

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 13, 1948.

PRESENT: Mr. McCabe, Chairman
 Mr. Szymczak
 Mr. Draper
 Mr. Evans
 Mr. Vardaman

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 12, 1948, were approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"The Board will hereafter send confidential telegraphic notice to the Federal Reserve Banks as to call dates for condition reports of State member banks about the same time that telegraphic notice is sent by the Comptroller of the Currency to State supervisors advising them of the dates of calls for reports from national banks. This notice will be sent to you a day or two in advance of the day the call is to be announced; heretofore, the Board's telegraphic notice has been sent on the morning of the day the call was announced.

"The call for reports of condition of State member banks and reports of their affiliates should be made, without further advice from the Board, at 9 a.m. on the second date stated in the Board's telegram, as of the close of business on the first date stated in the telegram.

"The definition of the code word 'Ipjev' in the Federal Reserve Telegraph Code is revised to read as follows:

'Pursuant to the provisions of Section 9 of the Federal Reserve Act the Board of Governors of the Federal Reserve System has fixed

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"the date first hereinafter given as date as of which State bank members of the Federal Reserve System shall submit condition reports and reports of affiliates. At 9 a.m. on the date second hereinafter given, please call upon the State bank members to submit reports of condition and reports of their affiliates as of the call date fixed by the Board. The Comptroller of the Currency will at that time issue a call upon national banks for condition reports as of the same date as that fixed by the Board. Call date should be held in strict confidence until call is made. Blank forms for the use of State bank members in submitting such reports have been forwarded to you, as stated in the Board's letter of the number and date hereinafter given. (date of call) (date call to be made) (number of Board's letter) (date of Board's letter)."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"In reply to inquiries as to how reserves for bad debt losses on loans, set up under terms of the Commission of Internal Revenue's mimeograph Coll. 6209, December 8, 1947, should be reflected in earnings and condition reports, the Board advised you by telegram (S-1010, December 26, 1947) that such reserves should be treated in the same manner as any other valuation allowances. Following the issuance of this telegram, representatives of the Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation held a number of meetings for the purpose of obtaining uniform reporting of these reserves by insured banks, and revising the earnings and condition report forms to obtain more precise statistical data concerning valuation reserves.

"As a result of these meetings, the Board has approved changes in both the condition and earnings and dividend report forms for State member banks, to be effective with the coming mid-year call for reports of

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"condition and with reports of earnings and dividends covering the first six months of 1948. Similar changes will be made in the forms used by the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The revised forms have also been approved by the Executive Committee of the National Association of State Bank Supervisors.

"The revisions are indicated in the attachments; revised instructions will accompany the letters transmitting the condition and earnings report forms. The main change on the face of the condition report is the addition of a new memorandum item by means of which banks will be given the option of reporting and publishing the amounts of reserves deducted from loans and securities. In Schedule A, the loan categories will be shown gross, the deduction for reserves will be shown, and the net figure will agree with item 6 on the face of the return. This is a change from present practice and that outlined in the Board's telegram of December 26, whereby each individual loan category is reported net after reserves. It will necessitate showing the various items of the loan schedule gross instead of net in the weekly condition reports of member banks in leading cities. However, no change should be made in the form of submitting these reports until instructions regarding them are issued.

"A new Section D is being added to the earnings and dividend report form to provide for reconcilments of reserves for bad debt losses on loans and all other valuation reserves set up against loans and securities. On the face of the earnings report a note will define the type of reserves to be reported in Section D and will indicate the manner in which transfers to and from such reserves should be treated in items 4 and 5. Minor clarifying changes in the wording of items 4 and 5 have been made."

Approved unanimously.

Letter to Mr. Norris C. Bakke, Associate General Counsel, Federal Deposit Insurance Corporation, reading as follows:

"This refers to your letter of May 3, 1948, regarding a question submitted by an insured bank as to whether

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"a form of time certificate incorporated in an advertisement of a certain national bank, as enclosed with your letter, complies with the provisions of the Board's Regulation Q, relating to the payment of interest on deposits.

"The form of time certificate in question provides that the deposit is payable

'In current funds on the return of this certificate properly endorsed, with interest and upon minimum written notice provided as follows:

On deposit 6 months to less than 1 year 1% per annum from date of issue upon 30 days written notice

On deposit 1 year to less than 2 years 1-1/4% per annum from date of issue upon 90 days written notice

On deposit 2 years to less than 3 years 1-1/2% per annum from date of issue upon 90 days written notice

On deposit 3 years to less than 4 years 1-3/4% per annum from date of issue upon 90 days written notice

On deposit 4 years to less than 5 years 2% per annum from date of issue upon 90 days written notice

On deposit 5 years 2-1/2% per annum from date of issue upon 6 months written notice

'No interest shall accrue on this certificate after five years from the date hereof.

'The Bank is prohibited by Federal law from waiving the requirement of written notice and from paying interest after the expiration of such notice on time certificates of deposit.'

"The language of the certificate seems to contemplate that no withdrawals will be made during the first 6 months after the date of the deposit. If this interpretation is correct, it is the view of the Board of Governors that the form of certificate in question complies with the provisions of the Board's Regulation Q as to time certificates of deposit and payment of interest thereon.

"However, it is not altogether clear whether or not withdrawals are permitted during the first 6 months of the

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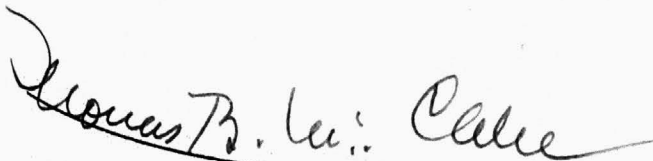
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"deposit. In order to avoid a construction that the deposit during that period constitutes a demand deposit on which interest could not lawfully be paid and as to which higher reserve requirements would be applicable, it is believed desirable that certificates of deposit of this kind should contain some provision which would serve to clarify this point. For example, if it is intended that withdrawals are to be permitted during the first six months after not less than 30 days' written notice, the certificate should include a provision to that effect."

Approved unanimously.


Secretary.

Approved:


Chairman.