

## FEDERAL RESERVE BOARD

WASHINGTON

X-4946

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

September 10, 1927.

Subject: Topic for Governors' Conference.

Dear Sir:

There are enclosed herewith copies of a letter from the Deputy Governor of the Federal Reserve Bank of Minneapolis and a memorandum from the Board's Counsel with reference to the question whether Section IV of the Board's Regulation "A" should be interpreted to require that a member bank offering for rediscount the paper of a corporation having subsidiaries, shall have in its files recent copies of separate financial statements of the subsidiary corporations, when there have been filed with the Federal reserve bank copies of the corporation's consolidated financial statement and the individual financial statements of all subsidiary corporations.

The Board has voted to refer this question to the forthcoming Conference of Governors for consideration and an expression of its views.

Very truly yours,

J. C. Noell,  
Assistant Secretary.

TO ALL GOVERNORS OF FEDERAL RESERVE BANKS.

September 1, 1927.

X-4946-

To - Federal Reserve Board

Subject: Financial statements required by Section IV, Regulation A, of the Board's Regulations.

From - Mr. Wingfield, Assistant Counsel.

There is attached hereto a letter from the Deputy Governor of the Federal Reserve Bank of Minneapolis in which it is stated that the Washburn Crosby Company of Minneapolis files with the Federal Reserve Bank of Minneapolis and the other eleven Federal reserve banks a copy of its consolidated financial statement, and, in addition, a copy of the individual financial statements of all of its subsidiary corporations. The individual statements of the subsidiary companies however, are not filed with the individual banks which buy the paper of the Washburn Crosby Company. These subsidiary companies are 100% owned by the Washburn Crosby Company and all the borrowing is done by that company. The question is raised as to whether Section IV of Regulation A requires that the member bank offering paper of the Washburn Crosby Company for rediscount shall have in its files a recent copy of the separate financial statements of the subsidiary corporations.

Section IV of Regulation A contains the following requirement on this subject:

"A recent financial statement of the borrower must be on file with the member bank in all cases, unless the note was discounted by a member bank for a depositor (other than a bank) or for another member bank, and -

\* \* \* \* \*

"Whenever the borrower has closely affiliated or subsidiary corporations or firms, the borrower's financial statement shall be accompanied by separate financial statements of such affiliated or subsidiary corporations or firms, unless the statement of the borrower clearly indicates that such note is both eligible from a legal standpoint and acceptable from a credit standpoint. \* \* \*"

There is no doubt that this provision absolutely requires that whenever a borrower has closely affiliated or subsidiary corporations or firms the separate financial statements of such affiliated or subsidiary corporations or firms must be on file with the member bank in all cases unless the note falls within one of the exceptions mentioned in the regulation or unless the statement of the borrower clearly indicates that such note is both eligible from a legal standpoint and acceptable from a credit standpoint. There is nothing in the law, however, which requires such financial statements to be filed either with the member bank or with the Federal reserve bank and this requirement is purely a matter of regulation which the Board may waive or modify at its discretion. In this connection it may be stated that the requirement with reference to the filing of separate statements by subsidiary corporations was added to the Board's Regulation A in order that Federal reserve banks might have more complete information regarding the conditions of borrowers having closely affiliated or subsidiary corporations or firms, and also that they might determine whether

the paper of such borrowers is desirable and eligible for rediscount. In view of this fact it would hardly seem necessary for separate financial statements of the subsidiary corporations to be on file with the member bank offering a note of the parent corporation for rediscount if they are on file with the Federal reserve bank. As indicated above, however, the question whether the Board should amend the provision of its regulation with reference to the filing of statements of subsidiary corporations or waive a strict compliance with it is purely a question of policy for the Board's determination.

A somewhat similar case arose in 1924. In that case a borrower filed a financial statement with the Federal Reserve Bank of New York and the Federal Reserve Bank of Boston but no financial statement was filed with the member banks who offered the company's paper to the Federal Reserve Banks for rediscount. The Federal Reserve Bank of Boston took the position that under the provision of Section IV of Regulation A a copy of the financial statement should be filed with the member bank while the Federal Reserve Bank of New York was of the opinion that it was sufficient if the financial statement was on file with the Federal Reserve Bank. This office held that the provision of the regulation clearly required that the financial statement be on file with the member bank but that the Board could if it so desired amend the regulation or waive compliance with it in those cases where the financial statement was filed with the Federal Reserve Bank. The Board at the suggestion of the Federal Reserve Bank of New York submitted the question to the Governors' Conference for discussion. When the Governors' Conference met, however, the question had become academic since the case which gave rise to the question had ceased to exist and the question was passed over by the Governors' Conference. The Board may wish to refer the present question to the next conference of Governors for discussion.

Respectfully,

(s) B. M. Wingfield,

Assistant Counsel.

Letter attached.

X-4946-b

F E D E R A L   R E S E R V E   B A N K  
O F   M I N N E A P O L I S

August 29, 1927.

Federal Reserve Board,  
Washington, D. C.

Gentlemen:

The Washburn Crosby Company of this city files with us and the other eleven Federal reserve banks a copy of its consolidated statement, and in addition a copy of the individual statements of all its subsidiary corporations, all certified to by Peat, Marwick, Mitchell & Co. These subsidiary companies are all 100% owned by the parent company, and none of them ask credit in any way outside of an occasional rent and stationery bill. In other words, all the borrowing is done by the parent company. They do not, however, file these individual statements with their brokers, and with the individual banks which buy their paper.

Is it the intention of Section 4 of Regulation A, that in order to be eligible for rediscount, the bank offering the paper for rediscount should have in its files a recent copy of the separate statements?

Yours respectfully,

(s) W. B. Geery,  
Deputy Governor.