

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

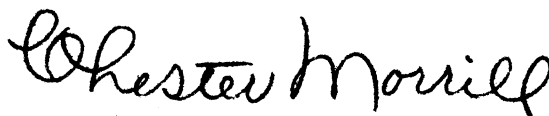
X-7868

April 21, 1934.

Dear Sir:

There is attached hereto for your information a copy of a letter which the Federal Reserve Board has addressed to one of the Federal reserve agents in reply to an inquiry with regard to whether the proceeds of the sale of debentures by a bank may properly be used to eliminate losses in the bank and as to the manner in which the bank's obligation on such debentures should be shown in its reports and published statements.

Very truly yours,



Chester Morrill,  
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-7868-a

April 14, 1934.

\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_.

Dear Mr. \_\_\_\_\_:

Reference is made to Mr. \_\_\_\_\_ letter of March 6, 1934, with regard to the proposed elimination of losses in the \_\_\_\_\_ Banking and Trust Company of \_\_\_\_\_, \_\_\_\_\_. It appears that the trust company proposes to sell its debentures in the amount of \$250,000 to the Reconstruction Finance Corporation and to use the proceeds of the sale of such debentures to charge off approximately \$250,000 of assets criticized by the examiner at the time of its last examination. Mr. \_\_\_\_\_ inquired whether the trust company may properly effect the eliminations in this manner and in its reports and published statements show its obligation on the outstanding debentures only in a footnote to such reports and statements containing a statement to the effect that it has sold debentures to the Reconstruction Finance Corporation in the amount of \$250,000.

A bank's reports and published statements should reflect the true condition of its assets and liabilities including all of its capital accounts. Inasmuch as capital debentures represent a definite obligation of the bank to the holders of such

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debentures, the amount of the bank's liability on account of any such debentures outstanding should be shown as such in the bank's reports and published statements rather than in a footnote thereto, and, in order to avoid any deficiency in the capital accounts of the bank, its assets, of course, must be equal to the amount of its obligations to depositors and other creditors and the amount of all of its capital accounts including capital debentures. Therefore, as indicated in Mr. \_\_\_\_\_ letter, it is apparent that if the reports and published statements of the \_\_\_\_\_ Banking and Trust Company are to reflect correctly the condition of the assets and liabilities of the bank and not reflect a deficiency in the bank's capital accounts after the proposed eliminations it will be necessary, in the circumstances described in this case, for the bank by appropriate action to reduce its surplus or outstanding capital stock in an amount sufficient to provide for such eliminations.

In this connection your attention is called to the fact that the Board's instructions for preparing the last call report of State member banks contain the following provisions relating to the method of reporting capital accounts.

"A State bank member should not show any surplus or undivided profits in condition reports on Form 105 so long as the net book value of capital notes and debentures and capital stock is less than the aggregate of (1) the amount at which capital notes and debentures or preferred stock must be retired or to which the holders thereof are entitled in case of liquidation, and (2) the par value of common stock."

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.