

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9658



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 21, 1936

Dear Sir:

There is attached, for the information of your bank, a copy of a letter addressed by the Board under date of July 16, 1936, to the Vice President of the Federal Reserve Bank of St. Louis with respect to the question whether the indebtedness of an officer of a member bank to a trust company as trustee should be reported to the board of directors of the member bank.

Very truly yours,

A handwritten signature in cursive script that reads "E. R. Carpenter".

E. R. Carpenter,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

July 16, 1936.

Mr. John S. Wood, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Wood:

This refers to your letter of June 5, 1936, inquiring whether the indebtedness of Mr. _____, President of the _____ Bank and Trust Company, _____, to the _____ Bank and Trust Company in its capacity as trustee of the estate of _____ should be reported by Mr. _____ to the board of directors of the _____ Bank and Trust Company in order to comply with the requirements of section 22(g) of the Federal Reserve Act and section 5 of the Board's Regulation O.

It is understood that Mr. _____ became personally indebted to _____ & Company, a brokerage firm, in 1924 as a result of losses sustained by him in connection with certain stock transactions; that upon the death of Mr. _____ (creditor) the indebtedness in question was included in the assets of his estate which is now being administered by the _____ Bank and Trust Company as trustee; and that Mr. _____ gave his renewal note covering such indebtedness to the trustee bank in 1929.

Section 22(g) of the Federal Reserve Act provides, in part, that if any executive officer of a member bank be indebted to any bank other than a member bank of which he is an executive officer he shall

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make a written report of such indebtedness to the board of directors of the member bank of which he is an executive officer, and section 5 of the Board's Regulation O provides, among other things, that an executive officer of a member bank who, on the effective date of such regulation, is indebted to any bank other than the member bank of which he is an executive officer shall make the report required by the law. It appears from the facts stated above that Mr. _____ was indebted to the _____ Bank and Trust Company, as trustee, on the date of the enactment of section 22(g) and also on the effective date of the Board's Regulation O and is now so indebted, and the only question is whether the indebtedness to the bank in its capacity as trustee is required to be reported.

The Board's ruling dated March 20, 1936 (X-9528), referred to in your letter, related to an indebtedness of an executive officer of a member bank to another bank arising as a result of the lending of trust funds but the effect of such ruling was to disregard any technical distinction between a bank lending funds in its own capacity or in its capacity as trustee. The fact that the original indebtedness of Mr. _____ did not arise as a result of the lending of trust funds by the trustee bank but accrued to the trustee bank by virtue of its appointment as trustee is not sufficient to remove the transaction from the provisions of the law. It is apparent that Congress contemplated that the board of directors of a member bank should be advised of the indebtedness of the executive officers of such bank to other

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banks without regard to the manner in which the indebtedness arose and, therefore, the indebtedness in question should be reported by Mr. _____ as provided in section 5 of the Board's Regulation O.

Your letter also referred to the question whether the examiner for the Federal Reserve bank should advise the directors of the _____ Bank and Trust Company of Mr. _____ indebtedness to the _____ Bank and Trust Company. Of course, it would be more desirable for Mr. _____ to make the required report of his indebtedness than for the examiner to have to make a report of such indebtedness to the directors of Mr. _____ bank, and it is assumed that Mr. _____ will make the required report upon receipt of advice of the Board's ruling in the matter. Please advise the Board of the disposition which is made of this matter and, if it should become necessary, further consideration can be given to the question whether the examiner for the Federal Reserve bank or your office should take any action in calling the matter to the attention of the directors of the _____ bank and Trust Company.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.