



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 14, 1938.

Dear Sir:

Inclosed is a copy of the program for the conference of representatives of the examination departments of the reserve banks, which will be held in Washington commencing Monday, October 31, 1938.

It is contemplated that the conference will be largely in the nature of a round table discussion of the various matters which have been or may be brought up for consideration, and it is believed that the program is broad enough to cover the various suggestions as to topics which have been received from the Federal reserve banks. It is requested that the representatives of each reserve bank be prepared to discuss the various subjects which they have submitted for consideration at the conference.

Included in the replies received from the reserve banks were requests for information or interpretations as distinguished from suggestions for discussion at the conference. It will be the endeavor to answer such questions specifically at the conference.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", is written over the typed name.

L. P. Bethea,  
Assistant Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

TOPICS FOR CONSIDERATION AT CONFERENCE OF REPRESENTATIVES OF  
THE BANK EXAMINATION DEPARTMENTS OF THE FEDERAL RESERVE BANKS

OCTOBER 31, 1938, AT 10 A.M.

ROOM 2245, FEDERAL RESERVE BUILDING, WASHINGTON, D. C.

I. The uniform agreement regarding examination procedure announced last June.

- (1) General discussion regarding the agreement, its spirit and purpose, and the circumstances leading to its adoption.

II. Investment securities.

- (1) General discussion of the treatment of investment portfolios, the approach which should be taken by the examining and supervisory authorities, and the nature of the comments which should be made by examiners regarding quality, diversification and maturity distribution of a bank's investment account.
- (2) Questions regarding appraisal of securities.
- (3) The classification of income bonds received in a reorganization or created through an agreement between obligor and bondholder which are either paying no interest or paying at a rate less than the maximum required, if earned, by the indenture or agreement.
- (4) Factors to be considered in determining the adequacy of reserves and the position to be taken with respect to the treatment of recoveries on, and profits from sale of, securities. A specific request has been received for discussion as to the consideration in this connection which should be given to depreciation in the security account.
- (5) Treatment of amortization of premiums on bonds, both as to bonds which are exempted securities under the Comptroller's regulation and those to which the provisions of the Comptroller's regulation regarding amortization are applicable.
- (6) It has been suggested that since the use of valuation reserves permits in effect the allowance of net appreciation in Groups 3 and 4 against depreciation in Group 2 securities, such appreciation should be allowed as an offset when the bank has actually written securities down instead of setting up a valuation reserve. The same argument has been advanced to support the allowance of net appreciation in Group 2 against net depreciation in Groups 3 and 4.

### III. Loans

- (1) General discussion regarding classification of loans under the uniform agreement.
- (2) Suggestions have been received requesting specific discussion of:
  - a. Principles to be used in appraising short collateral loans, particularly those which are being regularly reduced by the borrowers in amounts so small in relation to the deficiency in collateral value as to require several years for liquidation of the obligations.
  - b. Appropriate classification to be accorded loans dependent for liquidation upon life insurance upon which the lending bank is paying premiums.

### IV. "Other real estate" and fixed assets.

- (1) General discussion of the treatment of "other real estate" account with specific reference to the basis for classification of individual properties and the entire account.
- (2) Should member banks be required to depreciate the carrying value of "other real estate" annually at rates not less than those allowed for tax purposes?
- (3) General discussion with respect to treatment and classification of banking house and furniture and fixtures, with particular reference to the factors which should be considered in determining the amount, if any, regarded as excessive and classified as II.
- (4) Should depreciation at rates allowed for tax purposes be considered a current expense by the examiner and classified as IV if not already eliminated by the bank?
- (5) In what manner and on what basis should banking house and "other real estate", (a) held in the names of affiliated or associated organizations, (b) held by nominees for the bank, or (c) otherwise carried in loans or investments, be reflected in reports of examination and reports of condition?
- (6) Under what circumstances should real estate sold by a bank under contract be shown in reports of examination and reports of condition as (a) loans, (b) "other real estate"?

V. General supervision.

- (1) General discussion of possibilities and policy regarding work-out of banking situations where there is pressing need for rehabilitation.
- (2) General discussion of factors to be considered by examiners and the reserve banks in reviewing:
  - a. A bank's dividend policy.
  - b. A bank's policy with respect to the creation and maintenance of adequate reserves.
  - c. Applications for permission to reduce capital.
- (3) General discussion of use of section 30 regarding removal of bank officers and directors.
- (4) Responsibility of examiners for the Federal reserve banks regarding verification of assets, etc., in cases of joint examinations.

VI. Revised form of report of examination.

- (1) General discussion regarding details and use of the revised form of report of examination.
- (2) General discussion regarding the use of valuation reserves and their treatment in reports of examination.
- (3) Discussion regarding the desirability of furnishing
  - a. Work sheets (pencil copy form) for use in preparing reports of examinations,
  - b. Examiner's questionnaire to supplement reports of examination.
- (4) Revision of Form 212.

VII. Banking laws and regulations.

- (1) Responsibility of the examiners for the Federal reserve banks in observing and reporting on the practical operation of laws and regulations relating to member banks in order that the reserve banks and the Board may have the benefit of such observations and suggestions based thereon in considering possible amendments.

VII. Banking laws and regulations (Cont'd)

- (2) Examination problems and procedure with respect to determination of compliance or noncompliance with regulations regarding payment of interest on demand and time deposits.
- (3) Examination problems and procedure under Regulation U.
- (4) Examination problems and procedure with respect to the Clayton Act and Regulation L.

VIII. Possibilities of making examination and supervisory activities of Federal reserve banks more constructive and helpful to member banks.IX. Miscellaneous.

- (1) Answers to certain specific questions which have been received and discussion of various matters which may be brought up.