

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7889

May 7, 1934.

SUBJECT: Possible Criminal Violations Resulting
from Sale or Exchange of Securities.

Dear Sir:

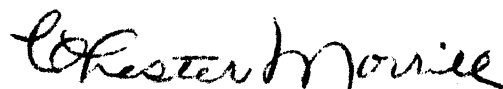
It has recently come to the attention of the Federal Reserve Board that the Attorney General of the United States has advised the office of the Comptroller of the Currency that, in the future, all transactions in which a national bank sells bonds at their market value, which is less than the figure at which they were carried on the books of the bank, and purchases with the proceeds realized thereby other bonds which are set up on the books of the bank at a figure in excess of their market value, should be reported to the Department of Justice for possible criminal prosecution, on the theory that the transactions may involve false entries made with the intent to deceive the bank examiners and the Comptroller and to defraud the public in general. The Attorney General advised further that, even though the transactions are regarded as an exchange, a report of such matters should be made to his Department, since the new bonds are entered on the books of the bank at an amount in excess of their known market value. The Attorney General requested that the Comptroller advise his examiners and the officials of the national banks generally of the views entertained by the Department of Justice with

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regard to transactions of this kind.

In the circumstances, you are requested to advise the examiners for your Federal reserve bank and the officials of the State member banks in your district of the position taken by the Attorney General with regard to transactions of the kind described above and to report to the Board and the local United States Attorney in the usual manner all cases hereafter coming to your attention in which similar transactions have been consummated involving such State member banks. In this connection, the Attorney General has advised the Comptroller of the Currency that it is not necessary to make a search of the Comptroller's records for previous cases of this kind, and accordingly, it will not be necessary for you to make a search of the records of your bank for such cases.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.