

FEDERAL RESERVE BOARD

WASHINGTON

401

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7944

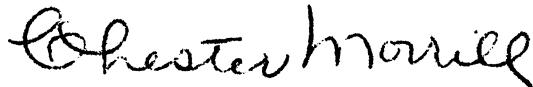
June 29, 1934.

SUBJECT: Depreciation in Securities
Held by State Member Banks.

Dear Sir:

There is attached for your information a copy of a letter addressed by the Board to the Federal Reserve Agent at the Federal Reserve Bank of Cleveland, with regard to depreciation in securities held by State member banks.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS.

C O P Y

402
X-7944-a

June 29, 1934.

Mr. L. B. Williams,
Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Williams:

This refers to the recent telephone conversation between Mr. Fletcher, Assistant Federal Reserve Agent, and Mr. Paulger, Chief of the Board's Division of Examinations, with regard to the amount of depreciation in securities to be charged off or otherwise eliminated by State member banks. The Board's letter of December 9, 1933, X-7705, stated in detail the general policy of treating appreciation and depreciation in securities in connection with applications for membership, and the Board's letter of April 6, 1934, X-7848, expressed the opinion that State member banks should observe the standards prescribed for admission to membership in the System and that accordingly whenever possible a State member bank should charge off or otherwise eliminate not only all losses in loans and other assets and all depreciation in stocks and defaulted bonds, but also depreciation in all other securities except the four highest grades as defined in the letter.

The method of determining net depreciation to be eliminated after allowances for appreciation in other securities, as set forth in the Board's letter of December 9, 1933, is likewise applicable to the determination of depreciation in securities to be eliminated after the examinations of State member banks. There may be, of course, instances in which appreciation is in such volatile issues that conservative banking

Mr. L. B. Williams

- 2 -

practice would not consider such appreciation an appropriate offset to depreciation in remaining securities. Such cases, however, are left to the determination of the examiners and supervisory authorities.

In a recent letter, the Board has advised the Federal Reserve Agent in another district as follows:

"In this connection it has been noted that estimated losses as classified in the report of examination included \$89,086.30, the total amount of depreciation in lower grade securities, although the total net depreciation in the investment account amounted to only \$81,555.58 on account of appreciation in the higher grade bonds. In the circumstances, the Board believes that it would be appropriate to confine the request for elimination of depreciation in securities to the net depreciation in the entire account."

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.