

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-7171

June 2, 1932.

SUBJECT: Administration of Section IV(b) of  
Regulation D.

Dear Sir:

There is attached hereto, for your information, copy of a letter addressed to the Federal Reserve Agent at Philadelphia in response to an inquiry received from him with regard to the administration of Section IV(b) of Regulation D which provides that, whenever it appears that a member bank is not paying due regard to the maintenance of its reserves, the Federal reserve agent will address a letter to each director of the bank calling his attention to the situation.

Very truly yours,

Chester Morrill,  
Secretary.

Inclosure.

TO ALL F. R. AGENTS EXCEPT PHILADELPHIA AND CLEVELAND.

X-7171-a

May 31, 1932.

Mr. R. L. Austin,  
Federal Reserve Agent,  
Federal Reserve Bank of Philadelphia,  
Philadelphia, Pennsylvania.

Dear Mr. Austin:

The Federal Reserve Board has received your letter of May 17, 1932, stating that a number of member banks in your district, because of an unliquid condition and continued loss of deposits, have been unable to maintain their reserves, and inquiring whether, in view of the circumstances involved, the Federal Reserve Board will require a strict compliance by you with section IV(b) of Regulation D with regard to addressing letters to the directors of banks with deficient reserves.

The purpose sought to be accomplished by the subsection referred to is to bring to the attention of the individual directors the fact that the member bank is not maintaining its reserves, in order that the directors may take the proper steps to see that the bank meets the requirements of the law in the future. It is realized, however, that there may be instances in which it is apparent from the Federal reserve agent's contact with the bank, or from other available information, that the failure of the member bank to maintain its reserves is due to its unsatisfactory condition rather than any disregard on the part of the management for the requirements of the law, or that other reasons exist which would make

-2-

it undesirable to write the directors concerning the matter, and that in these cases such letters, rather than accomplishing the desired purpose, might have an adverse effect.

It was for this reason that, as stated in the Board's letter of January 18, 1928, (X-5039), the subsection was purposely phrased in such a way as to permit some flexibility and to afford the Federal reserve agent an opportunity, after discussion with the chief national bank examiner in the case of a national bank and with the State bank supervisor in the case of a State member bank, to exercise a reasonable discretion in its administration. Therefore, in each case where there are indications that the bank is not paying due regard to the maintenance of its reserves, you should give careful consideration to all the circumstances involved and consult with the chief national bank examiner or the State bank supervisor in order to determine, in the exercise of a reasonable discretion, whether it is advisable to write to the directors.

In those cases where it becomes necessary for you to report to the Board, in accordance with section IV(d) of Regulation D, deficiencies in reserves for a period of six consecutive months, it is requested that you include in your report full information as to the consideration which has been given to the matter of writing the directors of the

X-7171-a

-3-

member bank, and, where such letters have not been sent, the reasons therefor.

Very truly yours,

Chester Morrill,  
Secretary.