

X-9032

November 28, 1934.

SUBJECT: The Use of Valuation Reserves in
Lieu of Actually Charging Off Losses
and Depreciation in Securities.

Dear Sir:

For your information there are inclosed a copy of a letter received by the Board from Mr. J. N. Peyton, Chairman of the Board at the Federal Reserve Bank of Minneapolis, dated November 19, 1934, and a copy of the Board's reply thereto, which are self-explanatory.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures

TO ALL FEDERAL RESERVE AGENTS

Copy

FEDERAL RESERVE BANK
OF MINNEAPOLIS

X-9032-a

November 19, 1934

Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Morrill,

From your letter X-9018 of November 10, 1934, I

quote as follows:

"Prior to the issuance of a limited voting permit the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has charged off or otherwise eliminated - (a). * * * * *"

Undoubtedly the question will arise as to whether a reserve set up against any of those items named in (a), (b), (c) or (d) of this paragraph will be satisfactory to the Federal Reserve Agent. Personally, if any bank desired to set up a reserve adequate to cover the depreciation in securities, assuming that it has eliminated the other requirements through actual charge off, it would be my inclination to recommend the bank for a limited voting permit under those conditions.

Before taking definite action in the matter and before advising the banks with regard to this detail, I would appreciate a word from you informing me if it will be satisfactory to the Board to issue a limited voting permit under these circumstances.

Very truly yours,

(Sgd.) J. N. Peyton
CHAIRMAN OF THE BOARD

Copy

X-9032-b

November 26, 1934.

Mr. J. N. Peyton,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Peyton:

Reference is made to your letter of November 19 in which you request information as to whether or not the use of reserves by subsidiary banks constitutes satisfactory elimination of losses and depreciation as a condition precedent to the issuance of limited voting permits, as outlined in the Board's letter of November 10, 1934 (X-9018).

The Board considers that the charge off or elimination of estimated losses and depreciation in assets as required in paragraph numbered 1 on page 5 of such letter may be effected properly through the establishment and maintenance of valuation reserves, provided that in all reports and published statements of condition such reserves be deducted from the respective assets against which allocated, thereby reporting such assets in the same amounts as if the charge offs actually had been made, and that the losses to provide for which the reserves were established are charged against the respective reserves as soon as such losses are definitely determined.

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.