

INTERPRETATION
BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

March 5, 1936.

Mr. _____, Vice President,
The _____ National Bank of _____,
_____.

Dear Sir:

This refers to your letter to Mr. Ransom of February 6, 1936, with regard to reports of executive officers of member banks of their indebtedness to other banks under the provisions of section 22(g) of the Federal Reserve Act and section 5 of the Board's Regulation O. You indicated that you had construed the Board's regulation as not contemplating that such reports would be made available to the board of directors of the member bank involved.

Under the provisions of section 22(g), an executive officer of a member bank who becomes indebted to another bank is specifically required to make a written report to the board of directors of the member bank of which he is an executive officer. It is clear from the legislative history of section 22(g) that, in making such specific requirement, Congress contemplated that the board of directors of a member bank should have available the information contained in any such report, since by the Banking Act of 1935 it amended section 22(g) so as to make the specific requirement that any such report of an executive officer of a member bank be made to the board of directors rather than to the chairman of

the board of directors as had previously been provided in section 22(g).

The Board has noted your comments regarding the abuses which section 22(g) was designed to correct and is in agreement with you that the board of directors of a member bank should be fully advised of the indebtedness of its executive officers to other banks. Accordingly, in promulgating its Regulation O, the Board, in section 5 of such regulation, has again stated the requirement of the law that each report of the kind referred to above shall be made to the board of directors of the member bank involved. As a matter of maintaining appropriate records, the Board did not wish to impose what might appear to be an unnecessary hardship upon a member bank by requiring it to transcribe the full details of a report of indebtedness of an executive officer in the minute book of the bank, but has merely required that the receipt of the report be recorded in the minutes and that each such report be retained by the member bank and be made available upon request for inspection by duly authorized examiners. It is contemplated, however, by the law and also by the Board's regulation that the full report of an executive officer will be received by the board of directors of the member bank of which he is an executive officer. Accordingly, the purposes of the law and the requirements of the regulation will not be met if the secretary of the board of directors of a member bank, or any other person who may receive such a report, merely records the receipt

thereof in the minute book of the bank and does not take appropriate steps to see that the board of directors has an opportunity to be fully informed as to the contents of such report.

Very truly yours,

(Signed) L. P. Bethca

L. P. Bethca,
Assistant Secretary.