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INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 3, 1936.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____.

Dear Mr. _____:

Receipt is acknowledged of your letter of August 27, 1936, with reference to the question whether the participation certificates issued to The _____ State Savings Bank Company, _____, _____, representing the amount of the deposits waived by it at the time of the reorganization of The _____ Trust and Savings Bank, _____, _____, a nonmember bank, should be included in determining whether the balance maintained with the nonmember bank by the member bank is in excess of the limitations of section 19 of the Federal Reserve Act and of condition of membership numbered 11 which the Board has prescribed for it in this connection.

As you know, section 19 provides that a member bank shall not keep a sum in excess of 10 per cent of its capital and surplus with a State nonmember bank or trust company and the Board's condition of membership requires The _____ State Savings Bank Company at all times to maintain its balances with nonmember banks and trust companies within such limits. The Board understands that from your investigation of the matter you and your counsel are of the opinion that the participation certificates under discussion merely evidence the right of The _____ State Savings Bank Company to

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share with the holders of other similar certificates in the distribution of the proceeds of the liquidation of certain assets formerly held by The _____ Trust and Savings Bank which were set aside at the time of its reorganization for the benefit of such certificate holders, and that the nonmember bank itself is under no liability to The _____ State Savings Bank Company for the payment of the participation certificates held by it.

On the basis of such information, it is the Board's view that the amount represented by the participation certificates need not be included in computing the balance The _____ State Savings Bank Company may maintain with The _____ Trust and Savings Bank under the provisions of section 19 of the Federal Reserve Act and the Board's condition of membership referred to above. In the circumstances, if, after excluding such participation certificates, the amount of funds the member bank has on deposit with the nonmember bank is not in excess of 10 per cent of its capital and surplus no violation of such provisions is involved.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea
Assistant Secretary.