

X-9043

December 7, 1934.

SUBJECT: General Policy of Treating Appreciation  
and Depreciation in Securities in Con-  
nection with Applications for Voting Permits.

Dear Sir:

In connection with the issuance of limited and general vot-  
ing permits to holding company affiliates under the provisions of  
section 5144 of the Revised Statutes of the United States, it is the  
Board's policy, as you know, to require that holding company affil-  
iates and their subsidiary banks charge off or otherwise eliminate  
from their assets the following:

- (a) all losses in loans and discounts, (b) all  
depreciation in stocks and defaulted securities,
- (c) all depreciation in securities not of the  
four highest grades as classified by a recog-  
nized investment service organization regularly  
engaged in the business of rating or grading se-  
curities and (d) all other losses, as shown by  
the latest available report of examination.

In connection with the elimination of depreciation in secur-  
ities under (b) and (c) above, the question has arisen as to what ex-  
tent appreciation in securities may be deducted from the depreciation  
in other securities. This same general question has been ruled upon  
by the Board in connection with applications for membership, in a  
letter to all Federal reserve agents dated December 9, 1933 (X-7705).

The principles stated in that letter should be applied with respect to the elimination of depreciation in securities in cases involving the issuance of voting permits.

You are also advised that in connection with the elimination of depreciation in securities under (b) and (c) above, such elimination, in the case of readily marketable securities, may be based upon current market values of such securities.

Very truly yours,

Chester Morrill,  
Secretary.

TO ALL FEDERAL RESERVE AGENTS