

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

August 5, 1939

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

Dear Mr. _____:

This refers further to your letter of June 13, 1939, requesting advice upon a specific inquiry submitted by _____ Corporation, _____ (a holding company affiliate), which was answered in the Board's telegram of June 16, 1939, and also requesting the Board's views at its convenience with respect to certain assumptions relating to the requirements of subsections (b) and (c) of section 5144 of the Revised Statutes.

With respect to the first assumption, the Board will not object to the computation of earnings upon the basis of calendar or fiscal years, rather than upon the basis of years ending on June 16, in connection with the requirements concerning the investment of "excess" net earnings of holding company affiliates in readily marketable assets after June 16, 1938, if there is substantial compliance with the statutory requirements and a holding company affiliate desires to follow this practice as a matter of convenience.

With respect to the second and third assumptions, the Board concurs in the view that the 2 per cent per annum increase in readily marketable assets required by clause numbered (1) of subsection (b) may be accomplished through the investment of earnings required to be used for this purpose by clause numbered (2) of such subsection and that the maximum amount of readily marketable assets ultimately required by such subsection is 25 per cent, not 50 per cent, of the aggregate par value of the bank stocks having double liability.

In addition to the matters mentioned in your letter, it is believed that it should be pointed out that the requirements concerning the investment of "excess" net earnings relate to the investment of net earnings in excess of 6 per cent per annum on the book value, not par or stated value, of a holding company affiliate's own shares outstanding.

Very truly yours,
(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.