

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-9215

May 20, 1935.

SUBJECT: Inclusion of a "Reserve Fund for Dividends Payable in Common Stock" as Part of a Member Bank's Capital and Surplus in Determination of Federal Reserve Bank Stock Which Should be Held by the Member Bank.

Dear Sir:


There is inclosed herewith for your information and guidance, in the event that cases involving similar circumstances come to your attention, a copy of a letter addressed by the Federal Reserve Board to the Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta with regard to the necessity for a surrender of Federal reserve bank stock by a member bank upon retirement of preferred stock and the establishment of a reserve fund for dividends payable in common stock.

As you know, numerous member banks have issued preferred stock, capital debentures, and capital notes which may be retired out of earnings, and it is understood that upon such retirement reserves are frequently established for the payment of common stock dividends in substantially the same manner as indicated in the attached letter. In any case where a reserve fund is thus set aside for dividends payable in common stock, such reserve fund may be treated as surplus for

the purpose of determining the amount of Federal Reserve bank stock which should be held by the member bank involved.

Applications for adjustments in Federal Reserve bank stockholdings, Forms 56 and 60, should indicate clearly the amount of "Reserve for dividends payable in common stock", and, accordingly, pending the revision of the forms it is suggested that this be accomplished on Form 56 by writing in the item "Reserves for dividends payable in common stock" immediately after the item "Surplus", and on Form 60 by appending a note on the reverse side, immediately above the directors' signatures, reading "The surplus on the above given date included a reserve for dividends payable in common stock of \$ \_\_\_\_\_." The capital structure of the bank, including the existence or non-existence of a reserve for dividends payable in common stock, should be checked against condition reports or other available data, in accordance with the usual practice. The Comptroller's office now notifies Federal reserve agents of all increases and decreases in capital stock of national banks, including all retirements of preferred stock and all issues of common stock whether through the declaration of a stock dividend or otherwise. It is understood, however, that at present it will not be practicable for the Comptroller's office to furnish similar advice with respect to transfers made to the account "Reserves for dividends payable in common stock" incident to retirements of preferred stock.

Very truly yours,



Chester Morrill,  
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-9215-a

May 20, 1935.

Mr. L. M. Clark  
Assistant Federal Reserve Agent  
Federal Reserve Bank of Atlanta  
Atlanta, Georgia.

Dear Mr. Clark:

This refers to Mr. Newton's letter of November 13, 1934, in which he advised that the \_\_\_\_\_, \_\_\_\_\_, contemplates the retirement of preferred stock at six month intervals out of earnings and intends, as preferred stock is so retired, to set up in a "special reserve fund" an amount equal to the par value of the shares retired. It appears that, when the reserve fund is of a sufficient amount to justify it, the bank will declare a stock dividend to its common stockholders out of such reserve fund. In these circumstances, he requests advice as to whether the Federal Reserve Bank of Atlanta may comply with the wish of the bank to withhold an application for an adjustment in its Federal Reserve bank stock holdings until such time as the entire recapitalization plan has been completed.

As you know, under the provisions of Section 5 of the Federal Reserve Act, subscriptions for Federal Reserve bank stock are based on the capital and surplus of the member bank. It is understood that the bank contemplates that the amounts set up in the "special reserve fund" referred to will be a part of the permanent capital of the bank, and

will not be resorted to for any other purpose than the issuance of common stock dividends, and that such reserve fund is intended merely to facilitate adjustments of the bank's capital stock. It is assumed that such purposes will be evidenced by a resolution or resolutions of the board of directors of the bank authorizing the establishment of the "special reserve fund" and the setting aside of the appropriate amounts in such fund.

In such circumstances, the Board is of the opinion that a "special reserve fund" of the kind described may be regarded as "surplus" for the purpose of determining the amount of Federal Reserve bank stock which the bank is required or entitled to hold. Accordingly, since it is contemplated that the retirement by the \_\_\_\_\_ of its preferred stock will be accompanied by a corresponding increase in the amount of its surplus, including the "special reserve fund", the aggregate amount of the bank's capital and surplus will not be altered by such transaction; and it will not be necessary, therefore, as a result of such transaction for the bank to file an application for a reduction in the amount of Federal Reserve bank stock held by it. Since, however, the bank's December 31, 1954 condition report shows an aggregate capital and surplus, including the reserve for common stock dividends, of \$193,500 on the basis of which it is required to hold 117 shares of Federal Reserve bank stock, and as it now holds only 114 shares of such stock, it should be requested to file an application for 3 additional shares of Federal Reserve bank stock, unless there has

been some further change in the bank's capital and surplus. In this connection, it should be noted that if a bank holds an amount of Federal reserve bank stock in excess of an amount represented by 6 per cent of its capital and surplus (because of the exercise of its option, on previous occasions, not to surrender Federal reserve bank stock incident to reductions in surplus), such excess holdings would not be affected by the views of the Board stated herein with regard to a reduction of the bank's preferred stock and a simultaneous increase in its surplus represented by a reserve for dividends payable in common stock, and the right of the bank to subscribe at any time for additional shares in view of its holding of such excess shares will be governed by the previous rulings of the Board with regard thereto.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.