

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9882

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 1, 1937.

SUBJECT: Authority to Approve on Behalf of the
Board Reductions of Preferred Stock
or Capital Notes or Debentures.

Dear Sir:

In the letter X-9799 dated January 22, 1937, the Federal reserve banks, in lieu of the Federal reserve agents, were authorized, through their presidents, to approve on behalf of the Board reductions of preferred stock or capital notes or debentures by State member banks in cases where the Board's approval of such reduction is required under a condition of membership. Such authorization was granted within the limitations and subject to the conditions outlined in the Board's letter X-9048 dated December 15, 1934.

The Board has had occasion to consider whether such authority should be extended, and in furtherance of the policy of decentralization of administration under general policies, has decided to, and hereby does, extend the authority to approve reductions of preferred stock or capital notes or debentures heretofore conferred in letters X-9048 and X-9799 to cover all cases where the Board's approval is required under a condition of membership, subject only to the condition that the Federal reserve bank is of the opinion that the proposed reduction is justified as a matter of sound banking policy and that it may be legally accomplished.

Adequacy of capital, of course, is essential to a sound banking system, and it is expected that the maintenance of an adequate capital structure will be the primary consideration in passing upon applications for permission to retire preferred stock or capital notes or debentures. In this connection the Board wishes to call attention to, and to emphasize, the views set forth in its letter dated December 13, 1935, X-9393, regarding the general policies which it feels should govern the retirement of preferred stock and capital notes and debentures, whether held by the Reconstruction Finance Corporation or by local investors. However, since the letter in question was written, the Reconstruction Finance Corporation has announced conditions under which banks may obtain a reduction of 1/2 per cent in the rate on the

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preferred stock or capital notes or debentures held by the Reconstruction Finance Corporation. It is recognized that in some cases you may feel justified in permitting retirements in the minimum amount necessary to allow banks to obtain the benefit of the reduced rate, whereas in the absence of this consideration you might not be so disposed.

As stated in letter X-9048 to the Federal reserve agents, if for any reason a Federal reserve bank is in doubt as to the wisdom of the proposed reduction or is unwilling to approve or disapprove an application under the authority granted herein, the bank's application may be submitted to the Board for determination, together with current information as to the condition of the applying bank, its reason for desiring to effect the reduction and any other information, including the comments and recommendations of the Federal reserve bank, which may be of assistance to the Board in passing upon the application.

It is requested that the Board be furnished with copies of all letters approving on behalf of the Board retirements of preferred stock or capital notes or debentures.

It has been noted that, in a few instances, approval has been given by a Federal reserve bank or Federal reserve agent on behalf of the Board to a reduction in preferred stock or capital notes or debentures when the bank's unimpaired capital and surplus was not equal to 10 per cent of its deposits. In order that there may be no question in the future as to compliance with the condition of membership regarding the Board's approval for such reductions, the Board hereby ratifies such approvals previously given on its behalf.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.