

FEDERAL RESERVE BOARD

485

WASHINGTON

July 5, 1934.
B-995.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Working Capital for Industry.

Dear Sir:

Section 13b, added to the Federal Reserve Act by the Act approved on June 19, 1934, provides in subsection (e) that in order to enable the Federal Reserve banks to make the loans, discounts, advances, and purchases provided for in such section, the Secretary of the Treasury is authorized to pay to each Federal Reserve bank not to exceed such portion of the sum of \$139,299,557 as may be represented by the par value of the holdings of each Federal Reserve bank of Federal Deposit Insurance Corporation stock, and it is understood that the Secretary of the Treasury will make such payments to the Federal Reserve banks from time to time as they make the loans, discounts, advances and purchases authorized by Section 13b. It is also provided that, within the meaning of such section, the sum so paid to each bank by the Secretary of the Treasury shall become a part of the surplus fund of the Federal Reserve bank.

In the weekly condition statement, however, the amount of surplus derived from net earnings of the Federal Reserve banks will be shown against the caption "Surplus (Section 7)", and the amount of surplus resulting from payments by the Secretary of the Treasury against the caption "Surplus (Section 13b)". The amount of loans, discounts, advances and purchases under Section 13b of the Federal Reserve Act will be shown in the weekly condition statements of

the Federal Reserve banks against the caption "Industrial advances", immediately following the item "Bills bought in open market".

Inasmuch as Section 12B of the Federal Reserve Act provides that Class B stock in the Federal Deposit Insurance Corporation held by the Federal Reserve banks shall not be entitled to payment of dividends, and as payments received from the Secretary of the Treasury to enable the Federal Reserve banks to make industrial advances will be included in the Federal Reserve banks' surplus accounts, the Board feels that, beginning with July 1, 1934, the reserves set up at the time the Federal Reserve banks made their final payment on the subscription to the stock of the Federal Deposit Insurance Corporation should be considered as valuation reserves and deducted from the book value of the stock in itself. Accordingly, the item "Fed. Dep. Ins. Corp. stock" will be eliminated from the weekly condition statement of the Federal Reserve banks, the amount of reserves set up on such stock will be eliminated from the item "Reserves (F. D. I. C. stock, self insurance, etc.)", and the latter caption will be changed to read "Reserves for contingencies".

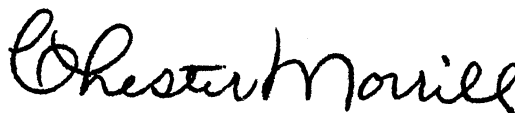
You will note from subsection (e) of Section 13b that before payments are made to the Federal Reserve banks they must execute agreements to hold the stock of the Federal Deposit Insurance Corporation unencumbered and to pay to the United States all dividends, all payments on liquidation, and all other proceeds of such stock, for which dividends, payments and proceeds the United States shall be secured by such stock itself up to the total amount paid to each Federal Reserve bank by the Secretary of the Treasury under such section, and, that each Federal Reserve bank, in addition, shall agree that in the event such dividends, payments and other proceeds in any calendar year do not aggregate two per centum of the total payments made by the

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Secretary of the Treasury under such section, it will pay to the United States in such year such further amount, if any, up to two per centum of the said total payment as shall be covered by the net earnings of the bank for that year derived from the use of the sum so paid by the Secretary of the Treasury. It will be necessary, therefore, for the Federal Reserve banks to keep all income received from the use of the sum so paid by the Secretary of the Treasury, and all expenses and losses incurred in connection therewith, under Section 13b of the Federal Reserve Act, separate and distinct from the other earnings, expenses and losses of the bank, in order to determine what, if any, payments shall be made to the Secretary of the Treasury in the event the dividends, payments and other proceeds of the Federal Deposit Insurance Corporation stock do not aggregate in any calendar year two per centum of the total payments made by the Secretary of the Treasury under Section 13b. You will be advised at a later date in regard to the manner in which the net earnings of the Federal Reserve banks, derived from operations under Section 13b, are to be compiled and reported to the Federal Reserve Board and to the Secretary of the Treasury.

On Form 34 please report "Industrial advances", code TURK, following item Federal Land Bank bonds; item "Surplus (Section 13b)", code TALC, following the item Surplus (Section 7); and "Industrial commitments", code MENT, on the reverse side of the form.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE CHAIRMEN*