities, with respect to depreciation in securities, it is recommended:

- "1. That only net depreciation in stocks and defaulted bonds be classified as estimated loss, provided, however, that exceptions may be made in the classification of depreciation in particular defaulted municipal issues where it is believed that such issues are intrinsically sound and warrant more liberal treatment.
- "2. That depreciation in securities other than stocks and defaulted bonds be not classified as doubtful or estimated loss and no requirement be made for the charge-off or elimination of such depreciation.
- "3. That net appreciation in all securities other than stocks and defaulted bonds may be applied against net depreciation in stocks and defaulted bonds so that, as a general practice, the maximum amount of depreciation set up as estimated loss shall not exceed the net depreciation in the entire account.
- "4. That the reports of examinations continue to show as information the appreciation or depreciation in securities based on market quotations for securities having a general market and on appraised values for other securities.
- "5. That wherever there is in use a form of examination report which includes a schedule showing a computation of 'net sound capital', such schedule be eliminated from the report.

"In recommending the above it is recognized that certain cases may require special treatment. The provision outlined in paragraph 1, that only depreciation in stocks and defaulted bonds shall be classified as estimated losses, should not cause the supervisory authorities to relax their vigilance in the study of capital needs of individual banks, as it is recognized that there may be cases where the condition of a bank has been impaired to such an extent as to warrant consideration of steps to strengthen its position. Whenever it appears that a bank is following an unwarranted dividend policy, the bank should be urged to conserve its earnings and to make substantial provision for depreciation.

4/6/38

-3-

"ELIMINATION OF 'SLOW' CLASSIFICATION

"With respect to the classification of assets other than securities, it is recommended:

- "1. That the 'slow' classification be eliminated from reports of examination.
- "2. That provision be made in the reports of examination for listing, with appropriate comment, such loans as the examiner feels should be set out for the information of the directors and appropriate officers of the bank, with the clear understanding that such loans are not being classified as doubtful or estimated loss and are not necessarily to be regarded as criticized assets.
- "3. That a short, carefully phrased statement as to general policy regarding the classification of assets be agreed upon by the Federal supervisory agencies and sent to all examiners."

At 1:15 p.m. the meeting recessed and reconvened at 3:00 p.m. with the same attendance as at the morning session except that Messrs. Wingfield and Smead were not present.

Consideration was given to the question what procedure would be most desirable for the purpose of having a uniform policy adopted by the Federal bank supervisory authorities with respect to the classification of securities and other assets in reports of examination and the suggestion was made that it might be productive of the most satisfactory results if, through the Department of the Treasury, a preliminary meeting could be arranged with the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation at which the general problem could be considered with a view to having a further conference as promptly as possible during which the Board's recommendation along the



4/6/38

-4-

lines of the statement set forth above, as well as any recommendations of the Federal Deposit Insurance Corporation and the Comptroller of the Currency, could be presented and an endeavor made to formulate a uniform policy.

It was agreed that Chairman Eccles would take the matter up with the Assistant Secretary of the Treasury Taylor for the purpose of arranging for a preliminary meeting in accordance with the above suggestion; and that Messrs. McKee and Davis of the Board, and Mr. Paulger of the Division of Examinations, should represent the Board at such conference.

At this point Messrs. Thurston, Goldenweiser, Paulger, Dreibelbis, Leonard and Cagle left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 5, 1938, were approved unanimously.

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

"This refers to your letter of March 28, 1938, advising of the adoption, subject to the approval of the Board of Governors, of certain amendments to the by-laws of the branches of the Federal Reserve Bank of St. Louis.

"You state that Section 1 of Article II of the by-laws of each of your branches has been amended, effective April 1, 1938, by adding thereto the sentence contained in the Board's letter of January 24, 1938 (S-70), which provides that no director of a Federal Reserve bank shall be a director of a branch of the bank at the same time.

"Your letter also states that the first sentence of Section 3 of Article II of the by-laws of the Little Rock Branch has been amended, effective May 1, 1938, so as to change the date of the regular meeting of the board of directors to the Tuesday before the fourth Thursday of each month, and that the first sentence of Section 3 of Article II of the by-laws of the Louisville Branch has been amended, effective April 1, 1938, so as to change the regular meeting date of the board of directors to the Friday next after the second Thursday of each month.

4/6/38

-5-

"You are advised that the Board of Governors approves the amendments set forth in your letter of March 28, 1938. It is understood that four copies of the revised by-laws of each branch will be furnished for our files."

Approved unanimously.

Letter to Mr. Harrison, Chairman of the Conference of Presidents,

reading as follows:

"The Governors' Conference held in Washington November 12-16, 1923, approved a recommendation of the Board's Committee on Economy and Efficiency that there be appointed a System Committee on the Standardization and Purchase of Supplies and the Chairman of the Conference requested the Governors of the Federal Reserve banks of New York, Chicago, Philadelphia, Kansas City and Richmond to each nominate a person to serve on the committee. From information available, it is assumed that this committee is still in existence but that it has not been very active in recent years.

"In the interests of economical operation of the Federal Reserve System, it would appear helpful to have information gathered and made available at periodic intervals with respect to prices each Federal Reserve bank is paying for supplies in general use, in order to assist in avoiding the possible payment by some Reserve banks of substantially higher prices for such supplies than are paid by other banks. Accordingly, it is suggested that the above-mentioned committee or such other committee as you may wish to designate be requested to accumulate and disseminate information with respect to prices now being paid for supplies by each Federal Reserve bank.

"In this connection, the Board purchases some of its supplies otherwise than from the Government's General Schedule of Supplies and it would be glad to furnish the committee with information with respect to prices paid therefor and would appreciate receiving such price data as the committee collects for distribution to the Federal Reserve banks."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

*M. S. C. C. C.*  
Chairman.

*Roberta Morris*  
Secretary.