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Federal Reserve Bank
District No. 2
Correspondence Files Division

STRONG PAPERS

SUBJECT

2.) STRONG'S AND KENT'S MISC. MEMORANDA
ON THE FEDERAL RESERVE ACT - 1913

Secretary

207

December 11th, 1913.

Memorandum for Mr. Porter and Mr. Strong

At the Metropolitan Club after Mr. Vanderlip's speech I promised to look up and send a memorandum in support of my contention on the greenback situation.

I find that the \$346,681,016. outstanding greenbacks secured by gold reserve fund of \$150,000,000. are redeemable in gold upon presentation, but the Secretary is required

- 1- To restore the gold coin to the reserve fund immediately out of the gold coin in the general funds of the Treasury, if any, and place the greenbacks in the general fund, thus restoring the gold reserve to 150,000,000., or
- 2- He may exchange the greenbacks for gold coin presented by the public at the Treasury, or
- 3. If necessary, he may go out and purchase gold coin "at such rates and upon such terms as he may deem most advantageous to the public interest," but he must pay therefor in the greenbacks.
- 4. If he fail to maintain his \$150,000,000. reserve fund intact by the foregoing methods and the fund falls below \$100,000,000. then it is his duty to restore the fund to \$150,000,000. by selling bonds and purchasing gold with the proceeds.

Finally the law of March 14th, 1900, also contains a clause, "that U.S. notes when redeemed in accordance with provisions of this section shall be re-issued but shall be held in reserve until exchanged for gold as herein provided; and the gold coin and bullion in the reserve fund together with the redeemed notes held for use as provided in this section shall at no time exceed the maximum sum of \$150,000,000.

5 Regional Banks -

Lengthen to day periods -

Eliminate procedures for
winding up Nat Banks -

Eliminate clause re extending
facilities to non members -

Made true ~~the~~ ^{deposits only those} ~~presented~~

by written instruments.

12.8.2

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Secretary of Treasury.

May Sell Stock of Bank.

Page 8, Lines 16 - 21. "Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine."

Is this unrestricted authority warranted, when it might as readily be provided that the stock owned by the Government be sold to the highest bidder upon public offering, with no opportunity for discrimination or favoritism ?

Discretionary Power to Distribute Insurance Fund.

Page 26, Lines 3 - 7. "the money to be kept in and losses from failures to be paid from it as a depositors' insurance fund under a division of the Treasury to be constituted and managed under such regulations as may be prescribed by the Secretary of the Treasury."

Can Use Earnings to Purchase Government Debt.

Page 26, Lines 7 - 12. "All net earnings derived by the United States from Federal reserve banks shall be applied to the reduction of the outstanding bonded indebtedness of the United States, under regulations to be prescribed by the Secretary of the Treasury."

The Secretary of the Treasury may buy from his friends, at any price that he fixes. This is an unwarranted, indiscreet delegation

of authority to an officer of the Government, which even private corporations would not countenance today.

Authority to Distribute Public Funds, and Authority to Overrule the Federal Reserve Board, of which he is a member.

Page 35, Lines 5 - 13. "Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management and control of the Treasury Department and bureaus under such department, and whenever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary."

Simply another indication of the intention to make the Secretary of the Treasury the supreme authority in the monetary affairs of the country. It certainly has the effect, in connection with other provisions referred to, of giving him absolute unrestricted control over the distribution of Federal funds. In 1907, the distribution of the general fund at the time of the panic was the subject of Congressional inquiry. Going back to the days of Andrew Jackson, "pet" banks have been a recurring cause of scandal. The present system is bad enough, and such bad features as it has will be magnified under the provisions of this bill.

Additional Authority to Distribute Government Funds.

Page 47, Lines 7 - 18. "Sec. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the

redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits."

The Secretary of the Treasury is placed in unrestricted control of over \$200,000,000. of Government funds to be deposited with the Federal reserve banks, of which \$90,000,000. is now on deposit with National banks. He may say where it shall be so deposited, or whether it shall continue to be deposited in National banks or held in lawful money in the Treasury. No single officer of the Government should have this power. As stated before, the exercise of the power now vested in the Secretary of the Treasury, whether lawful or not, is unwise. This will simply make it worse. Favoritism to localities is possible. The use of the Government's funds for political or partisan purposes as to sections of the country is possible. No such construction could enter into the handling of the Government's deposits with a central bank.

The Secretary of the Treasury would have a power, under this provision, that would make it possible for him to nullify sound banking in the regional banks and make it dangerous banking. By being in a position to transfer such large sums from one regional bank to another and from one part of the country to another, he could upset all of the arrangements of any or every regional bank. If the Federal Reserve Board would not yield to his demands because they did not agree with his opinions,- which, while entirely honest

might be dangerous to the country,- he could carry out his opinions in spite of it. For instance, suppose the Federal Reserve Board, of which the Secretary of the Treasury was a member, feeling that a certain regional bank was unduly inflated and should not be allowed to borrow from other regional banks, but should be forced to curtail its operations, and every member of the Board with the exception of the Secretary of the Treasury so voted, this majority opinion could be rendered void through the action of the Secretary of the Treasury in transferring balances of the Government in other regional banks, to the regional bank under criticism. If this particular regional bank happened to be situated in a district strongly of the political belief of the Secretary of the Treasury, great pressure could be brought to bear upon him. Again, if such regional district happened to be a crucial one, as far as its votes for President were concerned, the pressure might even be stronger to help it out.

It has been admitted by those favoring this Bill that the present power of the Secretary of the Treasury, in being able to deposit money with such National banks as he might see fit, is subject to abuse, and it has been claimed in some quarters that this power has been abused. The extent of such abuse, however, at present is limited in the case of each favored institution, to its capital and the security it can put up, and no such extraordinary amount can be placed with one bank as will be possible in the case of a regional bank, where the Secretary of the Treasury could, if he wished, place \$200,000,000. with a bank having a capital of \$3,000,000. Every change of Administration involving a large difference in policies strongly affects business. How much greater will such changes of policy influence business, if any system is grafted upon this country

that will subject our whole banking system to action based upon the whims of one individual ?

Special Examinations.

Page 69, Lines 16 - 21. "Sec. 21. Every member bank shall be examined by the Comptroller of the Currency at least twice in each calendar year and as much oftener as the Federal Reserve Board shall consider necessary."

As to special examinations, this places the Comptroller of the Currency under the direction of the Federal Reserve Board, although he is now by law subject to the direction of the Secretary of the Treasury. As the Secretary of the Treasury, in the paragraph on Page 35, Lines 5 to 13 (quoted on page 2 of this memo.), is authorized to act in opposition to any provision of this Act which might curtail his existing rights, he would, under this provision, again be able to overrule the Federal Reserve Board if he so desired. The Comptroller of the Currency is placed at the service of the Federal Reserve Board and the power is apparently given to them to require such examinations. If six members of the Federal Reserve Board voted to have any special examination made, and the Secretary of the Treasury voted against it, he would be able to prevent the examination, as his instructions to the Comptroller would be greater authority than those of the Federal Reserve Board.

General Powers.

You will find, upon analysis of this Bill, that the Secretary of the Treasury is given a power beyond that accorded the President

of the United States, the King of England, or the Emperor of Germany, in his relation to the financial matters of the country. The Secretary of the Treasury, who is not elected by the people and whose personality is unknown to them when they elect the man who appoints him, is given such power that he could, of his own volition, in collusion with some banker, cause the failure of any regional bank, or of all of them, and could bring a panic upon this country, if he wished to abuse the power that he would have, such as has never been seen in the history of the world.

QUESTIONS

Page 3, Lines 17 - 23. If National banks elected to resign their charters, and lawful money was deposited

Page 5, Lines 8 - 14. with the Treasury Department for their circulation, and this money was then paid over to regional banks whose stock was owned by the Government, not having been subscribed for by either banks or the public, how would such lawful money get back into circulation ?

Page 4, Lines 11 - 17. Can the board of directors of a National bank fairly assume any such liability under such conditions ? No salable investment is being suggested, but in effect an additional capital liability.

Page 4, Lines 18 - 22. Will it not only not be wise, but necessary, for National banks in the United States in reserve cities, in order to protect themselves, to immediately begin to curtail their lines, in order to make it possible for them to meet any condition that may arise that calls for a transfer of the reserve deposits that they may hold ?

Would not their greatest safety lie in refusing to go into the system ?

And could they, in justice to their depositors, go into the system under such circumstances ?

Those depositors have a right, under custom and existing arrangements with their bankers, to borrow. If such borrowings are to be curtailed because of the establishment of a regional bank system, must not the banker, in order to fairly live up to his duty,

resign his National charter ?

Page 5, Lines 8 - 14. Would it not be necessary, under the terms of this Act, for suit to be brought at the end of sixty days after its passage, if a National bank had not at that time signified its intention to become a member bank ?

Page 5, Lines 14 - 20. What would the penalties to Directors consist of ?

What dollar amounts would they probably amount to ?

When a director of a National bank takes the oath of office, he enters into a contract with the Government to live up to the requirements of his office, in accordance with the National Bank Act. Is Congress justified in breaking this contract before its expiration ?

Cannot it be expected that many directors of banks will resign rather than subject themselves to any such liability ?

Page 6, Lines 1 - 10. If any considerable portion of stock is not taken by banks, and the success of the regional banks is uncertain, what possible reason could the public have for subscribing for the stock ?

Page 7, Line 4. Why is the Secretary of the Treasury given this unwarranted power ?

Page 7, Lines 5 - 14. Could not a political Administration, by increasing the capital of any properly organized regional bank, all the stock of which was owned by member banks, to such an amount that the voting trustees could elect all of the Class A and Class B directors ?

Page 7, Lines 15 - 18. If such rules and regulations are unfair, who can review them ?

Are National banks going to be obliged to accept them before they see them ?

Page 9, Lines 7 - 24. How could a regional bank be organized if less than five banks accepted the system in a district, and the balance of capital were subscribed by the public and or the Government ?

Page 10, Lines 14 - 17. If a regional bank suffers sufficient losses to wipe out its capital and surplus, could it not still continue to do business, under the law, for its full period of twenty years ?

Page 11, Lines 12 - 21. What is to be the character and form of the notes issued by regional banks against United States bonds ?

Are these notes to be guaranteed by the United States Government ?

Must regional banks maintain a reserve against such notes ?

If not, when they are presented for redemption, how is the regional bank going to keep its reserve good against its deposit and

circulating note liabilities ?

Does the limitation of the National Bank Act apply to the volume of notes, so that each regional bank may only issue notes to the amount of its capital ?

If so, what is the object or necessity of this provision, as only \$106,000,000 of the notes, based on National bank capitalization, could be issued, or about one-seventh of the total issue of National bank notes now outstanding ?

If such limitation is not intended, are the regional banks to issue such notes proportionately to their capital until the whole 700 odd million of National bank notes are retired, or can any regional bank issue them to any amount ?

Page 12, Lines 8 - 15. Could not the Federal reserve board, upon being appealed to by a member bank who had been refused discount for proper reasons in the opinion of the directors of a regional bank, overrule such regional bank and demand that the discount be made ?

Would any banker who is obliged to keep his reserve with such regional bank, feel justified in doing so under such circumstances ?

Is it necessary or advisable to give the Federal board such power, when it has its own agent as acting chairman of a regional bank, who can get up out of his chair as a regional director and walk over to his corner as Federal agent and ask himself what he thinks about it ?

Under this provision, would not the directors of every regional bank be obliged to stop their discounts to each member bank when its proportion of the whole had been asked for ?

Is it not true that solvent bankers may differ in their loan requirements very materially at the same time, and that therefore this provision will curtail the mobility of the reserves of each regional bank and defeat one of the purposes for which the bill is supposed to be drawn ?

Page 12, Lines 22 - 25. May the third director in Class B be a banker ?

Who is to decide whether Class B directors are qualified for office, under this provision ?

If two groups of bankers both desire to elect a Class B director who represents agricultural interests, which group takes precedence ?

How is it going to be possible, under the system of election provided for in the bill, for the three different groups to elect men engaged in the three different kinds of pursuits mentioned ?

Page 13, Lines 7 - 14. Is it right and fair to allow the small institutions, which would have to assume the smallest liability in making deposits with the regional bank, to elect two directors out of three, while the largest banks who would have the most involved in the regional bank could only elect one director, and then probably only in conjunction with a number of small banks ?

Even if, through the jugglery of words, this could be figured out as being fair, is it safe to allow small institutions to elect two men, who would be obliged to handle immense amounts of money, all out of proportion with the natural business that has been

done by these men before their election, ^{who could outvote the} ~~xxxxxxx~~ one who presumably may have had experience in large matters ?

Page 15, Lines 2 - 12. Is it desirable or safe to have the chairman of the board of directors of a regional bank the principal representative of the Federal board, having control as he would, as agent of the Federal board, of all the gold and securities that he as chairman of the regional bank had placed with himself as Federal agent ?

Does not the only reason for such an outrageous condition lie in the attempt to bring this regional system into line with a central bank ?

Pages 17 and 18. Sec. 5. If a regional bank has outstanding circulation, issued under the provision of page 11, lines 12 to 21, and such circulation is based upon its capital, how is it going to handle such circulation in connection with the fluctuations of its capital ?

Page 18 (all) and
Page 19, Lines 1 - 11. Can foreign bankers, who are naturally suspicious of alien institutions and who deal with them without any feeling of patriotism, but merely for such profit as they can make out of them, ever be induced to place any confidence in a system of regional banks, some of which are capitalized beneath their notice, realizing that even such capital as the regional banks may have can be dissipated without the directors or management having the slightest control in the matter; and, further, that such dissipation may occur through the failure of member banks, of whose condition and financial

standing they know nothing; and, further, that such failures might not alone result in reducing the capital stock of a regional bank, but might also affect other assets if the failed bank was indebted to it ?

How can institutions so organized be expected to take their part in the international markets of the world, in protecting our gold supply ?

Page 19, Lines 13 - 25. The insurance fund suggested would only build up gradually during a course of years, even provided there were no failed banks. Such being the case, how is it going to be possible to use this insurance fund in case of failure of several banks whose total losses, that would have to be paid from the insurance fund, would exceed such fund ?

Would the precedence of failure be of any value to the depositors of failed banks ?

If not, in what possible manner could an adjustment be made, while in the very process of adjustment another bank might fail ?

Again, it is not known at the date a bank fails what the loss to depositors is going to be. If precedence of failure is to be used as a basis for adjustment, how is it ever going to be possible to determine how to proportionately divide up a changing insurance fund that does not equal the liabilities it is to cover ?

If precedence were of value, so that every bank would be induced to fail early and avoid the rush, suppose a second bank failed, and the amount of deficiency became known a year or so before the deficiency in the case of the first bank was determined:

How would this adjustment be made ?

Page 24, Sec. 10. Would it not be possible for a President, during a single term, to change the political complexion of the Federal board ?

This being true, would not this be a direct invitation to take advantage of such an opportunity, and would it not greatly multiply the power for disaster that any unfortunate choice for a President might entail ?

Page 28, Lines 18 - 23. Is it not extremely dangerous to publish the maturities of the paper of a regional bank, which might make it possible for any member of the community who did not understand the banking business but who was of an inquiring turn of mind, to see in such figures at certain periods a condition that would appear dangerous to him and that might be the basis for starting a serious ~~xxx~~ story concerning the regional bank ?

Would not the publishing of such statistics necessarily at times seriously handicap the directors in their operation of the bank ?

Page 28, Par. (b). Is not the present banking system, under which bankers in one district, say, for instance, in the South, arrange directly to discount with bankers in what would be another district, say Chicago or New York, safer and better, carrying with it as it does an opportunity for the bankers in the discounting districts to be entirely familiar with the standing of those to whom they make loans, than the system proposed of permitting the Federal board to force regional banks to discount paper with which they

are not familiar ?

Would not a central banking system be far better and much safer than either our present system or the proposed regional bank system ?

How could a regional bank whose assets are wholly based upon the capital and resources of the banks in its district, which is situated in a district such as that comprising the territory, say, East, West and North of New Orleans, pass through the season during which practically all of its member banks would be obliged to borrow from it, when such member banks as they are constituted today are obliged to borrow outside of this district during the crop-moving season in amounts approximating \$200,000,000 ?

Would not such a regional bank be obliged to borrow every year ?

Page 29, Par. (c). As the dividend is cumulative to stockholders, this tax must be paid out of that portion of the profits that would otherwise go to the Government. Such being the case, would there be any objection whatever on the part of the directors, even those that represented member banks, to the tax suggested ?

Is it intended that this tax shall be paid to the Government ?

If so, would it not in reality be an operation that would be represented by the Government taking money out of one pocket and putting it into another ?

This being true, after the tax is paid, does not every one concerned stand in exactly the same relation as to profits that they

did before ?

This being true, of what possible use is the tax ?

Page 29, Lines 6 - 11. What member banks, under the bill, are required to keep the same reserves as the Federal reserve bank ?

Are not such banks the only ones that could be charged a tax, under the provisions of this paragraph as it is worded ?

Page 29, Lines 18 - 23. Are the reserve cities and central reserve cities still to be maintained because it is realized that the regional bank system will not do the work required of it, as would a central bank ?

Page 29, Lines 24 - 25

Page 30, Lines 1 - 2.

Is it wise or safe to make it possible for a banker who has applied for a loan and has been refused by an officer of his regional bank for good cause, to be able to go over the heads of the board of directors of the regional bank in his district and demand of a politically constituted board,- or, if you prefer to call it a board that may upon occasion be politically constituted,- and obtain the discharge of such officer?

Page 30, Par. (k). If the Federal reserve board should authorize member banks to carry Federal reserve notes as reserve, how would it be possible to retire such notes from circulation ?

Page 30, Par. (1). Can Congress, under the Constitution, delegate legislative power such as is contemplated in this provision ?

Page 31, Lines 16 - 21. What possible good could come from calls for information that might be made by the Advisory Council upon the Federal Board ?

If the Federal Board was acting improperly, would it not and could it not answer such calls for information with any sort or a report it might choose to make ?

Is not the power to call for information nullified unless those who make the call can check it up ?

Such being the case, would not this Advisory Council give a false sense of security to bankers connected with the system ?

Page 32, Lines 1 - 11. How would clerks in member banks and tellers in regional banks be able to check up their deposits as they were being made, and find out whether all the banks that items were drawn upon were member banks ?

How would it be possible for such clerks and tellers to keep themselves informed as to which member banks had failed ?

Again, and what seems possibly more difficult to answer, how would such clerks and tellers, after having looked up these items and found that they were drawn upon member banks, and had by telegraphic communication or otherwise found that such banks were still in existence, be able to determine whether such banks, though still in operation, were solvent ?

Is it intended that we shall have two systems for the collection of checks in this country: one for items drawn upon members and another for items drawn upon all other ~~fixes~~ banks, corporations, firms, and individuals ?

Page 32, Lines 12 - 25

Page 33, Lines 1 - 7.

Is it wise to allow members to borrow from regional banks without any limit in respect to their capital ?

Page 32, Lines 22 - 25.

Is it intended that this provision shall make it possible for all of those interests who may desire, to purchase and carry in warehouse for future sale and delivery, agricultural and other products ?

If it is not so intended, how, in view of this provision, can a regional bank prevent aiding speculators who desire to carry agricultural or other products for speculative purposes ?

If a regional bank in an agricultural district became so loaded up with bills of exchange issued against warehouse commodities that it could not meet the current needs of its district, is it going to be allowed to borrow from other regional banks and also curtail their ability to meet current business ?

Page 33, Lines 8 - 15.

Why are Federal banks authorized to make loans to member banks against bills of exchange which do not bear an acceptance, to the full amount of their capital, or to an unlimited amount if the intent of the Act is so construed, and are only allowed to loan to the extent of one-half the capital and surplus of a member bank when the bills of exchange bear the additional security of an acceptance ?

Is it not possible that this provision might seriously curtail the ability of regional banks to deal in foreign exchange ?

Page 33, Lines 23 - 24. Why are National banks allowed to accept drafts drawn upon them having six months to run, when only drafts of that character having maturity within ninety days of the date of discount are permitted for rediscount ?

Page 34, Lines 21 - 22. Does not this provision make it possible for regional banks to loan to member banks any amount, as far as their capital and surplus is concerned ?

Page 35, Lines 4 - 8. Is it not possible and probable that general regulations, such as the Federal board might make in such matters, that might be necessary in one district might prohibit business in another ?

What possible objection could there be to leave this power with the directors of each Federal reserve bank, instead of reducing them to mere figureheads ?

Page 35, Lines 9 - 17. Is it right that a bank of issue should be allowed to buy commercial paper without restriction in the open market, which it might use as collateral to its note issues ?

Does it not detract materially from the security of the note issue ?

Explain how regional banks are going to work together in the foreign market.

Which one of these banks would take precedence over the others, should foreign operations be necessary or advisable ?

Which regional bank would stand such losses as might occur through a necessity that might arise requiring the disposal of foreign exchange held by all of them ?

Would the bank handling the operation have to stand the loss, the other banks turning over their exchange to it, provided, of course, that any means is found to require a joint operation ?

Might it not be fair to apportion the loss among all of the regional banks, whether they were carrying on a foreign business or not ?

If this were done, would it be fair to those who were not in the foreign business, to subject them to losses beyond their control ?

Again, would it be fair to a regional bank whose manager had handled his exchange in such manner as to enable him to take part in the operation without loss, to have to stand a portion of such losses as might occur through the operations of some other manager ?

With a number of regional banks, all doing a foreign business, would they not of necessity, - each working for himself, based upon the reserve situation and needs of member banks, - be working along lines directly opposed to each other ?

Is it not true that in the case of a central bank, all of these serious matters would be eliminated absolutely ?

operate in the gold market, can do so effectively and economically ?

Would not a central bank solve all of the difficulties surrounding these important operations both economically and effectively ?

Page 36, par (b). Is it not extremely dangerous to authorize a board that may be politically constituted, to purchase securities issued by political subdivisions ?

Should not the tendency to borrow, on the part of political subdivisions such as those mentioned in this section, be discouraged rather than encouraged, on general principles ?

What is to be gained through allowing regional banks to compete with member banks for business of this nature ?

Are not member banks situated in the political divisions mentioned, better able to judge, not alone of the safety of such issues, but as well of the advisability of encouraging their issuance ?

Page 36, par (d). Are all classes of paper that regional banks are authorized to purchase intended to be covered in this provision ?

If not, what classes of paper are to have special rates applied to them, and which classes are to be exempt from this extraordinary measure ?

How could regional banks ever purchase foreign bills of exchange on rates established by the Federal reserve board ?

Page 36, par (e). Please explain how eight or twelve regional banks with branches abroad could operate effectively and economically "for exchange purposes" ?

There is no question but what a central bank could do business along these lines economically and with advantage to the country, but how is it going to be possible for eight or twelve regional institutions to do so ?

Would ^{not} the representatives of the different Federal banks have to work for the benefit of their own institutions, and would not this of necessity result in their operating against each other a large part of the time ?

Page 37, Lines 5 - 15. If the Federal reserve board voted six to one against authorizing a regional bank which was over-extending itself improperly, from borrowing of other regional banks, and the one negative vote was cast by the Secretary of the Treasury, could he not, under the provisions of this bill, nullify the action of the Federal reserve board by transferring Government deposits from other regional banks to the one asking for aid?

If the regional bank asking for the accommodation was in a district whose vote might decide a rapidly approaching presidential election, might not the pressure upon the Secretary of the Treasury to help out such district be almost too great to be resisted?

Would not such a condition of extension be more apt to occur in the fall, just before a presidential election, particularly if platform policies were involved that might represent serious

difference of opinion, than at almost any other period, taken in connection with the fact that the fall is the time when the crops have to be moved and when most money is needed ?

Is it not true that this unlimited and unwarranted power would not be possible in the case of a central bank ?

Is it also not true that money deposited in a central bank by the Government, would be far safer than money that might be placed with regional banks in sums far exceeding the capital of such banks ?

Page 37, Lines 16 - 22. Postal savings, representing the deposits of the people in the localities where they are made, and such people having established by law systems of State banks to carry on their business, is it right or justifiable to exclude State banks from acting as depositories for postal savings, when such deposits are made against collateral satisfactory to the Government ?

May there not be many communities throughout the country where there are no member banks, which would result in taking the postal savings of such communities into other districts, and defeat the provisions of the postal savings law intended to keep such funds at home ?

Page 37, Lines 24 - 25. On what ground do you justify the placing in the hands of a Federal board which may be made up of individuals who have no financial responsibility, and which as a board has no financial standing, of circulating notes that are ready for issuance ?

Is not this the introduction of another piece of dangerous

Page 37, Sec. 16. Does the Government of the United States own the gold and collateral that is to be held by the Federal reserve board as security for the note issues of regional banks ?

This question having been answered in the negative, does not the guarantee of these notes by the Government then become a fiat guarantee ?

In case of the failure of a regional bank that had outstanding a very large issue of notes, and it was found that the Federal reserve agent had disposed of the gold and security in his care, would not the United States be placed in exactly the same position in regard to the redemption of these notes that it would be if it had issued its own fiat notes pure and simple, without the intervention of any bank in between ?

Page 38, Lines 1 - 9. Suppose member banks borrow of a regional bank until its reserves are exhausted, and such borrowings are desired in credits and not in circulating notes: that member banks draw drafts upon these credits, which are presented to the regional bank and, if paid, in gold or lawful money, would deplete its reserves. Would the regional bank, under this act, be authorized to pay such settlements in a Clearing House or direct in regional bank circulation, provided it were not desired by holders of the drafts ?

Even if regional banks were authorized to make settlements in such manner, could not those who received the circulating notes present them to the bank and demand gold and lawful money ?

Under such conditions, of what value to the regional bank would be its note-issuing ability ?

Will not this regional bank system, representing merely the consolidation of district demands, ~~be~~ apt to be simultaneous, instead of giving such demands a mobility country-wide, without friction, loss of time or expense, as would be true in the case of a central bank ?

Page 39, Lines 19 - 24. Is it intended that Federal reserve banks receiving circulating notes of other regional banks shall pay the transportation charges upon such notes when returning them for redemption, or are such charges to be paid by the issuing bank ?

Page 41, Lines 1 - 7. This provision states that the bank shall be charged with the amount of such notes, and shall pay such rate of interest on said amount as may be established by the Federal reserve board. Under this provision, would not a regional bank ~~be~~ be obliged to pay interest upon such notes as it might have in its own vault or in the vaults of its branches ?

Should not such interest be paid only upon such amount of circulation as might be outstanding ?

Who would this interest be paid to ?

If to the Government, what possible difference would it make whether any interest were paid or not, for if the regional banks were successful, the proportion of the profit that would accrue to the Government would be the part reduced through the payment of interest. The Government would not lose, therefore.

Would this not mean that instead of the Government's profit from the regional banks being represented through payment of

dividends alone, it would be divided up into three sorts of payments, represented by dividends, taxes and interest, all of which together would exactly equal the dividends ?

Under such circumstances, who would have the slightest objection to the paying of this interest, which is apparently intended to act to prevent over-expansion ?

Page 44, Lines 7 - 13. Is it not true, under this provision, in connection with the first paragraph of Section 13, that a regional bank situated in Chicago could forward exchange on banks, members of the New Orleans regional banks, to New York, for exchange purposes, in order to make New York exchange, if New Orleans exchange were at a discount ?

Is it not also true that the New York regional bank could then forward these items to St. Louis for collection, if it needed St. Louis exchange?

Is it not true that the St. Louis regional bank, requiring Chicago exchange in preference to New Orleans exchange, could then send these items to Chicago for exchange purposes ?

Is it not true that this circle might be kept up indefinitely, while New Orleans exchange was at a discount in these three cities ?

Is it not true that the regional banks would naturally handle the items in this way, for their own profit, as no one of them would feel that it was the one called upon to stand the loss in exchange ?

Is it not true that in the case of a central bank, it

would have everything to lose and nothing to gain if it handled the items in this way,- for, if the Chicago branch forwarded the items to the New York branch, and the New York branch to the St. Louis branch, and the St. Louis branch to the Chicago branch, etc., etc., the central bank as a whole would be out of the money while the items were in transit, and it would therefore collect them as rapidly as possible ?

Is it not true that the currents of domestic exchange, due to seasonal operations, are well defined in this country, without any consideration of our banking system ?

Such being the case, is it not true that regional banks, in trying to meet these exchange conditions, would first use up their balances with other regional banks, and then be obliged to ship lawful money for their credit, which would deplete their reserves, although such lawful money would, of course, increase the reserves of some other regional bank ?

Is it not true that in the case of a central bank, where the lawful money in every branch would count as reserve, there would be no necessity of such shipments ?

Is it not true, therefore, that a regional system would be much more expensive to the country in the handling of domestic exchange, as well as in handling foreign exchange ?

Page 45, Sec. 18. Would not such transactions be limited to \$9,000,000. a month ?

Page 46, Lines 3 - 13. Is it intended that such lawful money as might be deposited with the Treasurer

of the United States by National banks, may be deposited by the Secretary of the Treasury in regional banks ?

If such authority is not intended, might not a large amount of lawful money be withdrawn from circulation ?

If the Secretary of the Treasury is considered to have authority to deposit such funds with the regional banks, would not this add unknown proportions annually of 700 odd million dollars that he would be able to place at his discretion in any regional bank in the country ?

Is it safe or right to the business interests and people of the United States, to place such absolute power in the hands of one man ?

Page 47, Lines 4 - 5. If these circulating notes are issued under the same terms and conditions as National bank notes, is there any authority that could compel the regional banks to maintain a reserve against such issues ?

Page 47, Lines 5 - 9. Does not this provision, reading, "that United States bonds bought by a Federal reserve bank, against which there are no outstanding National bank notes, may exchange," etc., leave the power open to Federal reserve banks to act under the provision of Page 11, Section 8, Lines 12 to 21, (), and issue circulating notes against any bonds of the United States, whether they at present bear the circulating privilege or not, thus increasing the amount of notes that might be outstanding against

United States bonds from \$743,000,000. to \$966,000,000., thus adding further to the power of the Secretary of the Treasury and also to the liability of regional banks that might not need to be covered by reserve ?

Page 47, Lines 14 - 17

" Lines 22 - 24.

What possible use can there be of demanding that bankers hold reserves against time deposits, when they know

the date of maturity of such deposits and are in position to make loans against them that mature in time to meet such deposits ?

Is it not really a tax upon time deposits that directly takes away from the bank the ability to pay the high rates of interest that depositors have a right to expect when they agree to leave money on deposit for a stated length of time ?

Page 48, Lines 3 - 25

Page 49, Lines 1 - 21.

If the regional bank system works

as well as a central bank would, and

bankers situated in cities where

regional banks or their branches were maintained could go to such banks at a moment's notice and secure further till money to meet emergency, or further reserve money, why are banks in such cities required to keep a larger reserve than country banks ?

Is it not true that such country banks as were situated in towns where there was no regional bank, or branches, would not be able to obtain additional till money, or reserve money, in case of emergency as quickly as banks in reserve or central reserve cities, but would require several hours, and in many cases a full

day's time, before being able to do so?

Such being the case, is there any ground whatever for requiring banks in reserve and central reserve cities, to keep a larger reserve than country banks, unless, I repeat, it is realized by those who created this bill that the regional banks cannot do the work that is expected of them ?

Page 49, Lines 22 - 25. Why should not member banks always maintain one-half of the reserve required in the Federal reserve bank in commercial paper, under this provision, as they could do so entirely without cost ?

This being true, do not the reserves required of banks resolve themselves into three kinds: Cash in vault, credits with the regional bank, and segregated eligible paper ?

What difference does it make whether a bank segregates eligible paper in its own vault or in the vaults of a regional bank, as far as its value as a reserve is concerned ?

Is not this a dangerous provision, that might induce banks to feel that they were better protected than they really are, for the commercial paper could not, of course, be used as security to discounts, and until discounted would not really be of any value in case of emergency ?

Why should not member banks be obliged to discount such paper and have the proceeds credited to their reserve accounts with regional banks, and so be obliged to pay for this privilege, and make it to their interest to reduce the amount of paper so deposited at every opportunity ?

Is not this provision bad banking, which accomplishes nothing, ~~xxxxxxx~~ other than to give a false sense of security ?

Page 50, Lines 13 - 16. How is it going to be possible for a State bank becoming a member bank, to do business with any other State bank and at the same time borrow from a regional bank ?

Is it not true that many State banks are organized with capital that would not make them eligible to join the system ?

Is it not true that such State banks do business with other State banks which might be authorized to join the system ?

Is it not true, if member State banks loaned to any State bank not a member, if in the course of its business it were required to borrow from a regional bank, that beyond question it could be said that the State bank which was not a member bank was deriving indirect benefit from the system ?

Does not this provision make class legislation, intended only for the benefit of eligible banks as against all other banks and such part of our people as deal with them ?

Page 51, Lines 5 - 9. Would not a central bank with such branches as it would be possible inexpensively to maintain in Alaska or other points outside of the Continental United States, be able to deal with and protect member banks in such localities with more certainty and greater safety than is possible in the regional bank system contemplated ?

Page 51, Sec. 20. Will not this provision operate unfairly as banks issue circulation in varying percentages to their deposits ?

Is it fair to any banks, and particularly to those who may signify their intention of going into the system, to discriminate against them in this manner, after they have made purchases of bonds at high rates in order to furnish circulation to the country, at questionable profit, with the privilege of counting their five per cent. fund as reserve ?

Of what possible value to the new system of banking is this unfair requirement ?

Page 51, Sec. 21. Is this provision intended to place the office of the Comptroller of the Currency under the Federal reserve board, instead of under the Secretary of the Treasury ?

If such is the intention, is it not nullified by the provision in Page 27, Lines 11 to 19 () ?

In other words, if six members of the Federal reserve board voted to have the Comptroller make a special examination of some institution, and the Secretary of the Treasury voted against it, would not his power outside of the Federal reserve board enable him to overrule them ?

What possible excuse is there for giving any one man such power ?

Page 55, Lines 5 - 16. Is it not only possible, but very probable, that an individual will not care to own stock of a National bank,

under such circumstances, when he can invest his money in other ways that might bring him as good or a better return, when he knows that if he becomes dissatisfied with the management and fearful as to the standing of the bank, and, having too small an amount of stock, maybe, to control its operations, he desires to sell, that he cannot do so without retaining his liability for sixty days ?

Is not this provision, through inducing fear on the part of the public to hold stock in National banks, going to do more harm than good ?

Page 55, Sec. 24. Rather than tie up the funds of commercial banks in long-time paper of this character, would it not be far better to create a new class of institutions for the special purpose of loaning on mortgages ?

Page 56, Sec. 25. How is a National bank to set aside a certain proportion of its capital as security for business to be undertaken by a branch of such bank, and prevent liabilities assumed by the branch from applying to that portion of the capital supposed to be saved for this country ?

If it were possible to accomplish this, how could any National bank expect its branch to do business in a foreign country with the branch capital so limited, particularly in competition with banks having capital many times that of the entire capital of the National bank ?

Would not this provision, if it were possible to carry it out, which is doubtful, be apt to induce carelessness on the part of those managing the bank in this country as to those managing the foreign branch ?

Might not they be willing to have the foreign manager accept larger risks than might be warranted, if the profit appeared unusual and the liability was limited to a small amount of segregated capital ?

Of what possible use is such a provision ?

Could not a bank operate with greater safety, facility and effectiveness, if it were in position to use such portion of its capital, abroad or at home, as financial conditions might require ?

Reasons why National Banks would not care to become members
of a regional bank system.

Page 2, Line 25. Districts may be readjusted in a manner that might materially affect the business interests of country bankers along the borders.

Page 3, Lines 17 - 23. Bankers cannot determine before agreeing to join the system whether it is going to be a success or a failure; what the capital of their regional bank is to be, or the capital of other regional banks, or the assets of any of them; as they will be required to render their decision within sixty days of the enactment of the bill.

Bankers must also give assent before knowing what district they are to be in, which might mean a serious matter in many cases.

Page 4, Lines 11-17. The liability of stockholders in National banks is to be increased from a double liability on the whole stock, to a triple liability on 6%, plus a farther triple liability on such percentage of the stock as is represented by the proportion between the surplus and capital.

Stock of a regional bank owned by a National bank cannot be sold, and, bearing a double liability, it might represent a real burden.

If a National bank did not approve of the management of the regional bank, or such regional bank did not work out successfully, the National bank would have no means of disposing of its stock without relinquishing its charter.

Page 4, Lines 18 - 22. Outside of a central reserve city, a National bank cannot determine whether it is going to be able to retain, even for a time and while the regional system is being developed and its usefulness tested, its present banking relations with its reserve agent or not.

Page 5, Lines 14 - 20. Additional liabilities are placed upon directors of National banks that are unfair and that they should not be asked to assume.

Page 7, Lines 15 - 18. A voting trust is possible of organization that might outvote member banks in any regional bank.

Page 12, Lines 8 - 15. The reserve deposits of National banks would apparently have to be used to make loans to banks of questionable standing, which might result in disaster, as long as such banks kept within the law.

The credit standing of member institutions who might borrow from the regional bank would seem to be secondary to that of the right to borrow.

Page 13, Lines 7 - 14. National banks in the central reserve and reserve cities would not have any power of electing any director of the regional bank in which they were obliged to take stock and place reserves made up of the money of their depositors.

Under the group division of election outlined, only the small banks would have the power of election. For instance, on an average

basis of eight regional banks, including as members all of the 7,488 National banks mentioned in the report of the Comptroller for 1913, we find that each group, for voting purposes, would comprise 312 member banks. In these groups, under the system outlined, banks having a capital of from \$250,000. up would be placed in conjunction with banks having a capital of \$100,000. to \$250,000. in the ratio of 85 to 227. In the next group, banks with a capital of from \$50,000. to \$100,000. would have 284 votes out of 312. In the last group, banks having a capital of \$25,000. would have 254 votes out of a total of 312. Figuring this in connection with the amount of stock that each institution would have to buy and the deposits that would have to be placed with regional banks, it shows that considerably over half of the entire capital stock in amount and of deposits would only have a voice in electing one director, and that a minority voice.

Page 18, Lines 9 - 15. The capital of a regional bank would be subject to reduction, and its standing in connection with the business of the country might be seriously curtailed, and member banks would have no power to prevent it or to leave the system and retain their charters if they desired to.

Page 19, Sec. 7. The insurance of deposits feature would unquestionably result in the establishment of banks by irresponsible parties, to compete with our present banks upon a false basis. The money to pay the depositors of such dishonest competitors would be earned from the use of the deposits of member banks in the regional bank.

Page 24, Sec. 10. The terms of office of the members of the Federal Reserve Board are such that political control would be possible, which might endanger the entire system.

Page 28, Par (b). National banks would not wish to be compelled to put the money of their depositors, or to take stock, in any bank whose assets could be used at will by some third party to make loans to another regional bank.

Page 29, Lines 18 - 23. Banks in the reserve and central reserve cities are discriminated against in the amount of reserves that they are obliged to maintain, even though the reserves that they are at present carrying are to be taken away from them, which is the only reason that they are today obliged to maintain higher reserves than country banks.

Page 29, Lines 24 - 25.
 " 30, " 1 - 2. Officers of a regional bank might fear to exercise their full judgment in refusing dangerous loans, as politicians whom they refused might appeal over the heads of the directors of the bank to the Federal Board. This would of necessity weaken the safety and standing of a regional bank in which National banks might have to maintain deposits.

Page 34, Lines 21 - 22. Member banks might borrow of a regional bank to any number of times their capital if they could put up paper, which might result in limiting the ability of those who might not take out

loans early in any particular season to obtain them; and, under this provision, it would be impossible for the directors of a regional bank to figure out any way of living up to the provision demanding, in effect, that they treat all banks alike.

Page 35, Lines 9 - 17. Regional banks are put into direct competition with National banks in the open market.

Page 35, Lines 18 - 25. A regional system of banks would not result in protecting the gold supply, under any system outlined in this section of the bill or any other. It is apparently implied that the regional banks will protect our gold supply, but its futility to do so is apparently recognized by those who created the bill, as they have made no attempt to give any powers of regulation to the Federal Board in this matter, probably knowing that they would not work.

Page 37, Sec. 15. The Secretary of the Treasury is empowered to transfer Government funds in a way that would make it possible for him to force the suspension of any regional bank. The only possible way that the directors of a regional bank could protect themselves from the action of the Secretary of the Treasury, would be to let Government deposits lie in their vaults unused. The fact that the ordinary Secretary of the Treasury might not have used this privilege would be all the more dangerous in case some Secretary did so, for it would lead regional banks to invest the Government funds.

This is only one of many powers given to the Secretary of the Treasury that altogether would make him a dictator in the financial

affairs of this country, and would make him the most powerful individual in the world in money matters.

Page 37, Sec. 16. The Government guarantee of notes is recognized by bankers as being unsound and unsafe, and they would prefer not to be a party in authorizing such a system by becoming members of a regional bank.

Page 44, Lines 7 - 13. The domestic exchange operations outlined are such that items might be in transit before presentation many days, and, if payment were refused, member banks might meet with unnecessary loss.

Page 48, Lines 3 - 25
 " 49, " 1 - 21. This is an exact statement of the differences in reserve to be required between central reserve cities, reserve cities, and country banks, and is unfair if the two former classes are to be shorn of their powers as reserve cities.

Page 56, Sec. 25. Such banks as might be interested because of the authority given to open foreign branches could not make use of such authority, because of the division of capital required.

In general,- If a National banker decided to have his institution become a member in a regional bank, he would in effect be turning over a portion of his deposits to be managed and controlled by those not interested in his bank, and who might exercise such control in a manner entirely foreign to his ideas of safe and conserv-

ative banking, and, further, be subjecting such deposits to the arbitrary opinions of another separate body of men with whom he might not have the slightest acquaintance, and who could, in effect, loan such funds to another set of bankers in distant parts of the country. A banker in joining the system, therefore, would be deliberately releasing the power of control over a certain percentage of his depositors' money, which had been placed with him for safe-keeping, largely because such depositors had confidence in his particular integrity and ability to guard their money safely. Has a banker any right to so dispose of responsibility entrusted to his care ?

Under our present system a banker can select his own reserve agent from many others, picking out the one where the interests of himself and his depositors would seem to be best served. As business continues, should he consider that he had made a mistake and finds the facilities offered or the security afforded were not satisfactory, he could change to some other reserve agent. He is free at all times to use his judgment to protect his customers. In addition to this, he can withdraw all funds with his reserve agent and place them in his own vaults. How different will be his position if he joins the regional system, and is obliged to tie up money in stock that he cannot sell, and is then obliged to put his reserve deposits in a bank from which they cannot be drawn, and under the control of men whose judgment may materially differ from his, and where he has absolutely no power of discretion.

Memoranda regarding Answers

The questions which I propounded to the chairman of the Committee on Banking and Currency, although given careful attention and consideration, were not all satisfactorily answered. The answers to the questions would lead one to believe that the Federal Reserve Board was to be all-powerful and act in accordance with its judgment in all matters that are not clearly stated in the bill and about which there is confusion or uncertainty as to intent. This is so marked that it might almost seem as if the bill could be discarded entirely, with the exception of the formation of the Federal Reserve Board, who might be told to go ahead and run the banking business of the country under such rules as they might care to promulgate. This Federal Reserve Board, made up of unknown individuals, is considered to have unerring judgment and perfect knowledge of the theory and practice of banking. There would seem to be no question whatever but that this wonderful board, as it appears to the imagination before any human beings are connected with it, is going to be able to unravel every knotty problem that comes before it, without regard to the provisions of the act, many of which it must apparently ignore.

In looking over the questions and answers we find that no satisfactory reason has been given why the Federal Reserve Board should not organize the regional banks instead of an organization committee.

In Question 3, the Senator from Colorado seemed to think that the Federal Reserve Board supplanted the organization committee after the organization of one regional bank. The Senator from Oklahoma stated almost positively that this was true. The bill,

however, does not say so; and it must be presumed, therefore, from the statement of the Chairman of the Senate Committee of Banking and Currency, that the Federal Board is to usurp this power when it is ready to do so.

Question 4. No answer whatever was made as to where payments for stock subscriptions are to be lodged.

Question 5. No satisfactory explanation was made as to whether sixty days is sufficient time to give a bank to decide whether it shall enter the system or not.

Question 7. developed the fact that it is expected by those who created the bill, that a National bank will immediately resign its charter if there is any difference of opinion between it and the Federal Reserve Board as to its rights under the charter, rather than allow itself to be sued. The arguments upon this question, showing the expectation and intention of the provision referred to, make it seem more unfair to banks and apt to do them greater wrong than would at first be supposed upon reading the bill.

Question 10. This question was answered by stating that a portion of the National Bank Act was copied; but such portion of the National Bank Act applies to the provisions under the National Bank Act and not to any provision under this new act. The discussion brought out the fact that directors of National banks, under the proposed act, would have to determine all over again what their liabilities would consist of, and, further, in case of a difference of opinion between such directors and the Federal Reserve Board, that the directors would in effect have no defense, for the Senator

from Oklahoma states that, in case the Federal Reserve Board said that a bank must forfeit its charter, the bank would undoubtedly feel obliged to do so without contesting the ruling, in order to save itself from bankruptcy, because of the position that it would be in should it be sued. Instead, therefore, of directors of National banks being able to protect themselves by a satisfactory defence, their bank would have to suspend operations, and any losses that might occur would have to be paid by the directors. Or, if the National bank took out a State charter and lost any considerable amount of money because of being obliged to sell its Government bonds at a discount or at a less price than it had paid for them, the directors would have to personally pay such loss. Are National bank directors going to be willing to assume such unknown and undetermined liabilities, even if the Federal Reserve Board, before its actual appointment, is expected to contain super-men?

Question 11. The Federal Reserve Board is expected to answer and to decide upon when subscriptions are to be opened to the public, and for how long, and when the Government subscription is to be made. To be sure, the bill does not give them any such authority, nor does it seem to authorize the Federal Reserve Board to spend the money of the United States for regional bank stock whenever they may see fit to do so; but the answers to the question would lead one to believe that they were going to assume this power.

Question 15. The answer to this question made it appear that reserve cities and central reserve cities are to maintain their present status, even though the act takes away from them their authority to act as reserve agents,- which was the only reason that

they have been designated as reserve and central reserve cities. The fairness or necessity of this provision was not explained.

Question 16. Again the Federal Reserve Board is to render all decisions as to how and when branch offices are to be established, which continues further the sectional strife which is sure to ensue in this regional system, and does not alone confine it to the question of districts, but to branches within districts. Further, while the bill states that every Federal Reserve Bank which may have been suspended, etc., which, in as plain English as possible, demands that if one of twelve regional banks fails, the other eleven must establish branches in its district, yet the Chairman of the Senate Committee states that only one such regional bank need establish a branch in the district and that the Federal Reserve Board will select such regional bank. In other words, ~~the~~ other ten regional banks must break the law. If the intention of the Committee is to authorize the Federal Reserve Board to pick out a regional bank and force it to open a branch in a bankrupt district, and subject itself to all the risks and dangers that would probably ensue should anything as serious as a regional bank failure occur, why does not the bill say so? Where in the bill is the Federal Reserve Board given authority to ignore the language of the bill and render decisions in opposition to it?

Question 18. The answer to this question clearly demands, in case the public is obliged to subscribe for Federal stock, - and providing for such subscription seems to admit its possible necessity, - and, further, that in case the Government is obliged to subscribe for a portion or all of the stock, because such a contingency is seen to be possible, that, after the building of

such machinery and the carrying out of the provision, there would be no way whatever of organizing the bank.

Question 19. Again, the Federal Reserve Board is supposed to have power beyond the provisions of the act. The section referred to distinctly continues the life of a regional bank twenty years, unless its franchise becomes forfeited by some violation of law. A regional bank might lose all of its capital through bad banking, without having broken any law. Its reserves might be maintained entirely in accordance with law; and, under such circumstances, the act specifically provides that the life of such bank shall continue for twenty years. In spite of this fact, the Chairman of the Senate Committee states in effect that, if in its judgment the Federal Reserve Board considers it advisable, it will ignore this provision of the law and suspend the operation of the Federal Reserve Bank.

Question 20. This was answered merely by a repetition of the statement that the Federal Reserve Board would ignore the law if it saw fit and suspend a bank that became insolvent, even though the act does not specifically authorize it to do so.

Question 22. This question is answered by applying so much of the National Bank Act as the creators of the bill consider desirable, even though the bill does not make it clear as to where the line is to be drawn. Admitting the construction put upon the provision by the chairman of the Committee, which is that the words, "such notes to be issued under the same conditions and provisions of law which relate to the issue of circulating notes by National banks," etc., a proposition in banking is authorized that is against

all principles of banking as outlined in theory and practice. A Federal bank with a capital of say \$3,000,000., would, under this provision as construed, be able to issue, in connection with the provision upon page 61, over \$900,000,000. in notes secured by Government bonds. Suppose ~~the Federal Board~~ were largely constituted of gentlemen of fiat faith, so to speak,- and we will, I think, all have to admit such a possibility, when we consider some of the suggestions that have been made regarding this bill,- what is to prevent such a board from using this power to put out \$900,000,000. in notes, and, if certain regional bank directors refused to act upon the instructions of such Federal Reserve Board without making so much friction that the Board decided to ignore them, would not the Board be in position to have such notes issued by any one of the Federal Reserve banks, the directors of whom were in accord with it. The result would be the issue of \$900,000,000. of notes by a bank of say \$3,000,000. capital. This must not be looked upon as unlikely as it would seem, when we consider how absurd and foolish it appears upon the face of it, for we all have evidence before us in the hearings before the Senate and Congressional Committees that tends to show that there are many advocates of fiat money still extant, and that to such there is no question but that bond secured circulation would appear to be secured above all manner of necessity, even though the bank that put it out might not be able to redeem it upon presentation and might not be able to sell its Government bonds in order to be able to do so, without loss. A bond secured circulation, divided up among 7,000 odd banks in proportion to their capital, is capable of constant redemption upon presentation, and is safe on that account. On the other hand, a bond

secured circulation that exceeds the capital of a bank by a tremendous percentage, might force the suspension of such bank if presented even for temporary redemption in the natural course of business in great volume. What effect would it have upon the country if a bank, having a capital of \$3,000,000., \$5,000,000. or \$10,000,000., had to suspend under such conditions and had outstanding \$700,000,000., \$800,000,000. or \$900,000,000. of notes secured by United States bonds? The notes could not be paid until the bonds were sold, and who would buy such an amount of bonds under such a condition that would be sure to develop? Don't shake your heads, gentlemen, at the absurdity of this proposition, because it is a far safer one than would be true in the case of fiat money, and we have some of the strongest advocates of such money in our public life today.

Question 23. The right of appeal to the Federal Reserve Board is tacitly admitted, in case a member bank is refused a loan by a regional bank. This unquestionably will put tremendous pressure upon officers and directors of regional banks at times, when some member bank owned by a politician of the political faith of the Administration may apply for a questionable loan. The officers and directors of the regional bank would know that their action in refusing such loan might be reviewed with prejudice by a politically constituted regional board such as this bill clearly makes possible, and it would be very difficult for them to use their unbiased judgment in considering such a loan.

Question 24. The provisions in regard to the selection of directors are inconsistent and unworkable, and no answer was given to show that they would be otherwise. Class B directors would have

to be selected from a list of directors of banks, even though they would not be authorized to act. Again, no way has been suggested that would make it possible to disqualify any one of three agricultural men who might be elected at the same time by three agricultural communities in the same district.

*By Steiner
See Kuntze
Strong Dec 1913
Dec 3, 1913*

Before considering the bill in detail we will now take up a general discussion of a central bank vs. regional banks.

This country is confronted with a problem in currency reform, unique in the history of banking and unprecedented in the character and number of complications to be dealt with. The only instance in history comparable to ours is that of the German empire. Following the consolidation of the German states, banking and currency reform was undertaken by the Empire, the Act under which the Reichsbank was incorporated having been promulgated March 14, 1875, the gold standard having been definitely established by the Coinage Act of July 1873. At that date there were 31 quasi-public banks of issue operating under Governmental charters, issued by twenty-two German states or municipalities. As in the case of England, where the Bank of England has gradually absorbed the right of note issue, leaving but a negligible volume of notes of other banks in circulation, so in Germany the Reichsbank, by the provisions of the Act of 1875, has gradually been able to substitute its own notes in place of the notes of over thirty original banks of issue. The contrast with conditions in this country is marked. Germany has established the gold standard by the Coinage Act, and consolidated its paper money issues into one form of note, supported by the credit of the Reichsbank. Gold and the notes of the Reichsbank, with negligible exceptions, constitute the currency of the nation. The United States has 7,500 banks of issue, operating under Federal charter, twenty thousand odd State banking and credit institutions conducting their business under divergent laws of forty-eight different States, and seven forms of circulating

medium: National bank notes, United States gold certificates, United States silver certificates, United States notes, treasury notes, gold coins, and silver coins.

While the situation in Germany was vastly more simple than the one we have to meet in this country, yet we are considering further complicating our system through the introduction of a proposed complex and untried system of regional banks, whose faults can plainly be seen and whose points of advantage are not apparent, instead of forming a central bank upon principles the soundness of which have been thoroughly established. The principles of a central bank, both in theory and in practice, have been proved beyond question as being capable of upholding the commercial transactions of a nation. It can be seen, both with the eyes of theory and practice, that a central bank established in the United States would successfully meet every banking and currency problem that we have before us, whereas there are grave doubts about the successful operation of a system of regional banks in respect to many necessary functions that a public utility bank should possess.

In considering the detail of the Owen bill, it will be found that, in general, a possibility of abuse of political power in the case of regional banks is very great and that the one man power placed in the hands of the Secretary of the Treasury is appalling. In the case of a central bank, there would be no necessity of subjecting the business interests of the country, - which include all interests, - either to conflicting political policies or the personal opinions of an incompetent Secretary of the Treasury.

Along the lines of banking practice, one central bank with

branches could be used more effectively to bring about currency reform and banking reform, than a series of regional banks, eight or twelve in number. The points of differentiation are chiefly along the following lines:

- (1) Mobilization of reserves.
- (2) Equitable, stable, and uniform discount rates.
- (3) Management, and sectional or partisan differences.
- (4) Uniform note issues.
- (5) The gold movement.
- (6) The credit of the Government.
- (7) The fiscal agency.
- (8) Refunding operations.
- (9) Clearing functions and domestic exchange.

(1) Mobilization of Reserves. "Mobility" means "the quality or state of being movable, with extreme fluidity," and, as applied to banking reserves, it means the ability to loan money in one part of the country that is not needed in some other part of the country, with speed, without friction, and without expense. Mobility of reserves exists in a central bank with branches, to a greater degree of perfection than it is possible to conceive in any other system. Reserves that may be held by any and all branches are still the reserves of a central bank. They may be shipped from the largest city to the smallest city, at distant ends of the country, and if held within the control of branches of the central bank, they count as reserve for the central bank. It is possible, therefore, to loan money at any branch of a central bank, no matter how small that branch may be,

or where situated in the country in relation to other branches, and have it measure in its effect upon the reserve against the total reserves of the central bank, instead of against a small division of such total as would be represented in a regional bank. The percentage of effect in such a transaction, therefore, would be vastly less in the case of a central bank than in the case of regional banks. In the United States we have a number of districts clearly marked in their nature as to the kind of business. All of the banks in certain districts, such as those which grow corn, wheat and cotton, are obliged to borrow money at the same time of the year. A number of other districts have money to loan during this same period. Under our present system, series of banks in one district, say the cotton district, borrow from a series of banks in another district, say the New York district, involving vast transfers of actual cash. Under a regional banking system, some of the demands of the cotton district would be consolidated into the regional bank (all of them could not be because the bank would not be large enough), and the only difference between the present system and the regional bank system in this connection would lie in reducing the number of channels of borrowing from the present number of borrowing banks in the cotton district to the same number of banks under the regional system, less those which were able to obtain their requirements from the regional bank, which itself would then be obliged to borrow from the New York district regional bank, exactly as every other borrowing institution in the same district might be doing from its New York correspondent. In a central banking system, notes that might be issued at its New Orleans,

Galveston, Houston, Dallas, Atlanta, and other branches in the South, would be based upon all of the reserves of a central bank wherever held, and a perfection of mobility would be obtained not possible under our present system and not possible under a regional bank system. The power of the Federal reserve board to force the New York regional bank to loan to the New Orleans regional bank would not, and could not, place the reserves of the New York regional bank behind the note issues of the New Orleans regional bank. There would be, therefore, no greater mobilization of reserves under a regional bank system than there is today, even though the number of banks in the New Orleans district which borrowed from the New York district would be reduced.

In connection with the mobilization of reserves, and preliminary to its successful operation, we must have concentration of reserves. In a central bank, such concentration is again perfect. In a regional system such as has been proposed, it not only lacks perfection, but it actually extends the separation, for we are proposing to increase our system of three central reserve cities, which has been wanting in concentration, to eight or twelve central reserve cities in effect. The Owen bill is attempting to further centralize by greater decentralization.

Harmony exists in the minds of practical bankers and economists upon the necessity of an effective assembling of the lawful money reserves of all of the National banks, and the creation of an institution or institutions for this purpose which can be made available as reserve depository for State banking institutions, upon the passage of State enabling Acts involving a minimum modification of State banking laws. Heretofore, credit strains

and premiums for currency or gold have been distinguished by the inevitable hoarding process, which has added to the distress by requiring a further curtailment of credit. Analyses of these occurrences indicate a sharp difference, both in character and extent, of such a tendency in this country and in Germany and France. In the United States, during 1907, 1893 and 1894, and 1873, hoarding of gold and currency was conducted on a large scale by bankers and banking institutions and was accomplished, first, by the withdrawal of reserve deposits from other banks, and, second, by requiring a contraction of loans and discounts. A certain amount of withdrawal of gold and currency was effected by individuals, but this was insignificant as compared with the instant withdrawal, under stress, of reserve money by banking institutions. This phenomenon abroad has been quite the reverse in characteristics. Individuals withdraw money from the banks, - generally ignorant people of small means, - and lock it up in their homes. In this country the strain of such a process is unevenly distributed among the 28,000 institutions. Fear controls the action of the banker, and his disposition is to save himself at all hazards, without regard for the welfare of his neighbor or his competitor. His portfolio contains notes and bills which are not available for new credits, and, at the period when he should be able to negotiate his bills and use his reserves, he requires payment of his bills and increases his reserves. In Germany, where a certain hoarding process has been noticed at intervals for the past two years, the phenomenon is quite different. The Reichsbank is able to increase its discount account, meet demands for currency by increased circulation, and protect its store of gold, at least temporarily, by the judicious use of a discount rate which

it makes effective in all parts of the empire. The banks of Germany which depend upon the Reichsbank in time of strain, are able to discount bills with that institution, and have a strong incentive to co-operate with the policy of the bank in protecting their own and its credit and reserve position. In this country, we cannot hope by a stroke of the pen to bring about the character of co-operation with a central bank, such as exists in Germany, and, to a considerable extent, in England. The 20,000 State institutions cannot at once be brought into co-operation with such new system as is established. State institutions are, however, so largely dependent today upon the National system, - the National banks being their chief ~~reserves~~ reserve depositories, - that sound currency legislation which will strengthen the position of the National banks will in turn enable the National banks to carry the load which is now imposed upon them by the State institutions, and which will continue for a long period under whatever system is adopted. No system of regional banks will prevent competition for gold and currency in time of credit strain, as effectively as may be done by a central bank. With eight or twelve regional institutions, each section will seek the protection of its own district and the members of that district as distinguished from any other section and its members. Had there been eight regional banks in 1907, it is inevitable that the powers of a central board of control would have been exercised to effect a readjustment of reserves between the regional banks by enforced rediscounts, and the very act on the part of the Federal board of enforcing such rediscounts would have accentuated the rivalry between these sections for the accumulation of reserves.

It must be borne in mind what actually happened in 1907 in order to understand why such hoarding^{ing} would unquestionably have occurred in the case of regional banks. No hoarding was done by the banks of New York City, as is so commonly believed. Instead, such banks not alone shipped currency to their banking correspondents, represented by the amount of money that such correspondents had on deposit in New York, but they added to such deposits millions of dollars in loans, in order to accommodate the West and South. They reduced their reserves through shipments to about one-half of the percentage that the law required them to maintain. What was done with this money that was shipped into the country? Was it used to carry on business? No; it found its way into the vaults of the banks in the West and South, until their reserves were built up to from 40% to 50%. It seems to be quite popular to attribute all this hoarding to New York City, but the actual facts, - and they may be proved by reference to the Comptroller's report showing the reserves held by the Western and Southern banks at that time, - show that the hoarding was not in New York City but in the country and smaller reserve ~~mixing~~ city banks of the United States. If bankers were so frightened that they felt it necessary to build up their reserves, even asking for currency against loans in order to do so, knowing that such requests must of necessity increase the stringency, but hoping that they might be able to save themselves even if all the rest of the country were forced into bankruptcy, how can we expect that they are going to view a condition of stringency which may appear in their regional bank which carries a part of their reserves in time of stress? Will not they present regional reserve notes for gold and lawful money as rapidly as they can obtain them, and build up

their own cash reserves as quickly as possible ? Would not the anxiety be increased if the Federal reserve board, in order to alleviate such condition, even suggested that bankers carry notes issued by the Federal reserve banks as part of their cash reserve ? What bank would want such notes in its reserve under such conditions ?

Now, a point for your consideration. Under our present system bankers may withdraw every dollar that they have with their reserve agent and carry it in cash in their own vaults. New York banks have been criticised on the floor of this Senate for not paying out such deposits on demand, and yet we are deliberately contemplating the forming of a system of regional banks in which the banks must deposit reserves that they are told before their deposit they cannot withdraw. Of what possible value are reserves ~~xxxxxxx~~ that cannot be used, placed with a regional bank in a district where all members may wish to borrow at the same time ? In a large institution such as a central bank, where the reserves held by every branch counted for all, there would never be any question as to its standing or its ability to meet the requirements of member banks. In other words, it would be far more valuable to member banks to be obliged to keep a portion of their reserve in such central bank, knowing that every other National bank in every part of the country were also required to keep a portion of its reserve in the central bank, than to be able to draw it out; because it would have the advantage of being able to borrow against the reserves of every district in the country that were not being used in that district; whereas in a regional bank system no such condition could exist, even on a compulsory discount basis.

The defects of the regional system are admitted on the face of the Owen bill. If this country is so vast in territory

and its interests so varied in character as to require regional institutions to meet local conditions, why then require that they must be linked together through the exercise of arbitrary powers which must be exercised in conflict with economic conditions ? One institution holding all the reserves will make every dollar of reserve money the property of every section, available to every member, affording protection at all times to all the members, whether lodged in the vaults of the branch in San Francisco, the branch in New York, or the main institution in Washington.

(2) Equitable, Stable and Uniform Discount Rates. When the Reichsbank recently reduced its rate from 6% to 5-1/2%, that rate became effective to every one of the 70,000 customers of the bank in every part of the German empire. The Bank of France has maintained unchanged a discount rate of 5% for as long a period as seven years. The United States has no discount market, 28,000 different rates, as many usury laws as there are States, as many penalties as there are usury laws, and a range of rates extending from a condition where money is unloansable to a maximum of over 100% per annum, notwithstanding the fact that this country has the largest store of gold, the greatest natural resources, the largest power of production, and the largest volume of banking capital of any nation of the world. The resources of our banking system are about \$25,000,000,000. Our 28,000 banks support the largest credit structure known in history. We are now attempting by the enactment of a bill, which is not even supported by a majority of the Senate Committee on Banking and Currency and which it is proposed shall be enacted by a majority of the majority in the Senate, who shall be required to sit in the Senate chamber until eleven o'clock every

night, to so readjust the fundamental conditions upon which this great credit establishment has grown, as to bring about uniform rates of interest. It cannot be done by the bill proposed, either safely or economically.

Without referring to the shifting and withdrawal of redeposited reserves required by the terms of the Owen bill, and assuming that that prodigious task can be accomplished without convulsion in the period of time allowed, how may it be expected that the surplus funds in the regional bank of the community where there exists a surplus of bank credits, may be made available to the regional institution in the district where there is a deficit of banking credits, by the natural economic law of supply and demand. So far as the regional institutions are concerned, those in sections where there is a continual shortage of credit will always be borrowers; those in sections where there is a surplus of banking credit will always be seeking outlets for the surplus. If it is claimed that by the regional system the National banks of the district where credit is short will still be able to borrow from their correspondents, how may this be done without imposing upon the banks of that district the necessity of carrying balances at unprofitable rates with reserve correspondents just as heretofore, and thereby impairing the earning power of the country banks? And, on the other hand, how shall the reserve bank in the district with the plethora of money employ its funds other than by the purchase of bills in the open market, thereby bringing about an undue and uneconomic depression of discount rates? It is difficult to see, under the terms of the Owen bill, how the country bank is benefitted by having its reserves at home, in a regional institution, if it must still maintain a balance with its Chicago or New York correspondent for

purposes of discount. Certainly such a condition would not exert an influence towards uniformity or stability of interest rates throughout the different sections of the country. The difference between the lending capacity of the creditor sections of the country and the borrowing needs of the debtor sections will necessarily fall upon the regional banks of the respective districts, and must be adjusted by the exercise of the rediscount function between the regional banks, thereby again introducing an uneconomic operation, likely to cause sectional difference of opinion, abuse of power and distrust of management. With all the reserves in one institution, the credit of that institution may be directed, through its branches, towards those sections where credit is needed without the intervention of arbitrary power. It may be claimed that the regional bank of New York, having a surplus, will welcome the opportunity to rediscount bills for the regional bank of New Orleans. How may this process be developed? Who shall fix the rates? Does this bill intend that every time a difference of opinion arises between New Orleans and New York, a hearing in arbitration shall take place in Washington, and who are the men who will hear and arbitrate these differences? May their time not be devoted to arbitration exclusively? And how may uniform rates be brought about by mandate or regulation of a board of control? *Im*

In contradistinction to the regional plan proposed, how simple would be the problem with a central bank. Twenty per cent. of the capital and surplus of the National banks of the country amounts to about \$275,000,000. A rate of discount can be established with due regard to conditions and to the extent to which transfers of reserves, Government deposits, and the general fund is being affected, which

will allow discounts to approximate the maximum seasonal fluctuation caused by the harvesting and movement of the crops, which has been estimated at \$300,000,000. A central bank, by establishing a rate with regard to these factors, would automatically meet the fluctuation at the season when required, and as to its base or normal rate through an increase or decrease, would control the extent to which all member banks would rediscount. As the demands increased in any locality or as to any individual member, the rate would automatically increase to the extent that the demand was met. With no distinguishing mark upon the reserve money in a central bank, no question could arise respecting the extent to which any locality was impairing the reserves of the bank with reference to the needs of any other locality. No group of banks in one city, by large borrowings, could so affect the rate in that locality as to impose penalties upon a more conservatively managed institution which had been a more moderate borrower, for they would under the central bank bill have to pay a higher rate of interest as they increased the proportion of their loans to capital. No one great institution overshadowing a number of smaller institutions in one locality could ever impose penalties in the way of increased discount rates upon its less powerful competitors or neighbors. Furthermore, those institutions whose credit was so high as to be able to borrow in the cheapest market would be able to rediscount paper throughout the natural channels of rediscount in different sections of the country so long as it was profitable to do so, at rates below the rate fixed by the bank. We cannot expect for many years to bring about uniform, stable, or low rates of interest throughout this country. We can, however, establish an institution which, over a long period

of years, will effect a gradual redistribution of credit and banking reserves, so that both uniformity and stability of rates may come about by the natural operation of economic law. Such uniformity and stability must be based, first, upon the elimination of competition for bank reserves in times of strain; second, upon a discount market based upon a single reserve reservoir; third, upon the creation of an institution of sufficient power and of such singleness of purpose that it may exercise the same influence over international exchange as is now exercised by the three great central banks of Europe, and the central banks of all of the principal industrial countries of the world. A graduated increase in the discount rate on excess discounts over a normal uniform rate upon a minimum volume of discounts, will apply a brake upon expansion by the borrower where it will be effective, and assist in bringing about both stability and uniformity, and no such influence can be exercised either by arbitrary power or by the imposition of a tax upon earnings which go to the Government and in which the respective borrowers will have but a trifling, if any, interest.

(3) Management, and Sectional or Partisan Differences.

Harmony of management directed towards a single purpose is essential to cope with the vast problems and the readjustment of our currency and monetary laws. May we expect that this is possible of accomplishment with twelve boards of directors, partisan to their districts, who may never meet together for exchange of views, and who will be subject to the exercise of arbitrary powers by a Government board? Is not this plan contrary to all human experience in the management of Government or private affairs? How may this system develop,

in this country of keen political partisanship, where each party grasps every advantage within its reach to secure the dominant position, or maintain it once secured? May it be expected that a board of control, upon which sit officers of the Government whose appointments are partisan and political, which is subject in many important respects to the direction or influence of the officers of the Government, to be free from political influence and from discrimination, particularly having regard to the political complexion of the different sections of the country?

The first and essential protection against partisanship must be a long enough term of office to remove appointees from the influences of patronage. Those managing district offices must be responsible to a board of this character, free from political or sectional influences, and not responsible to a local constituency or clientele which may be influenced by political or sectional prejudices, rivalries or competitions. With one President having the power to appoint a majority of a board of control during one term of office, and with one or more members of the Board members of his official family or subject to their direction, it is never impossible that the powers exercised by that board may be used for political or partisan purposes. In the present temper of the people of this country, how would such a board resist the pressure for rediscunts from a section of the country which had been guilty of over-speculation if the section including Wall Street had resources available? Can it be expected that the distribution of the funds of the Government throughout twelve regional banks can be effected without discord? Such a system as is proposed instantly interjects sectionalism and partisanship. A board of management responsible directly

to Congress, appointed for long terms, themselves appointing their local management, would necessarily be free from such influences, the monies of the Government would be assembled in one institution, no questions of sectionalism or partisanship could arise as to their distribution, and the credit operations of the institution would more surely be directed along economic lines. The very introduction of the idea of local ownership and management of regional banks implies sectional rivalry. The introduction of a board of control to regulate the relations between locally owned and managed regional banks, admits the weakness of the regional plan and throws doubt upon its effective character.

(4) Uniform Note Issues. Here again the weakness of the regional bank system appears upon the face of the bill. A credit instrument to circulate freely among the people must be free from doubt as to its goodness and as to the ability of the obligor to redeem it in gold. Two regional institutions may not necessarily be of equal credit strength. Twelve institutions will certainly vary considerably in their strength and resources. Our National bank notes have a uniform value by reason of the Government bond security. Notes secured by paper will vary in quality according to the quality of the security and the percentage of gold reserve. In order that this vicious regional bank scheme may be launched and the impediment of variable credit be removed, the United States Government, for a consideration, is adding its obligation to the notes. This aspect of the Owen bill requires separate discussion. The practical features of the plan as to regional banks may, however, be distinguished from the possibilities under a central bank plan in a number of

important respects. The relation between volume of discounts and volume of note issues cannot be controlled by a tax upon the notes, which tax is paid out of the earnings of the bank, when those earnings go to the Government or even when they are applied to the earnings of the member banks. Inasmuch as the volume of the issue of notes by a central bank or regional banks will depend upon the operation of the discount account, it becomes imperative that the board of control shall exercise such a measure of control of the discount rate as will enable it to check undue note expansion in any section. How may that be effected without again intermixing exercise in arbitrary powers which are ^{an} unwarranted interference with economic laws of supply and demand? A graduated rate of discount will begin to apply a check in each locality as the tendency develops. If that becomes ineffective, the normal or base rate (that is, the advertised bank rate) can then be raised, the effect of which will be to direct the interchange of credit between the sections of the country without necessarily affecting the volume of discounts of a central bank. Such a process, which is comparable to that which occurs in Germany, would hardly be possible under the regional bank plan. There are, in fact, possibilities of note inflation in sections of the country where unusual demands for currency arise, which, under the proposed plan, would annually require to be met by the exercise of the objectionable arbitrary powers.

(5) The Gold Movement. Currency legislation is being undertaken in this country at a time when, for economic reasons, the world has witnessed an unparalleled competition for gold. The German bank has added \$100,000,000. to its holdings the last year.

The French bank has expanded its note issues and limited the amount of its gold payments, in order to conserve its gold holdings. The burden of readjustment of the gold supply has largely fallen upon England, where a free gold market is maintained, and our gold supply in this country has only been protected to the degree that it has during the past two years by the prevalence of unusually high rates of interest. The market for gold in this country is absolutely uncontrolled, save by economic law. May not the proposed legislation have such an influence upon our store of gold as to weaken our position rather than strengthen it, and possibly cause large exportations? This is such an important matter that we must not lead ourselves into a false position blindly. There can be no doubt but that eight or twelve regional banks cannot act as effectively to control our gold supply as a central bank. It would not seem to be a question for argument; it is so apparent. This being true, the next consideration is whether a system of regional banks would better our present position or weaken it. There are many reasons to believe that it might weaken it materially. Any change in the law which makes it necessary for our banking system as a whole to maintain reserves in gold of any smaller percentage than that which now applies to the whole system, will necessarily result in lower interest rates, expansion, higher rates of exchange, and gold exports. It has been variously estimated that foreign investments in our securities amount to from four to six billions of dollars. The enforced repurchase of these securities would impose a strain upon our credit system of unparalleled importance. We have just enacted a law reducing the tariff upon imports by nearly 40%. A sharp decline in our balance of trade, brought about by a great enlargement of our imports, would

likewise require the export of gold. A considerable reduction in the activity of business throughout the country may release credits and reduce rates to such an extent that the rate of interest will no longer afford protection to our gold reserves. It is important that the institution or institutions to be created shall be able to exercise an effective influence upon the international movement of gold and to conduct international operations, either through its own agencies or through the agency of its members and correspondents, which will be substantially equal to that exercised by the great central banks of Europe. By the terms of the Owen bill, the eight or twelve regional banks may each establish agencies without number defined, in any and all foreign countries, and without uniformity of purpose or action. Without the consolidation of their foreign credit operations it is difficult to conceive how the influence required to be exercised could possibly be brought about, and in the case of regional banks of varying financial strength, having different demands from member banks, any method that would result in their consolidation seems beyond comprehension. Those who created the Owen bill evidently recognized this fact, for they have not made the slightest attempt to bring together the foreign operations of the regional banks, but have left them to take care of themselves, so to speak, apparently hoping that by some mysterious means a way might be found out of the difficulty. Is it not better to face this problem before it is too late? Can this country afford to do otherwise? It is not only perfectly clear theoretically that a central bank would serve to protect our gold supply, but actual practice has proved beyond question that it would do so. It may well be that the bank of the region where most of our foreign operations are conducted will be able to exercise a predominating influence in

that class of business, but should this be true, it would always be handicapped by the operations of the other regional banks which would often be working against it. May it not also develop that its ability to defer exports of gold will be impaired by demands made upon the other eleven institutions which it does not control, or, on the other hand, that in the import of gold under conditions requiring its purchase abroad, the cost of the operation may all be borne by the only institution which is able to effect such purchases? If that is not the case, the cost of such operations must once more be arbitrarily enforced by the exercise of mandatory powers which are contrary to economic law and which will give rise to distrust and criticism. Are we to create a system where any one of twelve reservoirs of gold is free to conduct international exchange operations, without co-operation or unity of purpose? If so, let us abandon the idea that this necessary object of monetary legislation is accomplished under the provisions of the Owen bill. One institution with a branch in one or more or in each of the leading countries of Europe, as necessity develops, conducting its dealings on uniform principles and with a single purpose, carrying its accounts with foreign banks under one control, is necessary for the protection of our country's store of gold. It cannot be denied by argument based on theory or practice, and if the Owen bill is passed there is every reason to believe that instead of strengthening our position in the foreign financial markets, it will weaken it to the point of disaster. The failure or mere rumor of insolvency of any regional bank would blast our credit throughout Europe almost beyond recovery and might result in calling forth exports of gold such as the world has never seen. We are playing x

with fire inconsidering this great national experiment. Credit is the greatest asset of nations, just as it is of individuals. If its credit is good, a country may rise up from the depths of destruction by earthquake or conflagration to greater heights than ever before, but if its credit is lost, neither magnificent cities nor vast resources can prevent suffering and degradation to its people.

(6) The Credit of the Government. The issue of paper money, bearing the obligation of the Government, must be examined in its historical and economic aspects, and, further, with regard to the protection of the credit of the Government itself. Discussing only the latter features of this subject, what are the possibilities under the Owen-Glass bill of difficulty or disaster as contrasted with the accepted plan common to all the great European nations, of a bank note issue under Government regulation, but without the Government obligation. Should this country become involved in a foreign war, a great economic disturbance, or, what is more possible, should our credit situation be subjected to the disturbing influences of a great conflict between foreign nations, how may the demand obligations of the Government created by the Owen bill affect the credit of our Government ?

The bill provides that the notes shall be redeemable in gold, on demand, at the Treasury Department of the United States, or in gold or lawful money at any Federal reserve bank. The bill permits the Federal reserve bank to authorize member banks to use Federal reserve notes or notes of the National banks as reserves. Under these conditions, any great economic disturbance in this

country, or any world-wide disturbance of credit which might react upon this country's credit establishment, involves a danger to the credit of the Government, so long as the Government's obligation is attached to the notes, to the extent, in fact, that a suspension of the reserve requirements of the regional banks as permitted by the bill might involve a suspension of specie payments by the United States Government. A great European war, necessitating huge expenditures, would raise rates of interest in foreign countries that would react in turn upon our banking system, requiring the exercise of every possible measure, first, to retain our store of gold; second, to the extent that it became impaired, to enable the regional banks to pay their notes in lawful money; third, to enable the Government to redeem its lawful paper money in gold. Will a system of regional banks, which is the instrument for issuing untold millions of Government obligations, be able to protect the Government in such an emergency, and is it not the duty of Congress to see that any legislation now enacted shall afford every means which can be devised to that end? A drain upon the gold of the country in such emergency would be due to the necessary repurchase of foreign investments, to the interruption of our foreign commerce and the disturbance of the balance of international trade, to the floating of foreign loans in this market, to the withdrawal of foreign bank credits now extended to this country, and to the imposition upon our own credit establishment of the burden of financing trade which is now largely carried by England. Gold, in this emergency, would be withdrawn through the presentation of Federal reserve notes at the regional banks, so long as they were able to furnish gold in payment. When unable to furnish gold, presumably they would exercise their right to pay in lawful money.

The demand for gold would thereby be transferred to the United States, by the presentation of the lawful money. This process might necessitate the suspension of the reserve requirements as to the regional banks throughout the country. The ability of the Government to pay gold would be limited to \$150,000,000 now held in its trust fund reserve, and its ability to obtain gold from the regional banks. By what process might the Government redeem its notes in gold if the regional banks had suspended their reserve requirements and the Government were forced to rely upon its own ability to purchase gold by the use of its own obligations? The markets of Europe would be closed. Our gold supply at home would be subject to influences largely corresponding to those which now arise in this country in time of panic. We will have possibly 20,000 State institutions, who, influenced by the strain and shock to the credits of the country, due to conditions described and to the suspension of the reserve requirements of the regional banks, will at once endeavor to strengthen their gold reserves, and to do so by presenting Federal reserve notes to the regional banks and demanding gold for them. Should payment be made in lawful money, the demand would be transferred to the Government. Our system for many years will be unable to overcome the influence of the process of hoarding on the part of State institutions which are not subject to Federal control or to the influence of regional banks.

As contrasted with this condition, if the notes are the obligation of a central bank, the absolute suspension of reserve requirements could be made without involving the credit of the United States for the redemption of the notes, and the last resort of banking practice could be safely employed before suspension of

payment in gold would be forced upon the Government. The United States is already obligated for the redemption on demand in gold of a sum of paper money greater than the entire funded debt of the Government. Why add to the peril? Why offer gratuitously the credit of the United States when it is not required? Why create a note issue with a redemption fund hardly more than one-half of the amount which experience shows to be required in Europe, and then attempt to cure its defects by the endorsement of the Government?

(7) The Fiscal Agency. The General Fund of the United States at the present time consists of about \$90,000,000. on deposit with Government depositaries, and approximately \$35,000,000 net in addition, available for deposit with regional banks. By an extraordinary provision of the Owen bill, the disposition and distribution of this huge sum is placed absolutely within the discretion of one officer of the United States Government. It may be said that this power is exercised at the present time. It might also be said that powers not authorized at the present time are required to be exercised in order to make deposits with the Government depositaries by the present system. Is it intended that one officer of the Government shall be the supreme monetary power of the United States? This bill puts it within the power of the Secretary of the Treasury, should he have the courage to exercise it, to bring about an inflation in one section of this country surpassing the power of inflation possible under any bill which has been offered to Congress as the cure of our currency and monetary ills. No officer of the United States should be empowered to distribute \$200,000,000. at will in any section of this country;

and to vest that power in the partisan political member of the Federal reserve board is a serious menace to the financial independence of the people of this country. What may be expected on the eve of a National election? One institution acting as the Government's fiscal agent would render impossible the character of abuse which is only too possible under the provisions of the Owen bill.

(8) Refunding Operations. The refunding of the Government bonds now collateral to National bank notes, can better be conducted through the agency of one institution controlling the handling of all of the bonds, than by twelve institutions, which may find themselves in competition with each other in dealing with this difficult problem. Market considerations between the different sections of the country, the ability of one bank to carry its share of the burden without loss as compared with a bank in another section, the necessity which one bank may be under of using short-time Government obligations for the purchase of gold, when these bonds are scattered in the hands of twelve institutions, all suggest a condition of discord rather than of cohesion and an ineffective plan rather than a comprehensive one. A really dangerous situation might easily develop with twelve regional banks attempting to refund hundreds of millions of dollars of operations, amounting to many times the capital of all and many more times the capital of each. None of the regional banks are required to consider the size of their capital in any refunding operation authorized under the law. Instead, it is to be a sort of hit or miss proposition, exactly as is true in the case of the foreign operations, with everybody hoping that it may work out all right.

Regional banks with a capital of \$3,000,000. might be attempting to refund bonds amounting to one hundred million dollars or more. The proposition might look feasible to the board of directors under some conditions, if the reserves were unusually high and the demands of member banks seemed to run light for a period, and they might feel a sort of pride in showing that they could do more than their share. Circulating notes that would be put out against such bonds as they might be purchased from the National banks in order to retire the National bank circulation, would represent an outstanding liability, against which they are apparently obliged to keep no reserve in the bill, and that might result in a presentation for redemption, in one day, of an amount many times the capital of the bank. Again, it would seem to be useless and unnecessary to call the attention of anyone to the great difference in safety to the country and in ability to handle such refunding operations as would be necessary in order to retire National bank circulation through a system of regional banks under the terms of the proposed act, or under any imaginable terms that could be drawn up, and a central bank, that would be large enough to handle all such operations with safety and without friction.

(9) Clearing Functions and Domestic Exchange. Many of the same reasons which make for the real mobilization of reserves in a central bank as against entire lack of such mobilization in regional banks, apply to clearing functions and domestic exchange. Under the Owen bill, Federal reserve banks are authorized to remit other Federal reserve banks checks of certain described classes

that they may receive on demand from member banks. The methods under which the handling of these checks, as authorized under the law, as naturally and logically developed, would carry with them a delay, for the same reasons and in somewhat the same manner as exists in our present system. Instead of accomplishing the immediate presentation and collection of items, a roundabout collection would continue to be encouraged. A regional bank in Chicago, having authorized items deposited with it that were drawn upon banks, members of the New Orleans regional district, would unquestionably forward them to New York for collection, if New York exchange were at a premium and New Orleans exchange at a discount. The Chicago regional bank would not feel called upon to stand the loss of exchange involved. Even if it charged the customer such exchange, it might, in order to make it, forward the items to the New York regional bank. The New York bank might very easily have more of a demand for St. Louis exchange than for New Orleans exchange, which would result in such items then going forward to St. Louis. What is there to prevent the St. Louis regional bank from then forwarding the items to Chicago, should it require Chicago exchange, and what is there to prevent this circling of items during the whole period that New Orleans exchange might be at a discount? In the case of a central bank there would not be the slightest temptation to handle the items in any such manner, for it would be to the interest of the central bank to have the checks cashed immediately. The division of interest that would be represented in the regional banks would not exist in a central bank, for as soon as the Chicago branch obtained credit in New York, its loss of interest would cease, and as soon as the New York bank obtained credit in St. Louis its loss of interest would cease, and

so on, whereas, in the case of a central bank, its loss of interest would continue until the items were collected, as every one of its branches would be in the same relation to it as itself.

Again, in the handling of the country's business, a central bank would be economical and would reduce the shipping of currency back and forth between districts to a negligible minimum, whereas, with a regional system, ^{which} ~~it~~ must of necessity be based upon districts homogeneous as to their line of business, and which as districts have seasonal trade between each other, shipments of currency almost in as large an amount as those at present would probably occur; while the central bank would count money received in Chicago and paid out in New York as reserve, and could consequently reduce its actual cash in hand in the New York branch to the smallest amount that would handle its natural business before currency might have to be shipped. Yet similar transactions between the Chicago regional bank and the New York regional bank might necessitate shipments of currency back and forth, because money deposited in the Chicago regional bank would not count as reserve for the New York regional bank, when called upon to pay it out. There is no comparison between the two systems as to economy and facility, and the regional bank system will unquestionably put upon the people as a whole a tax that, while unseen, will be many times the cost of clearing items and making the domestic exchanges that would be true if these matters were handled through the branches of a central bank.

Week ending
Oct 25 .22³ %
Nov 1 .14⁴ %
" 8 .13⁸ %
" 15 .13³ %
" 22 .17¹ %
" 29 .22² %

1st Nat Bank

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Present Reserves.	Reserves Proposed.
Country Banks.	
In Vault.....\$219,110,588	\$182,592,156
With Reserve Agents....\$328,665,882	\$182,592,156
In Local Association...	\$182,592,156
Reserve Cities.	
In Vault.....\$246,782,394	\$197,425,915
With Central Reserve Agents.....\$246,782,394	\$ 98,712,957
In Local Association...	\$ 98,712,957
(After three years:)
(In Vault.....	\$ 98,712,957)
()
(In Local Association..	\$197,425,915)
Central Reserve Cities.	
In Vault.....\$398,230,116	\$159,292,046
In Local Association...	\$159,292,046

The above figures are compiled on the basis of the Comptroller's report on National Banks on April 4, 1913. The "present reserve" represents the requirement and not the actual amount held by the banks, in order to make the comparison a proper one. The difference, however, is really very slight between the actual and required reserves.

The cash required in all banks April 4 was \$864,123,098, whereas under the proposed plan it would be \$539,310,117, or \$324,812,981 less than is required at present. The local associations, however, would have deposits of \$539,310,117, against which they would have to maintain a reserve

that would vary depending upon the amount of currency they had outstanding, but figuring that such reserve would amount to 50%, or \$269,655,058, the total cash reserve would be \$808,965,175, or \$55,157,923 less than at present. The reserves of the present reserve cities and central reserve cities would, however, be considerably less even under present percentages of figuring, as they would lose deposits to local associations amounting immediately to \$440,597,159, and in three years based on present figures to \$539,310,116. It is impossible to state definitely what reduction in the cash reserve this would mean, as a portion of the loss in deposits would be met by the reserve agents, who only hold 12 1/2% in cash, and the balance by central reserve agents, which must hold 25% in cash. Figuring on an average of 20%, the amount would be for the present \$88,119,431, and in three years \$107,862,023. Now going back to the cash released, or \$55,157,923, we find that \$32,961,508 more could be released at present and still have the banks' present portion of reserve and \$19,742,592 more at the end of three years.

Inflation, based on present deposits, could only take place at the end of three years on cash reserve of \$163,019,946, which, figuring the average reserve required in all classes of banks at 8%, would allow an extension of loans amounting to \$2,037,749,325. The reduction of deposits in the banks would partially be due to elimination of the duplication

of deposits, where reserve cities deposited funds received by them from country banks in central reserve cities.

It would not seem as though the reserves of state banks would be affected in any particular, except as new state laws might require or allow. For instance, if a state should authorize its banks to count as their reserve money in local associations, it might have an effect on the deposits of national banks, or if the banks were prohibited from counting as reserve notes of the reserve associations, it would contract the lawful money in circulation by the amount of national bank notes at present held by state banks as a part of their reserve. In some states it might require a special act of Legislature in order to make it possible for the state banks to count reserve association notes in their reserve, but in most states I think there is nothing to prevent the state banks from counting such notes as reserve, provided no exception is taken to their action by the state bank examiner, and even if the examiner did object, he would not be able to enforce his opinion.

Regarding the effect upon the deposits of central reserve cities, the proposition is somewhat problematical, as it is impossible to determine what proportion of the 4% the country banks would have to transfer from reserve agents to local associations would consist of balances at present with reserve agents and with those in central reserve agents. As New York, Chicago and St. Louis exchange would probably still be in demand, it might be fair to figure that say 2%

would be taken from each. In preparing the figures I will take this basis, although there is a possibility that the reserve associations might be handled in such manner as to lessen the demand for exchange on central reserve cities (this would probably not be true, however, even if some Giro-Conto system were established).

The reserve required to be held by country banks with reserve agents April 4, 1913 amounted to \$328,665,882. Of this amount under the proposed plan \$146,073,725, representing 4% of the net deposits of \$3,651,843,139 would have to be transferred to local associations. Figuring that half of this amount is taken out of central reserve cities, it would reduce their deposits \$73,036,862. On the same date the reserve cities had deposits of \$1,974,259,154, requiring a reserve of \$493,564,788, of which half, or \$246,782,394, could be carried with central reserve cities. Under the proposed plan 5% of the deposits, or \$98,712,957, may be carried with central reserve agents instead of \$246,782,394, which would represent a reduction in the deposits in central reserve agents of \$148,069,437 that are at present maintained by banks in reserve cities. To this \$148,069,437 must be added the \$73,036,862 that would be withdrawn by country banks, making a total of \$221,106,299 in bank deposits, which would be withdrawn from reserve cities immediately when the law went into operation, and a further reduction of \$98,712,957 in three years, amounting all together to \$319,819,256.

national

The total banking deposits of the central reserve cities April 4, 1913 amounted to \$563,609,971, and they would

be reduced at the end of three years to \$243,790,715, with a possible further reduction of \$73,036,862 immediately should the country banks withdraw the whole of the 4% that they must transfer from reserve agents to local associations.

The cash reserve required by central reserve banks April 4, 1913 was \$398,230,116. Accepting the reduction in bank deposits in central reserve cities as being \$243,790,715, their total net deposits would be reduced from \$1,592,920,465 to \$1,349,129,750. Under the new plan 10% of this amount, or \$134,912,975, would have to be held in the banks' vaults instead of \$398,230,116, or a reduction in cash in the central reserve cities of \$263,317,141. Of this amount suppose that \$243,790,715 was used to pay off the bank deposits that would have to be given up. This would leave \$19,526,426 in cash which could be paid out by the central reserve banks (and still maintain their cash reserve) toward the \$134,912,975 which the central reserve banks would have to maintain with the local associations. This would leave \$115,386,549 that would have to be withdrawn by the central reserve banks from other channels in order to complete their reserve.

Apr 4, 1913 Figures

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BENJ. STRONG, Jr.
PERSONAL.

Country Banks -

2% Present Cash Reserve 219,000,000.

add 1 1/2% say 55,000,000.

New Cash in vault - 274,000,000

7 1/2% with Res. Bal. 274,000,000

Now with Res. Agr. 329,000,000

less 1 1/2% 55,000,000

274,000,000 274,000,000.

Draw from Reserve Agr -

Draw from Res. Agr. -

1/2% Ret. by Dis^{ch} - 137,000,000 137,000,000

Reserve Cities

12 1/2% Cash now Res. 247,000,000.

7 1/2% New = 148,000,000

99,000,000 Released -

Present 12 1/2% with C.R. Bal. 247,000,000

1/2 or 6/4% with drawn -

7 1/2% with drawn by Res. debrts 148,000,000.

From Cent. Res. Cities -

99,000,000

Left with C.R. Cities -

Cent. Res. Cities

25% Present required 398,000,000

15% New - 240,000,000

158,000,000 Released

Cash - 120

Res. Bal. 120

Contraction

New Cash by Country Bns.	55,000,000,	\$	
With drawn from Res. Dep.	<u>274,000,000.</u>		329,000,000

Reserve Banks.

Dep with New Res. Bu.
7 1/2%

148,000,000
<hr/>
477,000,000

Released - Res. Bns. 12 1/2% = 247,000,000

5% = 148,000,000

99,000,000

Cent. Res. Bns. - 25% = 398,000,000

15% = 200,000,000

158,000,000

257,000,000

Net Contraction

270,000,000

Possible offset -

Reserve City Cent. Res. City

Exch. = ? say 1/3 amount

Reserve also -

Country Bns. 110,000,000

Res. " 82,000,000

192,000,000

28,000,000

x 7 = \$ 796,000,000 less Contraction -

219,000,000
35,000,000

BENJ. STRONG, Jr.
~~246,000,000~~
PERSONAL.
98

274,000,000
148,000,
278.

148,
398,000.

700,000,000.

~~11208~~

278.

864.
400

164.
12

328

164

(Handwritten signature)

1,968,000,000,

The suggested pro rata ownership of Federal Reserve Banks must be considered upon one of two hypotheses. One that all member banks would participate in ^{the} management of all F.R. Banks, - the other that they would ~~not~~ own stock, but ^{in all the F.R. Banks} have no voice in ^{the} management of any ~~of them~~ outside ^{the one or more districts} the present one would require their revision in respect of Board of Directors, Federal Reserve Board and Advisory Board to make the change feasible. To give proper representation would require a general board, elected by all member banks, with a central office and management. It ~~is~~ ^{would not be} a long step to the creation ^{of the central bank in the law}, as these would develop to be in fact. It would go along way ^{toward} harmonizing possible sectional differences ~~which~~ arising ^{in the management of} between Federal Reserve Banks, but would open the door to possible differences of opinion within the local boards of the various F.R. banks. One or two directors representing ^{outside} districts ~~might~~ ^{may} have interests at variance with the interests of the districts within which the particular bank was located. It is hard to see how a plan of management can be devised to suit such a plan of ownership without ^{creating} ~~causing~~ in the end ~~with~~ but one bank with branches. As to the second hypothesis: - There is only one sound principle upon which business is

profitably conducted ~~that~~ Capital is safely employed.)

The owner who has Capital at risk must and will always insist upon participation in management. Even our large Corporations with ^{the management of} vast powers delegated to Directors, are in the end ^{the} governed by this fundamental relationship between owner and manager. But where does the suggestion lead us in this case, upon the second hypothesis? Not only would your institution and mine have no voice in the policy and management adopted at San Francisco or New Orleans, - but it is probable, - in fact well nigh certain - that ^{from} radically different and seriously conflicting interests and purposes ~~that~~ ~~control the~~ ~~man~~ with those of our own district, would at times ~~be~~ prevail, and the Capital furnished by our own stockholders would ^{then} be ~~imposed~~ applied ^{to} ~~the~~ ^{foreign} interests ~~of~~ other than those of the owners. The injurious effects of lack of harmony in operation of the F.R. Plan would be intensified by the financial interests of the stockholding banks of foreign districts and ^{would} necessitate ~~even greater~~ the exercise of even greater mandatory powers by the Federal Reserve Board.

I do not feel willing to state that the idea could not be developed in some way so that it would prove ~~to~~ superior to the plan as now proposed. The difficulties above suggested might

be met by changing the character of the Advisory Board and enlarging its powers. If, for instance, representation of F.R. Banks on the Advisory Board were made somewhat in the proportion of size of the various F.R. Banks, and the F.R. Board's power to require discount made subject to the approval or disapproval of the Advisory Board, it would partly meet the difficulties suggested, - but the power of veto alone would accomplish most that is needed, without the pro rata ownership.

The suggestion however is encouraging, at least one member of the Senate Committee seems to realize the weakness of the proposed plan of control. I hope it may prove to be the beginning of a better understanding, by the Committee, of the cause now and I and many others here feel, to assist and not hinder this important work. -

BENJ. STRONG, Jr. 31
PERSONAL. 207

The development from day to day of various tentative amendments to the Open-Class Bill by the Senate Committee on Banking and Currency throws most interesting light upon the views of the individual members of the Committee that is entrusted with this important legislation. Bankers who have appeared before the Committee seem to be divided into two classes - one, and unfortunately the largest, showing interest principally in the profit and loss accounts of their own institutions; the other and smaller class being composed of those who evidence an honest desire to contribute to sound intellectual consideration of the subject. This class, small in numbers, seems to be represented largely by New York bankers. These gentlemen have given as keen attention to the attitude of the various members of the Committee, as disclosed by their questions, as have the members of the Committee to the propounding of painstaking interrogations. Now that the Committee is shaping up the result of its labor, a situation is disclosed to those who have followed the proceedings that is making a profound impression. I refer to the attitude which has been assumed by Senators O'Gorman, Hitchcock and Reid. Not only have they evidenced a much wider and more profound knowledge of the subject than has heretofore been appreciated, but what is still better and more encouraging, they seem to be leading their colleagues in the Committee toward the adoption of safe, fundamental principles, notwithstanding that it involves ignoring an outburst of protest which the Committee has been forced to hear from bankers from all over the country who are inspired by selfish and partisan, rather than by patriotic motives.

The fundamentals that is the "bony structure" are neither as many nor as complicated as they appeared to be before the hearings began. The decision for a reduction in the

number of institutions to be organized, disclosed a leaning on the part of these three Senators toward the organization of one instead of a number of banks. This is decidedly in the right direction. The evidence now afforded, largely by the efforts of these three Senators to resist the adoption of a hasty and ill-considered legislative program, has been the means of protecting the country from the consequences of hasty action which might have been serious. The further evidence that they believe that this plan must be put into operation by gradual stages, rather than by instant readjustment of the vast structure of our banking business, indicates the careful consideration which these gentlemen are giving to sound procedure, as well as sound legislation. The elimination of ex-officio members from the Federal Reserve Board and lengthening the terms of service of appointees indicates a desire to safeguard the new system from political or partisan control. Every discussion of popular subscription to the stock of regional banks strengthens the possibility of a central bank organization, which is much to be desired.

The country still awaits, and with anxiety, a disclosure of their attitude as to the obligation of the Government upon the currency to be issued. To the same degree that this great piece of constructive legislation is receiving the earnest attention of thoughtful men all over the country, just to that degree will these Senators, who are reframing the bill, receive judgment upon their fitness or unfitness for the task. Only history, after the legislation is enacted, can make the verdict the final one. Present day opinions will be formed, however, and it is to be hoped that these gentlemen will direct their ability, notwithstanding opposition from many quarters, to safeguarding the credit of the United States Government.

To the Editor of the New York Times.

The statement from Chairman Glass, of the Committee on Banking and Currency, published in your columns this morning, seems to miss or avoid the point as to the principal features of the plan for currency legislation submitted to the Senate Committee by Mr. Vanderlip last week. The principal features at variance with those of the House Bill are:-

1. As to management: Mr. Vanderlip proposes a Board of seven directors appointed by the President, with the advice and consent of the Senate, with terms of fourteen years each, a director retiring every two years, and with no ex-officio administration members; which would seem to assure continuity of management, independent of political or partisan control. The Owen-Glass Bill provides for a Board of seven, three of whom are officers of the Government, and subject to change by each new President; at least one of the four to be appointed, probably two, and possibly all four would also be within the appointment of every President. This would certainly assure a partisan and political board of control.

2. As to note issues: Mr. Vanderlip proposes that these be issued by a central bank. The Owen-Glass Bill provides that they shall be issued by, and be the obligation of, the United States Government. Nothing can be added to the arguments which have been made in opposition to any plan for the Government to lend greenbacks to the banks against collateral to be provided. The function of the Government must be that recognized by all civilized countries:- the coinage of metal money of a fixed standard of weight and fineness and the protection of its citizens, thereby, from the imposition of fraudulent standards of value. The function of the bank should be to issue a credit instrument redeemable in coin of the standard established and protected by the Government. If a Committee of Congress today arbitrarily fixes 100% of discounted paper, with a 33 1/3% gold reserve as safe protection, how do we know that ten years hence they may not decide that Municipal and State Bonds, or Real Estate Mortgages, or any kind of bonds, or even stocks, may afford adequate protection or how do we know but what they will be satisfied with a 10% gold reserve, or none at all? The greatest safeguard against either an over issue of currency or a reduction in its credit value is the united judgment of

all the people. They will daily decide whether a bank note is adequately protected by collateral, and whether it will be redeemed in gold on presentation. Therein lies the greatest responsibility of the management, and consequently the greatest insurance to the public that the parity of the note of the bank with gold will be maintained.

3. Mr. Vanderlip proposes one institution, with branches; the Glass-Owen Bill 12 separate institutions. These two proposals must be considered in connection with the difficulty heretofore considered unsurmountable of fixing a uniform discount rate. The experience of the Bank of France peculiarly illustrates the advantage of a uniform and stable rate of discount. Sentiment in this country would favor such a condition; practical considerations seem to render it impossible. Mr. Vanderlip's plan, however, as contrasted with the Owen-Glass plan, seems to afford a satisfactory solution of this difficulty, and one far better than an ineffective tax applied to the earnings of the institution, which in large part would go to the Government; a tax which would not afford any check upon expansion. The restraint must be applied to the borrower and expressed in the discount rate, but should not be made to penalize institutions which have not over-borrowed and which should not be required to pay higher rates because of the over-borrowing of others in their district. Mr. Vanderlip's plan, providing for one institution, with branches, with a uniform minimum discount rate applying to a small percentage of the total amount, which a bank is authorized to re-discount and progressively increasing as amounts in excess of such original percentage are increased, appears to solve the knottiest practical problem in monetary legislation. The "sur-tax" is applied to each institution as its borrowings increase, and will be effective in either checking its borrowings or forcing it to a cheaper money market. This is as it should be.

Mr. Glass's statement above referred to misses the point in each case. He does, however, raise one point which merits serious consideration. If a plan embodying as few radical changes as does this one, results in delay in the passage of currency legislation, it is the best

evidence that the bill under consideration is not accepted as sound,
and should not be passed.

New York, October 27, 1913.

Banker.

For
Mr. Strong

Memorandum

Thou 17 27

Smith & Reed
by Allen
Baker

Page 3. The heading for Sec. 4 should be "Appropriation for Expenses."

Page 4. At the end of Sec. 5 it should provide that the surplus paid to the United States should be applied to the purchase of United States bonds.

Page 5, 6th line, "centum" should be written in full.

Page 6, bottom of page. It is provided that the bank may lease and acquire real estate, and it should similarly be empowered to sub-let and sell.

Page 11. The sentence ending with the words "members of Executive Committees" is not sufficiently definite, and could be improved by reading as follows: "Members of Executive Committees may be ~~annually~~ suspended and subsequently removed for cause by the Board after due hearing, and shall be so removed at the request of not less than per centum of the depositors of a district expressed by votes of the Boards of Directors of such depositors."

On the next line, between the words "annually" and "cause", add the words "and more frequently if required by the Board."

Page 15. The first two lines should read, "exercise all the duties, services, or functions specified or implied in this Act."

Page 14; end of Sec. 12. If the accounts and transactions of all depositors are confined to the branch and sub branches of the banking district in which they are located, foreign branches of National banks or State banks would not be able to do business with the foreign branches of the Federal Reserve Bank, and a few words at the end of the sentence will correct this error.

Page 15. Sec. 14. The word "centum" in place of "cent."

Page 16. Paragraph (c); 1st line: "endorsement" mis-spelled.

Page 20. 4th line should read "as described in paragraph (d) of Sec. 15 of this Act."

The last word in Sec. 20 is "surplus," and this should be "surplus fund."

Page 21. 3rd line. The words "the face" should be changed to "their cash;" and the last line of that section should read "of equal cash value."

Page 22; 1st paragraph; last line; the word "bank" should be "banks."

Same page; 7th line from the bottom, should read "gold and lawful money."

Page 26; 12th line from top; the word "may" should be changed to "shall."

Page 27; 4th line; the word "circulations" should be "circulation."
6th line; ~~the market~~ should read "notes of each of such national banks."

Page 28; first three lines; I think better and more accurate language would be, "Circulating notes of an amount equal to one and one-half per centum per annum," etc.

In the first paragraph of Sec. 29, the letter "b" is omitted from the word "Board."

Page 30; 10th line; the last word "expense" should be "expenses."

Next paragraph, same page, 2nd line; the word "examination" should be "examinations."

Please refer to the National Bank Act (National City Bank edition), page 16, paragraph 24. We have put nothing in the Bill in relation to jurisdiction of the courts over this institution. I am not able to suggest whether that is necessary or not, but inasmuch as special statutes have been enacted relating to the jurisdiction of State courts over National banks, it might be well to put a clause of declaration in the Bill as to the jurisdiction of the courts.

Page 20; the language of paragraph 33 indicates the possibility of some improvement in the language descriptive of the general powers of the Federal Reserve Bank.

Page 23; paragraph 42. We have not provided that directors shall hold

office until their successors have been appointed and have qualified. This can be corrected in a sentence at the foot of page 7 of the Bill.

Paragraph 45. Suggest that it might be wise to have the directors of the Federal Reserve Bank necessarily citizens of the United States.

Paragraph 44; same page. Suggest that the form of oath might be expressed in the Act as that provided by Sec. 5147 of the Revised Statutes.

Page 23; paragraph 50, raises the question in my mind as to whether we have properly dealt with deposits of the Postal Savings Fund. They are not necessarily involved in this plan of legislation, but, even upon that theory, we want to make sure that the general language of the Act does not require the officers of the Government to disturb existing arrangements. It might be well to ascertain just how these accounts are kept, and see whether any clause would be required in the Bill to cover this situation.

Paragraph 51, suggests that we have no provision in the Bill stating that the Federal Reserve Bank shall not pay interest upon any deposits, which should be there, and it should be without qualification.

Page 30; paragraph 53, in relation to the Panama Canal bonds raises the question as to whether we have examined with sufficient care into the Statutes with relation to these bond issues and ascertained definitely whether our refunding operation would extend too far.

Page 31; Sec. 60 should be made to extend to the refunding bonds to be issued to refund the 2 1/2's.

Page 35; paragraph 67. I believe it would be wise that this section be amended so that it will not interfere with the provision in the Bill in regard to the retirement of one-half of the circulation of National notes. It may be that our Bill and this paragraph are in conflict.

Page 39; paragraph 68. In describing the payments for which the notes of the bank may be received, we omitted payments for public lands. It isn't very

important, but we might as well make it conform to the terms of the National Bank Act.

Page 40. Please consider the last line of that same paragraph.

We have used the words "National bank notes" throughout the Bill. It might have been better to have put in a definition of Circulating Notes, in our paragraph of definitions, and changed the words "National bank notes" to "circulating notes" throughout the Bill.

Page 52. In providing that National banks may have branches, we should subsequently provide for an amendment to Sec. 5190 of the Revised Statutes.

Page 55. Our reference to net deposits as defined by the Comptroller of the Currency should in some way refer to the sections of the National Bank Act appearing in paragraphs 122 and 123, so that his definition of net deposits might not imply something different from that already provided in the National Bank Act.

Page 54; top of page. We have omitted any reference to the terms of treatment of the 5% Redemption Fund as part of the reserves of National banks. The definite direction to establish a 12% reserve and how it shall be held, is contrary to the provisions of the National Bank Act. I suggest the addition of a clause which will place it within the power of the Federal Reserve Board to determine whether any of the 5% Redemption Fund, and if so to what extent and in what manner, may be counted as a part of the 12% reserve. Personally, I have no objection to this counting as part of the reserve which is to be held at their option in their own vaults.

Page 50; paragraph 135. We have given no consideration to the subject of usury. If the Federal Reserve Bank discounts only for corporations, that is, National and State banks, the usury statutes would not apply, but they would place the entire burden of costs for discounts in excess of the limit of usury

upon the National bank, which could not in turn increase its rate to its customer. There is nothing we can do about this in the Bill, but it suggests the entire wisdom of our usury statutes as they are in this country today.

Page 62; paragraph 149. Sec. 5209 of the Revised Statutes, or a similar clause, should be embodied in the Bill, unless other statutes of the United States apply to fraud of the character described in this section.

Page 64; paragraph 154. We have no method of disposition of unclaimed dividends provided in the Bill.

Page 69; paragraph 165. I am not sure whether this section must be made to conform to our own provisions as to the retirement of circulation.

Page 72. We should have a paragraph, unless it has already been made to apply, similar to Sec. 5222 of the Revised Statutes.

Page 81. The question is raised again by paragraph 194, as to the jurisdiction of the courts over this corporation.

Mr. Kent and I have been discussing some features of the Bill today. I haven't time to complete this dictation, but he will do so, and these rather sketchy notes together with his suggestions following will, I am sure, complete all the suggestions that have occurred to us since you left for Washington with the Bill.

B.S.Jr.

Mr. Kent's dictations:

Page 1, of the Bill. Should not the word "That" follow the words "Sec. 2."

Page 5. Should not the word "That" follow the words "Sec. 6."

Page 6. Should not the word "That" follow the words "Sec. 7."

At the end of the 9th line from the bottom, the word "issue" might possibly be better changed to "insurance."

Page 7. 5th line from ~~bottom~~ top; the word "Board" is spelled first with a capital and then with a small letter. In this connection, would mention that the word "Branch" which appears in the definitions in capitals, is not capitalized anywhere in the Bill.

Page 13; Sec. 11. Is there clear authority for the Board to divert earnings to surplus, should it so happen that, after the surplus reached the sum of \$50,000,000., it were diminished through losses.

Page 14; Sec. 13. The word "depository" is followed in the first paragraph by the word "depositories."

Page 15; Sec. 14. As National banks invested in bonds of the United States, which were deposited as security for circulation, with the understanding that the \$5 fund deposited with the Government would count as cash reserve, it seems only fair that they should be able to continue so counting it. While the amount is small, yet it might cause considerable friction among bankers if the regulation were changed.

Page 15; Sec. 35 (b). Should not the words "that may not have been set aside as security for any other purpose" be added? There is no doubt whatever but that such words are not needed, practically, as a banker would clearly understand it as it stands; but it might prevent criticism to have some such phrase affixed.

Page 15; end of Sec (c). By adding the phrase "within the United States" it would prevent the purchase by the Bank of single name demand foreign exchange. As the section is worded it might be construed to mean that single name demand foreign exchange could be purchased. If it is intended that the bank shall be in a position to purchase such exchange, the paragraph should be left as it stands; otherwise I think it should be changed.

Page 16 (c). Should not the words "from or to the United States" follow the word "importation" in the middle of the third line; making the line read, "upon the exportation or importation from or to the United States of goods, wares," etc. Without these words the bank would not be authorized to operate, say, in London through discounting bills of exchange for exports and imports between foreign countries offered in the London market, because they would not bear the acceptance or endorsement of a depositor.

Page 17. (f). The first line might better read as follows: "To purchase from depositors, for the purpose of carrying to maturity, or to call," etc., etc. This would prevent any possibility of a construction being put upon the section that would seem to make it necessary for the bank to sell everything that it purchased. If such a consideration does not seem to you possible, the paragraph should stand as it is.

Page 17. (g). The fifth word in the third line is "or." Should not this word be left out?

Page 17. (h). In the second line "such countries" should be changed to "foreign countries," otherwise it might be construed to mean that foreign branches could be established only in countries in which foreign bank accounts had been opened.

(h) In the third line, the word "discounting" should be added to "purchasing, selling, collecting." The word "selling" might cover it, but it would seem that the word "discounting" should be added, as it would probably be a daily operation.

Page 17. (h). 5th line. The word "such" should be changed to "its foreign." 6th line, the word "agency" should be followed by the word "such."

Page 18. Sec. 17. The word "it" in line 3 should be changed to "them." In line 6 the word "it" should also be changed to "them."

Page 25. In the second paragraph, is the new issue of bonds clearly authorized in the words "he shall accomplish such refunding by the issue of bonds."

Page 27. Sec. 23 states that "purchases shall be made from the several National banks up to amounts not exceeding the par value," etc., "and thereupon the banks shall be responsible for the ~~maturation~~ redemption and retirement of the notes of each such National bank to the amount of the purchase price of the bonds, less interest," etc. Suppose a condition arose under which bonds were offered to the Government at, we will say, 90, and were purchased at that price. If \$100,000 of bonds were purchased at 90, the bank would assume liability for only \$90,000 in National bank notes. It would unquestionably redeem \$100,000 of such notes, but it would not be compelled to do so under the law.

Sec. 30, under "Bank Examinations," intends either to duplicate to a certain extent the examinations to be made by the Comptroller, or to take out from under his jurisdiction the examination of National banks. If the former is intended the section is in order; if the latter, it is not.

Paragraph 2

Page 35. Sec. 30. The word "amount" is mis-spelled in the fourth line.

F.I.E.

Additional Memorandum from Mr. Knell.

Page 27. Sec. 23. Referring to the assumption of liability by the Bank for National bank notes, would say that under the present law National banks are obliged to deposit lawful money with the Treasurer of the United States in order to retire their circulation. If the Bank, under the proposed law, assumes responsibility for any National bank notes, the lawful money that is to be paid by the National banks which have sold their bonds to the Bank should be paid to the Bank and not to the Treasury Department. This matter should be so clearly stated that there can be no question of its operation either in law or in effect, as otherwise the standing of the Bank might be seriously jeopardized. The Bank would make payment from its assets for the United States bonds, which in itself would represent a cancelling transaction. When called upon to retire National bank notes therefor the Bank would have nothing that it could use that would not mean an actual reduction of its assets, unless the lawful money that the National banks were obliged to put up in order to release their bonds that had been deposited to secure circulation were placed with the Bank and not with the Treasury Department.

F.I.E.

(To follow end of first paragraph of page 27)

and thereupon also such national bank shall be relieved from all further liability in respect of such notes of such national bank, the responsibility for the redemption and retirement of which has been so assumed by the Bank, except to pay the same on demand and receive in exchange therefor from the Bank lawful money to the face amount of such notes. So much ~~of section~~ ~~1100~~ of the Revised Statutes of the United States (Act of June 20, 1874, Chap. 543, Sec. 4, 18 St. U.S. 124) and of the Act of July 12, 1862, Chap. 290, Sec. 9; 22 U. S. St. 164; Act of March 4, 1907 and Act of May 30, 1908, as provides for the withdrawal by any national bank of its circulating notes by the deposit of lawful money with the Treasurer of the United States, and the taking up of the bonds which such national bank has on deposit with the Treasurer for the security of such circulating notes, and as provides that the amount of bonds on deposit for circulation shall not be reduced below \$50,000 for any such national bank, and as provides that not more than \$9,000,000 of lawful money shall be so deposited with the Treasurer of the United States during any calendar month for the purpose of withdrawing circulating notes of any such national bank, are hereby repealed.

63^D CONGRESS,
1ST SESSION.

H. R. 7837.

IN THE HOUSE OF REPRESENTATIVES.

NOVEMBER , 1913.

AN ACT

To incorporate THE FEDERAL RESERVE BANK OF THE UNITED STATES, establish banking districts, mobilize bank reserves, refund and retire a portion of the national debt, provide for an elastic currency, afford means for rediscounting commercial paper, establish more effective supervision of banking, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled :

That the short title of this Act shall be "The Federal Reserve Act."

DEFINITIONS.

SEC. 2. The words and phrases used in this Act, except where the context clearly indicates a contrary intention, shall be defined as follows :

The word "Committee" shall mean the Organization Committee of the Federal Reserve Bank of the United States.

The word "Bank" shall mean the Federal Reserve Bank of the United States and shall include all the branches, sub-branches and agencies thereof.

The word "Board" shall mean the Board of seven directors of the Federal Reserve Bank of the United States, known as the Federal Reserve Board.

The word "Branch" shall mean a branch of the Federal Reserve Bank of the United States established in the United States.

The words "Executive Committee" shall mean the Executive Committee of a branch of the Federal Reserve Bank of the United States.

The words "national bank" shall mean a national banking association now or hereafter organized or existing.

The word "depositor" shall mean such a bank or trust company, organized under the laws of a state or the laws of the United States relating to the District of Columbia, or such a national bank, as shall have a deposit in the Federal Reserve Bank of the United States.

The word "district" shall mean a banking district from time to time created and designated by the Federal Reserve Board.

The words "net deposits" shall mean net deposits as from time to time defined by the Comptroller of the Currency.

The words "sub-branches" shall mean subordinate offices of branches of the Federal Reserve Bank of the United States.

The word "agencies" shall mean agencies of the Federal Reserve Bank of the United States located in foreign countries.

ORGANIZATION COMMITTEE.

SEC. 3. That as soon as practicable after the passage of this Act the President shall appoint a committee of five, to be designated

The Federal Reserve Bank Organization Committee. The Committee :

(a) Shall select a Chairman and Secretary and such other officers as it may deem necessary from its own members and appoint assistant officers, clerks and other necessary employes ;

(b) Shall organize the Federal Reserve Bank of the United States and branches thereof ;

(c) Shall adopt a seal for the Bank, which shall, during the process of organization thereof, be the seal of the Committee, and adopt seals for the several branches, which shall correspond to the seal of the Bank with the name of the branch added ;

(d) Shall invite and receive popular subscriptions at par to the capital stock of the Bank, in accordance with the provisions of Sec. 5 of this Act and under regulations to be prescribed by the Committee ;

(e) Shall make the certificate provided in Sec. 6 hereof ;

(f) Shall do all other things necessary to effect the corporate organization of the Bank.

SEC. 4. That there is hereby appropriated out of any money in the Treasury not otherwise appropriated, a sum sufficient to establish and provide accommodations for the Bank and its branches, not to exceed five hundred thousand dollars for the Bank and an equal amount for each branch thereof, and for the purpose of carrying out the provisions of this Act, in accordance with the following limitations, viz : Each member of the Committee shall receive in full compensation

*Appropriation
for Expenses.*

for his services the sum of \$10,000, besides his actual and necessary traveling expenses, and in carrying out the provisions of this Act the Committee is authorized to incur such expenses as it shall deem necessary, not exceeding the sum of \$250,000, all of which compensation and expenses shall be payable by the Treasurer of the United States upon vouchers approved by the Committee. The balance of the appropriation herein made shall be disbursed by the Board for the purposes herein set forth, payments to be made by the Treasurer of the United States upon vouchers approved by the Board. The total amount of the appropriation herein made shall, from time to time, be reimbursed to the United States by the Bank from its net earnings after the payment of dividends to the stockholders and before the establishment of a surplus fund.

STOCK ISSUE.

SEC. 5. That the capital stock of the Bank shall be \$100,000,000, divided into one million shares of a par value of \$100 each; such stock shall have no voting power, and shall be free of all Federal, State, Municipal or other taxes, except that the holders thereof shall be subject to the provisions of federal income tax laws with respect to the income derived therefrom. The holders of such stock shall be entitled to dividends thereon at the rate of five per centum per annum and no more, which dividends shall be cumulative, and upon dissolution of the Bank such holder shall receive the par amount of such stock and all the balance of the assets shall be paid to the United States.

*Applied to purch
U.S. Bonds -*

Such stock shall be offered for popular subscription at par by the Committee under regulations to be prescribed by it and within six months after the passage of this Act. In case the amount of capital stock is over-subscribed, the Committee shall first allot the shares of stock to the subscribers for the smallest number of shares. Every subscriber shall accompany his subscription with cash or a certified check for five per centum of the total amount thereof. The proceeds of the five per cent. payment of the stock subscription, shall be deposited in national banks to the credit of the Committee, and by the Committee assigned and transferred to the credit of the Bank upon its organization. *um*

ORGANIZATION CERTIFICATE.

SEC. 6. After the popular subscriptions to the capital stock of the Bank shall have been closed, the Committee shall make an organization certificate specifying

(a) The names of the several subscribers to the stock, with the number of shares allotted to them respectively;

(b) The form of stock certificate adopted by the Committee and the methods for the transfer thereof and such other details in connection with the organization as the Committee may determine.

Such certificate shall be executed under the name of the Committee by the Chairman and Secretary thereof and attested with its seal and shall be forthwith transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

CHARTER.

SEC. 7. Upon receipt of such certificate, the Comptroller of the Currency shall issue a charter of incorporation to the persons who shall have been appointed by the President and confirmed by the Senate as the directors of the Bank, which charter shall contain a recital of the compliance with the provisions of this Act by the Committee and a statement of the subscriptions that have been made to the capital stock of \$100,000,000 of the Federal Reserve Bank of the United States; and the issuance of such charter by the Comptroller of the Currency, countersigned by the Secretary of the Treasury, shall complete the corporate organization of The Federal Reserve Bank of the United States. Upon such organization, the Board and their successors and the stockholders of the Bank as they may from time to time exist, shall be a body corporate, to be known as "The Federal Reserve Bank of the United States," to have a term of existence of fifty years from the date of the issuing of the organization certificate by the Comptroller of the Currency, countersigned by the Secretary of the Treasury, to have the power to contract, to sue and be sued, to acquire, own, lease, and hold such real and personal property as may be necessary for its business, to buy, sell and deal in gold coin and gold bullion, promissory notes and other evidences of indebtedness, and to discount notes, bills and acceptances, and to have such further powers, privileges and functions as are hereinafter specified in this

To Bill or Sublet

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Act. The Bank shall be located in the City of Washington, D. C.,
and shall have twelve branches located in cities selected by the
Board and sub-branches wherever designated by the board. *ac*

GOVERNMENT OF THE BANK.

SEC. 8. That the government and control of the Bank shall be and hereby is vested in a board of seven directors to be known as the Federal Reserve Board, whose powers shall be the same as those conferred upon boards of directors of national banks under existing law not inconsistent with the provisions of this Act. Such directors shall be appointed, and one of them shall be designated as Governor, and another of them shall be designated as Deputy Governor by the President of the United States, all by and with the advice and consent of the Senate. Such selections shall be made from persons qualified by experience and training for the proper discharge of the duties imposed upon them by this Act, and in making such selections due weight shall be given to the various commercial interests of the different sections of the country, and at least three of the members shall be persons of recognized wide banking and financial experience.

The term of office of each member of the Board shall be fourteen years, except that the terms of office of six of the persons first appointed shall expire at the end of two, four, six, eight, ten, and twelve years, respectively. The President shall have power to remove any member of the Board for cause after due hearing, such removal and his reasons therefor to be communicated by him to

the Senate. The Governor and the Deputy Governor shall, subject to the supervision of the Board, be the active executive officers of the Bank. No member of the Board shall be an officer or director of any bank or banking institution, or hold stock in any bank or banking institution, and before entering on his duties as a member of the Board, he shall certify under oath that he has complied with this requirement. Vacancies caused by death, resignation, retirement or removal of the Governor, Deputy Governor or other members of the Board, shall be filled by the President, by and with the advice and consent of the Senate, and any person appointed to fill such vacancy shall hold office for the unexpired term of the member to whose place he is appointed. Members of the Board shall take an oath of office, which shall be filed with the Comptroller of the Currency, shall devote all their time to their official duties, and shall retire at the age of seventy years. The Governor, or in his absence the Deputy Governor, shall act as Chairman of the Board. The salary of the Governor and Deputy Governor shall be \$17,500 and \$16,000 per annum, respectively, and of the other members of the Board \$15,000 per annum. The Board shall make report annually of the operations of the Bank to the Speaker of the House of Representatives, to which shall be attached the certificate of the Comptroller of the Currency certifying that he has made an audit and examination of the books, accounts and affairs of the Bank. The Board shall fix a date which shall be within six months after its appointment and qualification, upon which subscriptions to the stock of the Bank shall be paid in full. Such date may be extended by

the Board with the approval of the President of the United States.

Any subscriber failing to pay for the shares allotted to him by the Committee shall forfeit his right thereto and to his five per cent. deposit, which deposit shall be so forfeited to the Bank, and such shares may thereupon be allotted by the Board to other subscribers.

In case the full amount of the capital stock shall not have been subscribed for and paid for in full, the Board shall forthwith allot the portion so unsubscribed and not paid for to the several national banks then in existence in proportion, as nearly as may be convenient, to their respective amounts of capital, and each such allotment shall fix a liability upon each of the said national banks to subscribe for and take the number of shares so allotted, such liability to accrue as of the date of such allotments.

Upon the payment of the ninety-five per cent. residue of the stock subscriptions, the proceeds shall be deposited with national banks by and to the credit of the Bank, and shall be so kept on deposit pending the opening of the Bank for business.

BRANCH RESERVE BANKS.

SEC. 9. That the Board shall create and designate in the continental United States, exclusive of Alaska, twelve banking districts for the purpose of establishing within each of such districts a branch of the Bank. Such districts shall be established with due regard to the convenience and customary course of business of the community and shall not necessarily coincide with the boundaries

of such state or states as may be wholly or in part included within any given district. The Board shall also establish within each district a branch of the Bank which shall be designated by prefixing the name of the city in which such branch is established to the words "Branch, Federal Reserve Bank". The number of such branches and of such districts may be reduced by the Board when in its judgment the interests of trade and commerce so require; and in like manner the number of such branches and districts may be increased by the Board after two years from the time of the organization of the Bank.

The management of such branches shall be vested in an Executive Committee consisting of five persons to be appointed by the Board, who shall be residents of the districts in which they serve, shall devote all their time to their official duties, and shall retire at the age of seventy years. Each member of an Executive Committee before entering upon the discharge of his duties shall take an oath of office which shall be filed with the Board. The term of office of each member of such Executive Committee shall be ten years, except that terms of office of four of the persons first appointed by the Board upon each such Executive Committee shall expire at the end of two, four, six and eight years, respectively. The Board shall fix the compensation to be received by the members of the Executive Committee and shall designate a chairman and vice-chairman for each Executive Committee. The chairman, or in his absence the vice-chairman, shall preside over the meetings of the Executive Committee and, subject to the supervision of the Executive Committee, shall be

the active executive officers of the branches. The Executive Committee shall have authority to establish and discontinue sub-branches, within their respective districts. No member of an Executive Committee shall be an officer or a director of any bank or banking institution, or hold stock in any bank or banking institution and, before entering upon his duties as a member of such Committee, he shall certify under oath that he has complied with this requirement. Vacancies caused by death, resignation, retirement or removal shall be filled by the Board and any person appointed to fill such vacancy shall hold office for the unexpired term of the member to whose place he is appointed. Members of Executive Committees may be summarily suspended and subsequently removed for cause by the Board after due hearing, and shall be so removed at the request of the depositors of a district expressed by ~~★~~ vote of the board of directors of such depositors. Each such Executive Committee shall annually make a report of the operations of its branch to the Board to be by it transmitted with its annual report to the Speaker of the House of Representatives. Such report of the Executive Committee shall contain reports from each sub-branch established in the district.

All actions of the Executive Committees shall be subject to the approval of the Board.

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by the Board

POWERS OF THE FEDERAL RESERVE BOARD.

SEC. 10. That the Board shall be authorized and empowered:

- (a) To govern and control the operations of the Bank;
- (b) To supervise and control the actions of the Executive Committees;
- (c) To supervise and regulate the issue and retirement of notes of the Bank, and to prescribe the form, tenor and denominations of such notes;
- (d) To suspend in whole or in part in an emergency all reserve requirements of the Bank for thirty days, and to continue such suspension for periods not to exceed fifteen days;
- (e) To suspend in whole or in part in an emergency all reserve requirements relative to national banks for thirty days, and to continue such suspension for periods not to exceed fifteen days;
- (f) To examine, at its discretion, the accounts, books and affairs of depositors;
- (g) To call for statements of condition of all depositors, in such form as it may prescribe;
- (h) To open and maintain banking accounts in foreign countries, to establish agencies in foreign countries and to make regulations for the conduct of the foreign business of the branches through such agencies.

The enumeration of the powers hereinabove set forth shall not be deemed to be a limitation upon the general authority of

the Board to perform and exercise all the duties, ~~functions~~ ^{services or} ~~services~~ specified or implied in this Act.

APPLICATION OF EARNINGS.

SEC. 11. That the net earnings of the Bank, after deducting taxes, expenses and proper reserves against the acquisition of permanent property, shall be devoted, first, to the payment of a five per cent. cumulative dividend upon the stock, and second, after the reimbursement to the United States of the advances appropriated under Sec. 4 of this Act, to the accumulation of a surplus of Twenty million dollars, and after the accumulation of such surplus, one-half of such earnings above said dividend requirements shall be paid to the United States and the other one-half devoted to the accumulation of a further surplus until the total surplus reaches fifty million dollars, and thereafter all earnings beyond such dividend requirements shall be paid to the United States so long as such surplus is maintained. The earnings so distributed to the United States shall be applied by the Secretary of the Treasury, not more than three months after the receipt thereof, to the redemption of outstanding bonds of the United States, after advertisement published in each district at least once a week for four successive weeks immediately preceding the date fixed for such redemption, which advertisement shall call for the tender of bonds, and the Secretary of the Treasury shall thereupon in his discretion purchase of the bonds so tendered those offered at the lowest prices up to the amount of such earnings in his hands at such redemption date.

BUSINESS OF THE FEDERAL RESERVE BANK.

SEC. 12. That the Bank shall conduct business solely with the United States Government, with the national banks, and with such other banks and trust companies as may from time to time be permitted to deposit their reserves with the Bank, except as otherwise provided in this Act. The accounts and transactions of all depositors shall be confined to the branch and sub-branches of the banking district in which they are located.

*foreign branches
do business with
foreign agencies*

FISCAL AGENCY.

SEC. 13. That the Bank shall be the fiscal agent and sole depository of the United States, except that for purposes of collection and transfer only the Secretary of the Treasury may designate national banks as Government depositories.

The Secretary of the Treasury shall gradually effect a transfer of the General Fund of the Treasury to the Bank, which transfer shall be completed within twelve months after the organization of the Bank. Such transfer, however, shall not include the five per centum fund for the redemption of outstanding national bank notes, nor that portion of the General Fund of the Treasury held by government depositories in the insular possessions or territories of the United States or balances of disbursing officers there held so long as no branch or sub-branch of the Bank exists in such possessions or territories.

On and after a date to be determined by the Secretary of the Treasury and the Board, but not later than six months from the organization of the Bank, all the revenues of the United States

shall be regularly deposited in the Bank and disbursements shall be made by checks drawn against such deposits, except revenues and disbursements in the insular possessions and territories of the United States.

FIVE PER CENT. ~~REDEMPTION~~ FUND.

SEC. 14. That the Bank shall be required in behalf of, the national banks which have notes in circulation to make good the five per centum redemption fund held in the general fund of the United States Treasury and any deficiencies in the said fund shall be forthwith paid by the Bank to the Treasury of the United States upon demand, and the Bank shall be forthwith reimbursed by the national bank in whose behalf such payment is made.

GENERAL FUNCTIONS OF THE FEDERAL RESERVE BANK.

SEC. 15. That the Bank shall have power :

(a) To purchase and sell the obligations or other securities of the United States, as defined by Section 5413 of the Revised Statutes, and also such of the obligations of the Territories and Insular possessions of the United States as are guaranteed principal and interest by the United States ;

(b) To purchase, sell and deal in gold coin and gold bullion, to make loans thereon, and to contract for loans of gold coin and gold bullion, with or without giving security therefor, which security may include the bonds and other obligations of the United States owned by the Bank ;

(c) To receive from any depositor for deposit or collection

current funds in lawful money, national bank notes, notes of the Bank, or checks, drafts, notes or bills of exchange payable upon presentation ;

(d) With the acceptance or endorsement of any depositor, to discount notes, drafts, and bills of exchange arising out of commercial transactions, such notes, drafts and bills to be of a character to be determined and defined by the Board. Such definition shall only include notes, drafts and bills of exchange issued or drawn for agricultural, industrial or commercial purposes, or which shall represent a *bona fide* sale of agricultural products or other goods, wares or merchandise, or which shall have been issued for the purchase or sale of the bonds or other obligations of the United States. Such definition shall not, however, include notes, drafts or bills of exchange issued or drawn for the purpose of holding for future sale and delivery agricultural products or other goods, wares or merchandise, or for carrying or trading in stocks, bonds or investment securities, other than the bonds and obligations of the United States. Notes, drafts and bills of exchange admitted to rediscount, as so defined under this paragraph, must mature within not exceeding ninety days from the date of rediscount.

(e) With the acceptance or endorsement of any depositor to discount notes, drafts or bills of exchange which are based upon the exportation or importation of goods, wares, merchandise or agricultural products, as determined and defined by the Board, and which mature within not exceeding six months from the date of rediscount ;

(f) To purchase from depositors and to sell, with or without its endorsement, bills of exchange arising out of commercial transactions as determined and defined by the Board and payable in foreign countries, but such bills of exchange must mature in not exceeding ninety days from the date of the purchase and must bear the signature, endorsement or acceptance of two or more responsible parties, of which at least one shall be that of a depositor ;

(g) Under rules and regulations prescribed by the Board, to purchase and sell in the open market, either from or to depositors or through its agencies or from or to banks, firms, corporations or individuals in foreign countries, notes, drafts and bills of exchange of the kinds and maturities by this Act made eligible for re-discount, and cable transfers ;

(h) To open and maintain banking accounts in foreign countries, and establish agencies in such countries, for the purpose of purchasing, selling, collecting, and dealing in foreign bills of exchange, gold coin and gold bullion, and cable transfers, and to buy and sell, with or without its endorsement, through such correspondents or agencies, prime foreign bills of exchange, arising out of commercial transactions, as may be defined by the Board, which have not exceeding ninety days to run, and which bear the signature, acceptance or endorsement of two or more responsible parties.

DOMESTIC EXCHANGES.

SEC. 16. That the Bank shall receive at par all checks, drafts or other obligations of the Bank and each of its branches or sub-branches. The Executive Committee of each

branch shall from time to time, subject to the approval of the Board, determine and publish exchange and collection charges to be made with respect to all checks, drafts and other exchange and collection items, other than those of the bank, received in accordance with paragraph (c), Section 15 of this Act. Such charges shall not be in excess of the approximate actual cost of collection of such checks, drafts and other items.

PRIORITY OF LIEN.

SEC. 17. That the Bank shall have a first and paramount lien upon all of the assets of every national bank for all debts and liabilities due from it to the Bank, except as to the claims of the United States, and the Bank shall likewise have a first and paramount lien upon all the assets of every other depositor for all debts and liabilities due from it to the Bank, except debts due by such a depositor to the United States and to the State of its incorporation, and except with respect to trust funds held by trust companies.

LIMITATIONS OF DISCOUNTS.

SEC. 18. That no depositor shall be entitled to discount notes, drafts, bills of exchange or acceptances, with the Bank, in excess of the amount of the unimpaired capital and surplus of such depositor, nor shall the aggregate of such notes, drafts, bills of exchange, and acceptances, upon which any one person, company, firm or corporation shall be primarily liable rediscounted for any one depositor, at any time exceed ten per centum of the unimpaired capital stock and surplus of such depositor;

but this restriction shall not apply to the discount of bills of exchange payable outside of the continental United States, drawn in good faith against existing values.

RESTRICTION OF INDEBTEDNESS OF NATIONAL AND STATE BANKS.

SEC. 19. That no national bank shall at any time be indebted or in any way liable to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following :

(a) Notes of circulation ;

(b) Moneys deposited with or collected by the national bank ;

(c) Bills of exchange or drafts drawn against credits due the national bank, or money actually on deposit to the credit of the national bank or due thereto ;

(d) Liabilities to the stockholders of the national bank for dividends and reserve profits ;

(e) Liabilities incurred under the provisions of paragraph (d), Section 15, of this Act ;

(f) Liability as endorser on notes, drafts and bills of exchange, arising out of commercial transactions, as defined in paragraph (f), Section 15, of this Act ;

(g) Liability as acceptor of drafts or bills of exchange, subject to the limitations of Section 20, of this Act ;

Section 5202 of the Revised Statutes of the United States is hereby repealed.

Depositors other than national banks, shall be subject to the limitations defined in Section 18 of this Act.

par d. Sec 15

ACCEPTANCES.

SEC. 20. That any national bank may at its discretion accept drafts or bills of exchange drawn upon it, having not more than six months' sight to run, and growing out of commercial transactions as described in this Act and as defined by the Board, but no national bank shall accept such drafts or bills of exchange to an amount at any time exceeding in the aggregate one-half of its paid-up and unimpaired capital stock and surplus.

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CIRCULATING NOTES.

SEC. 21. That the Bank may issue its circulating notes, which shall be receivable at par in all parts of the United States in payment of all taxes and excises and all other dues to the United States and also for all salaries and other debts and demands owing by the United States to individuals, corporations and associations within the United States and its possessions except interest on the public debt. Such notes shall be a first lien on all of the assets of the Bank and shall be redeemable on demand at any office of the Bank in lawful money of the United States. As long as any such notes are outstanding the Bank shall segregate in its own vaults and carry in a special reserve account on its books gold coin or gold bullion or United States gold certificates to the amount of the face value of the notes from time to time so outstanding or, at its option, shall so segregate gold coin or gold bullion or United States gold certificates to the amount of not less than fifty per centum of such face value, and collaterals, consisting of promissory notes and bills accepted for rediscount

under the provisions of Sec. 15 of this Act, or refunding notes of the United States, hereinafter provided for, or both such collaterals and refunding notes, equal at the face value to one hundred per centum of the face value of the notes from time to time so outstanding. Such collaterals may be exchanged from time to time for other collaterals or refunding notes within the limitations aforesaid and of equal face value.

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Cash

PRINTING, DENOMINATIONS AND FORM OF THE CIRCULATING NOTES
OF THE BANK.

SEC. 22. That in order to furnish suitable notes for the Bank, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, upon the distinctive or special paper which has heretofore been or may hereafter be lawfully adopted by him for printing United States notes, and numbered, such quantity of notes, in blank, of the denominations of five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required by the Bank. Such notes shall express upon their face the promise of the Bank to pay on demand, attested by the written or engraved signature of the Governor or Deputy Governor and Cashier, and bear the engraved imprint of the seal of the Bank.

RESERVES OF NATIONAL BANKS.

SEC. 23. That from and after a date to be fixed by the Board, in no event longer than five years nor less than thirty months from the date of the organization of the Bank, all national banks shall be required to keep and maintain a reserve of not less than twelve per centum of their net deposit liabilities, as defined by the Comptroller of the Currency. Any part of such reserve, but in no event less than one-half thereof, may consist of a deposit with the Bank, and the remainder shall be in gold and lawful money in the vaults of the national bank.

From and after the organization of the Bank the Board shall effect as rapidly as it may deem wise under commercial conditions from time to time existing, and complete within the periods herein provided, the change to the minimum reserve requirements above set forth. Such change shall be effected by the publication of notices to all national banks which shall state the percentage of the total reserve which must thirty days thereafter, and until further notice, be deposited with the Bank, and the amount which thereafter may be held in gold or lawful money in its vaults. Such requirements, however, shall fairly consider the commercial and industrial conditions of the country and its various sections and be so apportioned and determined as to cause the least restrictions upon the business of national banks, and compliance with such directions of the Board shall be mandatory upon national banks, and in such direction the Board shall give due weight to the distinctions

recognized under existing laws between country banks, reserve city banks and central reserve city banks, but such directions shall be uniform with respect to banks of each of such classes.

ABOLITION OF NATIONAL BANK CLASSIFICATION.

SEC. 24. That from and after the organization of the Bank no action shall be taken under the provisions of Section 1 of the Act of March 3, 1903, or Section 2 of the Act of March 3, 1887, providing for the designation of cities as additional reserve cities and additional central reserve cities, respectively, and from and after the establishment of the new minimum reserve provided in this Act the classification of national banks, as now provided by Section 5191 of the Revised Statutes of the United States, as amended, shall be abolished.

RESERVES.

SEC. 25. That the Bank shall establish and maintain at all times a reserve equal to not less than fifty per centum of the net deposit liabilities of the Bank. Such reserve shall consist of gold coin, gold bullion, United States gold and silver certificates, and other lawful money of the United States.

RATES OF DISCOUNT.

SEC. 26. The Board shall establish from time to time a normal rate of discount which shall be uniform at branches and sub branches of the Bank, except as herein provided, and the Board shall renew or change such normal rate at stated meetings to be held at least once in each week and shall immediately publish the normal rate so renewed or changed. The normal rate of

*for each
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discount so established shall be charged by the branches and sub branches of the Bank to depositors with respect to all rediscounts of such depositors up to an amount not exceeding the amount of twenty per centum of the unimpaired capital and surplus of each such depositor; and the rate of discount charged by the branches and sub branches of the Bank upon all rediscounts in excess of such twenty per cent. shall be increased by the Board for each ten per centum of increase in such rediscounts above such twenty per centum. The additional rates of discount established by the Board upon such rediscounts in excess of said twenty per centum shall in like manner be uniform throughout the United States, but such additional rates ~~may~~ be established by the Board in progressively increasing amounts for each ten per centum of excess rediscounts above the said twenty per centum, and such additional rates of discount above the normal rate shall, in like manner, be published from time to time by the Board.

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REFUNDING NOTES.

SEC. 27. That the Secretary of the Treasury is hereby authorized and directed to refund one-half of the two per centum United States bonds having the circulation privilege and on deposit with the Treasurer of the United States to secure national bank note circulation at the date of the organization of the Bank. He shall accomplish such refunding by the issue of refunding notes. Such refunding notes shall be a direct obligation of the United States, shall bear interest at the rate of three per centum per annum, shall be payable in gold of the present standard of weight and fineness and only at the Bank or

any of its branches, and shall mature at various periods as determined by the Secretary of the Treasury not exceeding one year from their respective dates of issue, and shall be issued under regulations to be prescribed by the Secretary of the Treasury as to the form, tenor and denominations thereof; provided, that such notes may, at the option of the Secretary of the Treasury, be extended for periods of one year during a period of twenty years from the date of the organization of the Bank.

The Secretary of the Treasury is further hereby authorized and directed to refund such of the two per centum United States bonds having the circulation privilege, the refunding of which is not hereinbefore provided for. He shall accomplish such refunding by the issue of bonds. Such bonds shall be a direct obligation of the United States, shall bear interest at the rate of three per centum per annum, shall be payable in gold coin of the present standard of weight and fineness, shall mature twenty years from the date of issue thereof, shall not have the circulation privilege, and shall be issued under regulations to be prescribed by the Secretary of the Treasury as to the form, tenor, denominations and nature thereof. Both the refunding notes and the three per centum bonds hereinabove authorized shall be exempt from Federal, State, municipal and other taxation both as to income and principal. The Secretary of the Treasury shall upon the first day of July, nineteen hundred and fifteen, and annually thereafter, under regulations to be prescribed by him, allot among the several national banks, in proportion to the respective

amounts of their circulating notes outstanding upon such dates, an aggregate amount of two per centum United States bonds with the circulation privilege, which such banks shall be entitled to exchange for the three per centum United States bonds hereinbefore authorized, provided, that in no one year shall he allot a greater aggregate amount than ~~twenty~~ million dollars thereof, and upon the receipt of such two per centum bonds from such national banks, the Secretary of the Treasury shall effect the exchange. Should any national bank fail in any year so to exchange its full allotment of two per centum bonds for the three per centum bonds as herein provided, the Secretary of the Treasury may permit any other national bank or banks to exchange bonds in an amount equal to the deficiency caused by the failure of any one or more banks to make exchange in such year. At the expiration of twenty years from the passage of this Act every holder of United States two per centum bonds then outstanding shall receive payment therefor at par and accrued interest, and thereafter such bonds shall carry no interest. Nothing contained in this Act shall be construed to alter, impair or restrict the circulation privileges now given by law to any bonds of the United States. *nc*

PURCHASE AND REFUNDING OF TWO PER CENTUM BONDS.

SEC. 28. That the Bank shall from time to time purchase from the several national banks at prices not exceeding par and accrued interest two per centum bonds of the United States up to an amount not exceeding one-half of the total of such bonds on deposit at the date of the organization of the Bank with the Treasurer of the United States to secure circulation. Such pur-

chases shall be made from the several national banks up to amounts not exceeding the par value of one-half of the amounts of bonds owned by the respective national banks and securing their circulations outstanding at the date of the organization of the Bank, and thereupon the Bank shall be responsible for the redemption and retirement of the notes of each such national bank to the amount of the purchase price of the bonds, less interest, so purchased from it, which responsibility shall constitute payment to such national banks, respectively, for such bonds.

Immediately after purchasing such bonds the Bank, under regulations to be prescribed by the Secretary of the Treasury and the Board, shall, from time to time, as and when the national bank notes secured by such bonds are redeemed, exchange such bonds with the Treasurer of the United States, to an amount not exceeding at par the aggregate amount of the face value of such redeemed notes. Such exchange shall be for an equal amount at par of refunding notes hereinbefore authorized, and upon the maturity of any such Refunding Notes the Bank shall pay such Notes, for the account of the United States, to the holders thereof, but it shall, at the option of the Secretary of the Treasury, for a period of twenty years from the date of the organization of the Bank, in lieu of reimbursement for such payments, accept in exchange for such Notes new Refunding Notes of an equal aggregate amount and of analogous form and tenor. The Bank shall pay semi-annually to the United States out of its earnings and before reimbursement of advances made by the United States under the provisions of

equal to
 Sec. 4 of this Act, a tax upon its circulating notes ~~equal~~^{of} to an amount of one and one-half per centum per annum, calculated upon the amount of refunding notes from time to time so outstanding.

STATE BANKS AS DEPOSITORS.

SEC. 29. That from and after the organization of the Bank any bank or banking association or trust company organized under any law of any state or under any law of the United States relating to the District of Columbia may make application to the Board and shall by the Board be authorized to become a depositor in the branch organized or to be organized within the district where the principal office of the applicant is located, but before granting such application, and from time to time thereafter, the Board shall satisfy itself that no provision of the charter of such applicant or of any law applying to such applicant prevents a lawful compliance by the applicant with the requirements of this Act and the regulations of the Board, and unless so satisfied the Board shall refuse such application or require the retirement of such depositor.

Before being admitted as a depositor, and during the period when it shall continue as a depositor, each applicant shall comply with the regulations promulgated from time to time by the Board, and with the following requirements :

(a) To establish and maintain a reserve of the character defined in this Act equal to twelve per cent. of its net deposits as defined by the Board ;

(b) To establish and maintain a paid-up and unimpaired capital to an amount not less than that required of national

banks under the provisions of Section 5138 of the Revised Statutes, as amended ;

(c) To be subject to such examinations of its books and affairs as the Board may from time to time direct ;

(d) To prepare and submit reports of its condition and transactions at such times and in such forms as the Board shall direct.

Upon the issuance of a certificate of authority by the Board each applicant shall be entitled to have all the rights and privileges enjoyed by national banks as depositors in the Bank.

If at any time it shall appear to the Board that any such applicant which has become a depositor has failed or ceased or become unable to comply with the provisions of this section or the regulations of the Board, it shall be within the power of the Board to require such depositor to surrender its rights as a depositor and to pay and discharge in full any and all of its obligations to the Bank and to the United States.

No such applicant admitted as a depositor may surrender its rights or withdraw from its obligations as such until after the expiration of six months from the giving by it to the Bank of a written notice of its intention so to do, nor unless and until it shall have paid or discharged in full all indebtedness and obligation of every kind owing by it to the Bank and to the United States.

BANK EXAMINATIONS.

SEC. 30. That the Board shall, at least once in each calendar year, cause an examination to be made of the assets and affairs

of every depositor, and more frequently if the Board shall consider special examinations necessary, in order to furnish a full and complete knowledge of the condition of any such depositor. The reports of such examinations shall be made in triplicate, one copy thereof filed in the office of the Comptroller of the Currency, one copy in the principal office of the Bank and one copy in the office of the branch of the Bank of the district in which such depositor has its principal office. The person assigned to the making of such examinations shall have power to call together a quorum of the directors of the depositor being examined, who may be required to state under oath the character and circumstances of any asset or liability of such depositor. All examiners, their assistants and clerks, other than those appointed by the board, shall be appointed and employed by the Executive Committees of the respective branches, subject to the approval of the Board and for service within the districts where such branches are located. They shall receive fixed salaries, the amounts whereof shall be determined by the Board. The expense of the examinations herein provided for shall be assessed by the Executive Committee upon the depositors of the respective districts, in proportion to the assets or resources held by such depositors upon the dates of the examinations.

Upon request of any depositor the Executive Committee of any branch may arrange for special or periodical examination of its affairs, the cost and expenses of such examination to be borne by such depositor. All examinations, whether thus regularly provided or specially authorized, shall be so conducted as to

inform the Bank of the actual condition of the depositor examined, and the lines of credit being extended by such depositor, and any other information essential to a knowledge of the condition of such depositor, as may be required.

The Board shall, at least once each year, order an examination of each branch and sub branch, and a report of such examination shall be made in triplicate and one copy thereof filed in the office of the Comptroller of the Currency, one copy in the principal office of the Bank, and one copy in the offices of the respective branches. Such examinations and reports shall be so conducted and made as to exhibit the actual condition of the assets and liabilities of the respective branches, and the amount and character of their reserves, and of the amount, character and maturity of all of their investments and rediscounted paper.

The Comptroller of the Currency shall, at least once in each calendar year, make an audit and examination of the books, accounts and affairs of the Bank, a report of which he shall include in his annual report to the Congress. The cost of such examination shall be borne by the Bank.

No depositor, nor any officer, director or employe thereof, shall make any loan or grant any gratuity to any examiner. Any bank officer, director or employe violating this provision shall be deemed guilty of a misdemeanor, and shall be fined not more than five thousand dollars, and a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any depositor shall be deemed guilty of a misdemeanor, and shall be fined not more than five thousand dollars,

and a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as an examiner for the Bank. No examiner shall perform any other service for compensation while holding such office, nor shall he be an officer or director of any financial institution.

The Comptroller of the Currency shall file one copy of every report made in accordance with the provisions of Sections 5211 and 5240 of the Revised Statutes with the Board, and one copy in the office of the branch within the district in which the respective depositors under examination have their offices.

Section 5241 of the Revised Statutes is hereby amended to read as follows: "No association shall be subject to any visitorial powers other than such as are authorized by this title, or are vested in the directors, officers or employees of the Federal Reserve Bank of the United States, or are vested in the courts of justice."

PROHIBITED COMPENSATION.

SEC. 31. That no officer, director or employe of a national bank shall be beneficiary of or receive, either directly or indirectly, any fee (other than the usual salary or director's fee paid to such officer, director or employe by the national bank and other than a legitimate fee paid to an attorney at law for legal services) or any commission, gift or other consideration other than as aforesaid for or on account of his services, vote or influence as such officer, director or employe, in connection with or in respect of any loan, purchase, sale, payment, exchange or transaction with respect to stocks, bonds, or other investment securities or notes, bills of exchange,

acceptances, bankers' bills, cable transfers or mortgages made by or on behalf of a national bank of which he is such officer, director or employe. Any person violating any provision of this section shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding five years, or by both such fine and imprisonment, in the discretion of the court having jurisdiction; Provided, that this restriction shall not be construed to cover transactions in good faith and in the ordinary course of business between a national bank and another national bank or a banking firm or a state bank or a trust company.

POWERS OF NATIONAL BANKS.

SEC. 32. That from and after the passage of this Act any national bank having a paid up and unimpaired capital stock of not less than one million dollars shall be authorized to establish agencies or branches in foreign countries, and such agencies or branches shall be established and maintained under regulations to be prescribed by the Comptroller of the Currency; and any national bank whose place of business shall be in a city of not less than fifty thousand population shall be entitled to establish branches within the corporate limits of the municipality within which its principal office is located and all national banks shall be authorized to exercise such trust company powers and functions as may be permitted by the laws of the state within which its principal office is located.

REPEAL OF BOND REQUIREMENT.

SEC. 33. That so much of the provisions of Section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and Section four of the Act of June twentieth, eighteen hundred and seventy-four, and Section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes, as require that before any national bank shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds be, and the same is hereby, repealed, and hereafter a national bank, having retired all of its national bank note circulation, may withdraw all United States bonds deposited with the Treasurer of the United States. From and after the organization of the Bank, no national bank not having Government funds on deposit with it shall be required to maintain on deposit with the Treasurer of the United States any bonds of the United States in excess of the amount required to secure the outstanding circulating notes of the national bank.

EXEMPTION FROM TAX.

SEC. 34. That Sections 19 and 20 of the Act of February 8, 1875, shall be amended to read as follows :

“SEC. 19. That every person, firm, association other than national bank associations, and every corporation, State bank, or State banking association other than the Federal Reserve Bank of the United States shall pay a tax of ten per centum

on the amount of their own notes used for circulation and paid out by them."

"SEC. 20. That every such person, firm, association, corporation, State bank, or State banking association, and also every national banking association, shall pay a like tax of ten per centum on the amount of notes of any person, firm, association other than a national banking association, or of any corporation, State bank, other than the Federal Reserve Bank of the United States, or of any town, city or municipal corporation, used for circulation and paid out by them."

SEC. 35. That all existing statutes relating to the control and examination of the plates and dies for the printing of the notes of national banks, and relating to destroying and replacing of worn out, lost, stolen and mutilated notes of national banks, and to the maceration of notes of national banks, and prescribing penalties for imitating or mutilating all notes of the national banks, and for counterfeiting notes of the national banks, and for using or having control, custody or possession of any such plates without authority, and for passing counterfeit circulation, and for taking unauthorized impressions of tools used in the preparation of notes of national banks, or having the same in possession, or for dealing in counterfeit circulation, shall apply in all respects to the notes of the Bank and to the plates, dies and tools of all descriptions connected with the issuance thereof as fully and with the same force and effect as such statutes now apply to the notes of the national banks and to the plates, dies and tools connected with the issuance thereof; and

all penal provisions of existing laws in connection with any acts done with respect to any of the matters or things above described shall be applicable to such acts done with respect to the matters and things relating to the issuance of notes of the Bank.

REPEAL.

SEC. 36. That all provisions of law inconsistent with or superseded by any of the provisions of this Act be, and the same are hereby, repealed.

AMENDMENT.

SEC. 37. That the right to amend, alter, or repeal this Act is hereby expressly reserved.

CONGRESS,
1st SESSION.

H. R. 7837.

IN THE HOUSE OF REPRESENTATIVES,

NOVEMBER , 1913.

AN ACT

To incorporate THE FEDERAL RESERVE BANK OF THE UNITED STATES, establish banking districts, mobilize bank reserves, refund and retire a portion of the national debt, provide for an elastic currency, afford means for rediscounting commercial paper, establish more effective supervision of banking, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled :

That the short title of this Act shall be "The Federal Reserve Act."

DEFINITIONS.

SEC. 2. The words and phrases used in this Act, except where the context clearly indicates a contrary intention, shall be defined as follows :

The word "Committee" shall mean the Organization Committee of the Federal Reserve Bank of the United States.

The word "Bank" shall mean the Federal Reserve Bank of the United States and shall include all the branches, sub-branches and agencies thereof.

The word "Board" shall mean the Board of seven directors of the Federal Reserve Bank of the United States, known as the Federal Reserve Board.

The word "Branch" shall mean a branch of the Federal Reserve Bank of the United States.

The words "Executive Committee" shall mean the Executive Committee of a branch of the Federal Reserve Bank of the United States.

The words "national bank" shall mean a national banking association now or hereafter organized or existing.

The word "depositor" shall mean such a bank or trust company, organized under the laws of state or the laws of the United States relating to the District of Columbia, or such a national bank, as shall have a deposit in the Federal Reserve Bank of the United States.

The word "district" shall mean a banking district from time to time created and designated by the Federal Reserve Board.

The words "net deposits" shall mean net deposits as from time to time defined by the Comptroller of the Currency.

The words "sub-branches" shall mean subordinate officers of branches of the Federal Reserve Bank of the United States.

The word "agencies" shall mean agencies of the Federal Reserve Bank of the United States located in foreign countries.

ORGANIZATION COMMITTEE.

SEC. 3. That as soon as practicable after the passage of this Act the President shall appoint a committee of five, to be designated The Federal Reserve Bank Organization Committee, ~~hereinafter called the "Committee."~~ The Committee:

(a) Shall select a Chairman and Secretary and such other officers as it may deem necessary from its own members and appoint assistant officers, clerks and other necessary employes;

(b) Shall organize the Federal Reserve Bank of the United States and branches thereof;

(c) Shall adopt a seal for the Bank, which shall, during the process of organization thereof, be the seal of the Committee, and adopt seals for the several branches, which shall correspond to the seal of the Bank with the name of the branch added;

(d) Shall invite and receive popular subscriptions at par to the capital stock of the Bank, in accordance with the provisions of Sec. 5 of this Act and under regulations to be prescribed by the Committee;

(e) Shall make the certificate provided in Sec. 6 hereof;

(f) Shall do all other things necessary to effect the corporate organization of the Bank.

SEC. 4. That there is hereby appropriated out of any money in the Treasury not otherwise appropriated, a sum sufficient to establish and provide accommodations for the Bank and its branches, not to exceed five hundred thousand dollars for the Bank and each branch thereof, and for the purpose of carrying out the provisions of this Act, in accordance with the following limitations, viz: Each member of the Committee shall receive in full compensation for his services the sum of \$10,000, besides his actual and necessary traveling expenses, and in carrying out the provisions of this Act the Committee is authorized to incur such expenses as it shall deem necessary, not exceeding the sum of \$250,000, all of which compensation and expenses shall be payable by the Treasurer of the United States upon vouchers approved by the Committee. The balance of the appropriation herein made shall be disbursed by the Board for the purposes herein set forth, payments to be made by the Treasurer of the United States upon vouchers approved by the Board. The total amount of the

an equal amount to

appropriation herein made shall, from time to time, be reimbursed to the United States by the Bank from its net earnings after the payment of dividends to the stockholders and before the establishment of a surplus fund.

STOCK ISSUE.

SEC. 5. That the capital stock of the Bank shall be \$100,000,000, divided into ~~shares~~ one million shares of a par value of \$100 each; such stock shall have no voting power, and shall be free of all Federal, State, [Municipal or other taxes, except that the holders thereof shall be] subject to the provisions of federal income tax laws with respect to the income derived therefrom. The holders of such stock shall be entitled to dividends thereon at the rate of five per centum per annum and no more, which [dividends shall [be [cumulative, and upon dissolution of the Bank such holder shall receive the par amount of such stock and all balance of the assets shall be paid to the United States.

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Such stock shall be offered for popular subscription at par by the Committee under regulations to be prescribed by it and within six months after the passage of this Act. In case the amount of capital stock is over-subscribed, the Committee shall first allot the shares of stock to the subscribers for the smallest number of shares.

Organization Certificate

SEC. 6. After the popular subscriptions to the capital stock of the Bank shall have been closed, the Committee shall make an organization certificate specifying

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(a) The names of the several subscribers to the stock, with

the number of shares subscribed for by them respectively;

allotted to

lines on

(b) The form of stock certificate adopted by the Committee and the methods for the transfer thereof and such other facts in connection with the organization as the Committee may determine.

details

Such certificate shall be executed under the name of the Committee by the Chairman and Secretary thereof and attested with its seal and shall be forthwith transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Charter

SEC. 7. Upon receipt of such certificate, the Comptroller of the Currency shall issue a charter of incorporation to the persons who shall have been appointed by the President and confirmed by the Senate as the directors of the Bank, which charter shall contain a recital of the compliance with the provisions of this Act by the Committee and the subscription to the capital stock of \$100,000,000 of the Federal Reserve Bank of the United States; and the issuance of such charter by the Comptroller of the Currency, countersigned by the Secretary of the Treasury, shall complete the corporate organization of The Federal Reserve Bank of the United States. Upon such organization, the Board and their successors and the stockholders of the Bank as they may from time to time exist, shall be a body corporate, to be known as "The Federal Reserve Bank of the United States," to have a term of existence of fifty years from the date of the issuing of the organization certificate by the Comptroller of the Currency, countersigned by the Secretary of the Treasury, to have the power to contract, to sue and be sued, to acquire, own, lease, and hold such real and personal property as may be necessary for

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\$ that have been made

to buy, sell and deal in gold and silver bullion,

coin gold

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promissory notes and other evidences of indebtedness, and to discount notes, bills and acceptances, and to have such further powers, privileges and functions as are hereinafter specified in this Act. The bank shall be located in the City of Washington, D. C., and shall have twelve branches located in cities selected by the Board and sub branches wherever designated by the board.

Government of the Bank

SEC. 8. The government and control of the Bank shall be and hereby is vested in a board of seven directors to be known as the Federal Reserve Board, whose powers shall be the same as those conferred upon boards of directors of national ~~banking associations~~ under existing law not inconsistent with the provisions of this Act. Such directors shall be appointed and one of them shall be designated as Governor and another of them shall be designated as Deputy Governor by the President of the United States all by and with the advice and consent of the Senate. Such selection shall be made from persons qualified by experience and training for the proper discharge of the duties imposed upon them by this Act, and in making such selections due weight shall be given to the various commercial interests of the different sections of the country, and at least three of the members shall be persons of recognized wide banking and financial experience.

banks

The term of office of each member of the Board shall be fourteen years, except that the terms of office of six of the persons first appointed shall expire at the end of two, four, six, eight, ten, and twelve years, respectively. The President shall have power to remove any member of the Board for cause after due hearing, such removal and his reasons therefor to be communicated by him to

The Senate. The Governor and the Deputy Governor shall, subject

to the supervision of the Board, be the active executive officers of the Bank. No member of the Board shall be an officer or director of any bank or banking institution, or hold stock in any bank or banking institution, and before entering on his duties as a member of the Board, he shall certify under oath that he has complied with this requirement. Vacancies caused by death, resignation, retirement or removal of the Governor, Deputy Governor or other members of the Board, shall be filled by the President by and with the advice and consent of the Senate, and persons appointed to fill such vacancies shall hold office for the unexpired term of the member to whose place he is appointed. Members of the Board shall take an oath of office which shall be filed with the Comptroller of the Currency, and devote all their time to their official duties, and shall retire at the age of seventy years. The Governor, or in his absence the Deputy Governor, shall act as Chairman of the Board. The salary of the Governor and Deputy Governor shall be \$17,500 and \$16,000 per annum, respectively, and of the other members of the Board \$15,000 per annum. The Board shall make report annually of the operations of the Bank to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of Congress. The Board shall fix a date to be within six months after its appointment and qualification, upon which subscriptions to the stock of the Bank shall be paid in full. Such date may be extended by the Board with the approval of the President of the United States.

any
to which shall be attached the Certificate of the Comptroller of the Currency certifying that he has made an audit and examination of the books accounts and affairs of the Bank
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which shall

Any subscriber failing to pay for the shares allotted to him by the Committee shall forfeit his right thereto and to his five per cent. deposit, which deposit shall be so forfeited to the

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Bank, and such shares may thereupon be allotted by the Board to other subscribers. Every subscriber shall accompany his subscription with cash or a certified check for five per cent. of the total amount thereof, ~~such five per cent. of the subscription to be forfeited upon failure of the subscriber to pay his subscription in full for the amount allotted to him.~~ The proceeds of the five per cent. payment of the stock subscription, shall be deposited in national banks to the credit of the Committee, and by the Committee assigned and transferred to the credit of the Bank upon its organization.

In case the full amount of the capital stock shall not have been subscribed for and paid for in full, the Board shall forthwith allot the portion so unsubscribed and paid for to the several national banks then in existence in proportion, as nearly as may be convenient, to their respective amounts of capital, and each such allotment shall fix a liability upon each of the said national banks to subscribe for and take the number of shares so allotted, such liability to accrue as of the date of such allotments.

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Upon the payment of the ninety-five per cent. residue of the stock subscription, the proceeds shall be deposited with national banks by and to the credit of the Bank, and shall be so kept on deposit pending the opening of the Bank for business.

BRANCH RESERVE BANKS.

SEC. 9. That the Board shall create and designate in the continental United States, exclusive of Alaska, twelve banking districts for the purpose of establishing within each of such districts a branch of the Bank. Such districts shall be established with due regard to the convenience and customary course of business of

the community and shall not necessarily coincide with the boundaries of such state or states as may be wholly or in part included within any given district. The Board shall also establish within each district a branch of the Bank which shall be designated by prefixing the name of the city in which such branch is established to the words "Branch, Federal Reserve Bank". The number of such branches and of such districts may be reduced by the Board when in its judgment the interests of trade and commerce so require; and in like manner the number of such branches and districts may be increased by the Board after two years from the time of the organization of the Bank.

The management of such branches shall be vested in an Executive Committee consisting of five persons to be appointed by the Board, who shall be residents of the districts in which they serve, shall devote all their time to their official duties, and shall retire at the age of seventy years. Each member of ~~the~~ Executive Committee before entering upon the discharge of ~~their~~ duties shall take an oath of office which shall be filed with the Board. The term of office of each member of such Executive Committee shall be ten years, except that terms of office of four of the persons first appointed by the Board upon each such Executive Committee shall expire at the end of two, four, six and eight years, respectively. The Board shall fix the compensation to be received by the members of the Executive Committee and shall designate ~~the~~ chairman and vice-chairman for each Executive Committee. The chairman, or in his absence the vice-chairman, shall preside over the meetings of such Executive Committee and, subject to the supervision of the Executive Committee, shall be the active executive officers of the branches. The Executive

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Committee shall have authority to establish and discontinue sub-branches, within their respective districts, ~~subject to the approval of the Board.~~ No member of an Executive Committee shall be an officer or a director of any bank or banking institution, or hold stock in any bank or banking institution and, before entering upon his duties as a member of such Committee, he shall certify under oath that he has complied with this requirement. Vacancies caused by death, resignation, retirement or removal shall be filled by the Board and any person appointed to fill such vacancy shall hold office for the unexpired term of the member to whose place he is appointed. Members of Executive Committees may be summarily suspended and subsequently removed for cause by the Board after due hearing. Each such Executive Committee shall annually make a report of the operations of its branch to the Board to be by ~~them~~ transmitted with ~~their~~ annual report to the Speaker of the House of Representatives. Such report of the Executive Committee shall contain reports from each sub-branch established in the district.

and shall be removed at the request of the depositors of a district, expressed by a vote of the Board of directors of such depositors of

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All actions of the Executive Committees shall be subject to the approval of the Board.

POWERS OF THE FEDERAL RESERVE BOARD.

SEC. 10. That the Board shall be authorized and empowered:

- (a) To govern and control the operations of the Bank;
- (b) To supervise and control the actions of the Executive

Committees.

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(c) To supervise and regulate the issue and retirement of notes of the bank, and to prescribe the form, tenor and denomination of such notes;

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(d) To suspend in an emergency all reserve requirements of the Bank for thirty days, and to continue such suspension for periods not to exceed fifteen days;

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(e) To suspend in an emergency all reserve requirements relative to National Banks for thirty days, and to continue such suspension for periods not to exceed fifteen days;

(f) To examine, at its discretion, the accounts, books and affairs of depositors;

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(g) To call for statements of condition of all depositors, in such form as they may prescribe;

(h) To open and maintain banking accounts in foreign countries, to establish agencies in foreign countries and to make regulations for the conduct of the foreign business of the branches through such agencies.

and exercise

The enumeration of the powers hereinabove set forth shall not be deemed to be a limitation upon the general authority of the Board to perform all the duties, functions or services specified or implied in this Act.

application
earnings

SEC. 11. That the net earnings of the Bank, after deducting taxes, expenses and proper reserves against the acquisition of permanent property, shall be devoted, first, to the payment of a five per cent. cumulative dividend upon the stock, and second, after the reimbursement to the United States of the advances appropriated under Sec. 3 of this Act, to the accumulation of a surplus of Twenty million dollars, and after the accumulation of such surplus, one-half of such earnings above said dividend require-

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ments shall be paid to the United States and the other one-half devoted to the accumulation of a further surplus until the total surplus reaches Fifty million dollars, and thereafter all earnings beyond such dividend requirements shall be paid to the United States so long as such surplus is maintained. The earnings so distributed to the United States shall be applied by the Secretary of the Treasury, not more than three months after the receipt thereof, to the redemption of outstanding bonds of the United States, after advertisement published in each district at least once a week for four successive weeks immediately preceding the date fixed for such redemption, which advertisement shall call for the tender of bonds, and the Secretary of the Treasury shall thereupon in his discretion purchase of the bonds so tendered those offered at the lowest prices up to the amount of such earnings in his hands at such redemption date.

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BUSINESS OF THE FEDERAL RESERVE BANK.

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SEC. 12. The Bank shall conduct business solely with the United States Government, with the National banks, and with such other banks and trust companies as may from time to time be permitted to deposit their reserves with the bank, except as otherwise provided in this Act. The accounts and transactions of all depositors shall be confined to the branch and subbranches of the banking district in which it is located.

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Fiscal Agency

SEC. 13. That the Bank shall be the fiscal agent and sole depository of the Government, except that for purposes of collection and transfer only the Secretary of the Treasury may designate national banking associations as Government depos-

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The Secretary of the Treasury shall gradually effect a transfer of the general fund of the Treasury to the Bank, which transfer shall be completed within twelve months after the organization of the Bank. Such transfer, however, shall not include the five per centum fund for the redemption of outstanding national bank notes, nor that portion of the general fund of the Treasury held by government depositories or balances of disbursing officers in the insular possessions or territories of the United States so long as no branch of the Bank exists in such possessions or territories.

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or Sub Branch

On and after a date to be determined by the Secretary of the Treasury and the Board, but not later than six months from the organization of the Bank, all the revenues of the United States shall be regularly deposited in the Bank and disbursements shall be made by checks drawn against such deposits, except revenues and disbursements in the insular possessions and territories of the United States.

Five Per Cent Redemption Fund

SEC. 14. That the Bank shall be required to maintain in behalf of the national banks which have notes in circulation the five per centum redemption fund held in the general fund of the United States Treasury and any deficiencies in the said fund shall be forthwith paid by the Bank to the Treasury of the United States upon demand, and the Bank shall be forthwith reimbursed by the national ~~banking associations~~ in whose behalf such payment is made.

Bank

GENERAL FUNCTIONS OF THE FEDERAL RESERVE BANK.

SEC. 15. That the Bank shall have power :

(a) To purchase and sell the obligations or other securities of the United States, as defined by Section 5413 of the Revised Statutes, and also such of the obligations of the Territories and Insular possessions of the United States as are guaranteed principal and interest by the United States ;

(b) To purchase, sell and deal in gold coin and bullion, to make loans thereon, and to contract for loans of gold coin and bullion, with or without giving security therefor, which security may include the bonds and other obligations of the United States owned by the Bank ;

(c) To receive from any depositor for deposit or collection current funds in lawful money, national bank notes, notes of the Bank, or checks, ~~or drafts upon solvent banks~~ payable upon presentation ;

(d) With the acceptance or endorsement of any depositor, to discount notes, drafts, and bills of exchange arising out of commercial transactions, such notes, drafts and bills to be of a character to be determined and defined by the Board. Such definition shall only include notes, drafts and bills of exchange issued or drawn for agricultural, industrial or commercial purposes, or which shall represent a bona fide sale of agricultural products or other goods, wares or merchandise, or which shall have been issued for the purchase or sale of the bonds or other obligations of the United States. Such definition shall not, however, include notes, drafts or bills of exchange issued or drawn for the purpose of carrying agricultural products or other goods, wares or

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merchandise, or for carrying or trading in stocks, bonds or investment securities, other than the bonds and obligations of the United States. Notes, drafts and bills of exchange admitted to rediscount, as so defined under this paragraph, must mature within not exceeding ninety days from the date of rediscount.

(e) With the acceptance or endorsement of any depositor to discount notes, drafts or bills of exchange which are based upon the exportation or importation of goods, wares, merchandise or agricultural products, as determined and defined by the Board, and which mature within not exceeding six months from the date of discount;

(f) To purchase from depositors and to sell with or without its endorsement, bills of exchange arising out of commercial transactions as determined and defined by the Board and payable in foreign countries, but such bills of exchange must mature in not exceeding ninety days from the date of the purchase and must bear the signature, endorsement or acceptance of two or more responsible parties, of which at least one shall be that of a depositor;

(g) Under rules and regulations prescribed by the Board, to purchase and sell in the open market, either from or to depositors or through its agencies or from or to foreign banks, firms, corporations or individuals, notes, drafts and bills of exchange of the kinds and maturities by this Act made eligible for re-discount, and cable transfers;

(h) To open and maintain banking accounts in foreign countries, and establish agencies in such countries, for the purpose of purchasing, selling, collecting, and dealing in foreign bills of exchange, gold coin and bullion, and cable transfers, and to buy and

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sell, with or without its endorsement, through such correspondents or agencies, prime foreign bills of exchange, arising out of commercial transactions, as may be defined by the Board, which have not exceeding ninety days to run, and which bear the signature, acceptance or endorsement of two or more responsible parties.

DOMESTIC EXCHANGES.

SEC. 16. That the Bank shall receive at par all checks, drafts or other obligations of the Bank and each of its branches or sub-branches. The Executive Committee of each branch shall from time to time, subject to the approval of the Board, determine and publish exchange and collection charges to be made with respect to all checks, drafts and other exchange and collection items ~~of banks and trust companies, other than those hereinbefore mentioned,~~ received in accordance with paragraph (c), Section 15 of this Act. Such charges shall not be in excess of the approximate actual cost of collection of such checks, drafts and other items.

of The Bank

Priority of Lien

SEC. 17. That the Bank shall have a first and paramount lien upon all of the assets of every national bank for all debts and liabilities due from it to the Bank, except as to the claims of the United States, and the Bank shall likewise have a first and paramount lien upon all the assets of every other depositor for all debts and liabilities due from it to the Bank, except debts due by such a depositor to the United States and to the State of its incorporation, and except with respect to trust funds held by trust companies.

LIMITATIONS OF DISCOUNTS.

SEC. 18. That no depositor shall be entitled to discount notes, drafts, bills of exchange or acceptances, with the Bank, in excess of the amount of the unimpaired capital and surplus of such depositor, nor shall the aggregate of such notes, drafts, bills of exchange, and acceptances, upon which any one person, company, firm or corporation shall be primarily liable rediscouted for any one depositor, at any time exceed ten per centum of the unimpaired capital stock and surplus of such depositor; but this restriction shall not apply to the discount of bills of exchange payable outside of the continental United States, drawn in good faith against existing values.

RESTRICTION OF INDEBTEDNESS OF NATIONAL AND STATE BANK
~~ING ASSOCIATIONS.~~

SEC. 19. That no national bank shall at any time be indebted or in any way liable to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following :

- (a) Notes of circulation;
- (b) Moneys deposited with or collected by the national bank;
- (c) Bills of exchange or drafts drawn against credits due the national bank, or money actually on deposit to the credit of the national bank or due thereto;
- (d) Liabilities to the stockholders of the national bank for

dividends and reserve profits;

(e) Liabilities incurred under the provisions of paragraph (d), Section 15, of this Act;

(f) Liability as endorser on notes, drafts and bills of exchange, arising out of commercial transactions, as defined in paragraph (f), Section 15, of this Act;

(g) Liability as acceptor of drafts or bills of exchange, subject to the limitations of Section 20, of this Act;

Section 5202 of the Revised Statutes of the United States is hereby repealed.

Depositors other than national banks, shall be subject to the limitations defined in Section 18 of this Act.

ACCEPTANCES.

SEC. 20. That any national bank may at its discretion accept drafts or bills of exchange drawn upon it, having not more than six months' sight to run, and growing out of commercial transactions as described in this Act and as defined by the Board, but no national bank shall accept such drafts or bills of exchange to an amount at any time exceeding in the aggregate one-half of its paid-up and unimpaired capital stock and surplus.

CIRCULATING NOTES.

SEC. 21. That the Bank may issue its circulating notes, which shall be receivable at par in all parts of the United States in payment of all taxes and excises and all other dues to the United States and also for all salaries and other debts and demands owing by the United States to individuals, corporations and associations within the United States and its possessions except interest on the public debt. Such notes shall be a first lien on all

of the assets of the Bank and shall be redeemable on demand at any office of the Bank in lawful money of the United States. As long as any such notes are outstanding the Bank shall segregate in its own vaults and carry in a special reserve account on its books gold coin or gold bullion or United States gold certificates to the amount of the face value of the notes from time to time so outstanding or, at its option, shall so segregate gold coin or gold bullion or United States gold certificates to the amount of not less than ~~50~~ per centum of such face value, and collaterals, consisting of promissory notes and bills accepted for rediscount under the provisions of Sec. 15 of this Act, or refunding notes of the United States, hereinafter provided for, or both such collaterals and refunding notes, equal at the face value to ~~100~~ per cent of the face value of the notes from time to time so outstanding. Such collaterals may be exchanged from time to time for other collaterals or refunding notes within the limitations aforesaid and of equal face value.

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PRINTING, DENOMINATIONS AND FORM OF THE CIRCULATING NOTES
OF THE BANK.

SEC. 22. That in order to furnish suitable notes for the Bank, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, upon the distinctive or special paper which has heretofore or may hereafter be lawfully adopted by him for printing United States notes, and numbered, such quantity of notes, in blank, of the denominations of five

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lars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required by the Bank. ~~Such notes shall be the same. Such notes shall upon their face be certified by the written or engraved signatures of the Treasurer and Register and by the imprint of the seal of the Treasury. They shall also~~ express upon their face the promise of the bank to pay on demand, attested by the written or engraved signature of the Governor or Deputy Governor and Cashier and bear the engraved imprint of the seal of the Bank.

RESERVES OF NATIONAL BANKING ASSOCIATIONS.

SEC. 23. That from and after a date to be fixed by the Board, in no event longer than five years nor less than thirty months from the date of the organization of the Bank, all national banks shall be required to keep and maintain a reserve of not less than twelve per centum of their net deposit liabilities, as defined by the Comptroller of the Currency. Any part of such reserve, but in no event less than one-half thereof, may consist of a deposit with the Bank, and the remainder shall be in gold and lawful money in the vaults of the national bank.

From and after the organization of the Bank the Board shall effect as rapidly as it may deem wise under commercial conditions from time to time existing, and complete within the periods herein provided, the change to the minimum reserve requirements above set forth. Such change shall be effected by the publication of notices to all national banks which shall state the percentage of the total reserve which must thirty ~~months~~ thereafter, and until further notice, be deposited with the Bank, and the amount which thereafter may

be held in gold or lawful money in its vaults. Such requirements, however, shall fairly consider the commercial and industrial conditions of the country and its various sections and be so apportioned and determined as to cause the least restrictions upon the business of national banks, and compliance with such directions of the Board shall be mandatory upon national banks, and in such direction the Board shall give due weight to the distinctions recognized under existing laws between country banks, reserve city banks and central reserve city banks, but such directions shall be uniform with respect to banks within each of such classes.

Abolition of national Bank Classification

SEC. 24. That from and after the organization of the ~~Federal Reserve Bank~~ no action shall be taken under the provisions of Section 1 of the Act of March 3, 1903, or Section 2 of the Act of March 3, 1887, providing for the designation of cities as additional reserve cities and additional central reserve cities, respectively, and from and after the establishment of the new minimum reserve provided in this Act the classification of national banks, as now provided by Section 5191 of the Revised Statutes of the United States, as amended, shall be abolished.

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RESERVES

SEC. 25. That the Bank shall establish and maintain at all times a reserve equal to not less than fifty per centum of the net deposit liabilities of the Bank. Such reserve shall consist of gold coin, gold bullion, United States gold certificates, and lawful money of the United States.

Other and Silver

RATES OF DISCOUNT.

SEC. 26. The Board shall establish from time to time a normal rate of discount which shall be uniform at branches and sub branches of the Bank, except as herein provided, and the

Board shall renew or change such normal rate at stated meetings to be held at least once in each week and shall immediately publish the normal rate so renewed or changed. The normal rate of discount so established shall be charged by the branches and sub-branches of the Bank to depositors with respect to all rediscounts of such depositors up to an amount not exceeding the amount of ~~20~~ per centum of the unimpaired capital and surplus of each such depositor; and the rate of discount charged by the branches and sub-branches of the bank upon all rediscounts in excess of such twenty per cent shall be increased by the Board for each ten per cent of increase in such rediscounts above such twenty per cent. The additional rates of discount established by the Board upon such rediscounts in excess of said twenty per cent shall in like manner be uniform throughout the country, but such additional rates may be established by the Board in progressively increasing amounts for each ten per cent of excess rediscounts above the said twenty per cent, and such additional rates of discount above the normal rate shall, in like manner, be published from time to time by the Board.

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REFUNDING NOTES.

SEC. 27. The Secretary of the Treasury is hereby authorized and directed to refund one-half of the 2 per cent. United States bonds having the circulation privilege and on deposit with the Treasurer of the United States to secure National bank note circulation at the date of the organization of the Bank. He shall accomplish such refunding by the issue of refunding notes. Such refunding notes shall be a direct obligation of the United States, shall bear interest at the rate of three per cent per annum, shall be payable

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The Secretary of the Treasury is further hereby authorized and directed to refund such of the two per centum United States bonds having the circulation privilege, the refunding of which is not hereinbefore provided for. He shall accomplish such refunding by the issue of bonds. Such bonds shall be a direct obligation of the United States, shall bear interest at the rate of three per centum per annum, shall be payable in gold coin of the present standard of weight and fineness, shall mature twenty years from the date of issue thereof, shall not have the circulation privilege, and shall be issued under regulations to be prescribed by the Secretary of the Treasury as to the form, tenor, and nature thereof. Both the refunding notes and the three per centum bonds hereinabove authorized shall be exempt from Federal, State, municipal and other taxation both as to income and principal. The Secretary of the Treasury shall upon the first day of July, nineteen hundred and fifteen, and annually thereafter, under regulations to be prescribed by him, allot among the several National banks, in proportion to the respective amounts of their circulating notes outstanding upon such dates, an aggregate amount of two per centum United States bonds with the circulating privilege, which such banks shall be entitled to exchange for the three per centum United States bonds hereinbefore authorized, provided, that in no one year shall he allot a greater aggregate amount than twenty million dollars thereof, and upon the receipt of such two per centum bonds from such National banks, the Secretary of the Treasury shall effect the exchange. Should any National bank fail in any year so to exchange its full allotment of two per centum bonds for the three per centum bonds as herein

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provided, the Secretary of the Treasury may permit any other

National bank or banks to exchange bonds in an amount equal to the deficiency caused by the failure of any one or more banks to make exchange in such year. At the expiration of twenty years from the passage of this Act every holder of United States two per centum bonds then outstanding shall receive payment therefor at par and accrued interest, and thereafter such bonds shall carry no interest. Nothing contained in this Act shall be construed to alter, impair or restrict the circulation privileges now given by law to any bonds of the United States.

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Immediately after purchasing such bonds the Bank, under regulations to be prescribed by the Secretary of the Treasury and the Board, shall, from time to time, as and when the national bank notes secured by such bonds are redeemed, exchange such bonds with the Treasurer of the United States, to an amount not exceeding at par the aggregate amount of the face value of such redeemed notes. Such exchange shall be for an equal amount at par of refunding notes hereinbefore authorized, and ~~the~~

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in gold of the present standard of weight and fineness and only at the Bank or any of its branches, and shall mature at various periods as determined by the Secretary of the Treasury not exceeding one year from their respective dates of issue, and shall be issued under regulations to be prescribed by the Secretary of the Treasury as to the form, tenor and denomination thereof; provided, that such notes may, at the option of the Secretary of the Treasury, be extended for periods of one year during a period of twenty years from the date of the organization of the Bank.

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Purchase and Refunding of Two Per Centum Bonds

SEC. 28. That the Bank shall from time to time purchase from the several national banks at prices not exceeding par and accrued interest two per cent bonds of the United States up to an amount not exceeding one-half of the total of such bonds on deposit at the date of the organization of the Bank with the Treasurer of the United States to secure circulation of such national banks. Such purchases shall be made from the several national banks up to amounts not exceeding the par value of one half of the amounts of bonds owned by the respective national banks and securing their circulations outstanding at the date of the organization of the Bank, and thereupon the Bank shall be responsible for the redemption and retirement of the notes of each such national bank to the amount of the purchase price of the bonds, less interest, so purchased from it, which responsibility shall constitute payment to such national banks, respectively, for such bonds.

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Immediately after purchasing such bonds, the Bank shall,

of the United States for an equal amount at par of Refunding Notes hereinbefore authorized and upon the maturity of any such Refunding Notes the Bank shall pay such Notes, for the account of the United States, to the holders thereof, but it shall, at the option of the Secretary of the Treasury, for a period of twenty years from the date of the organization of the Bank, in lieu of reimbursement for such payments, accept in exchange for such Notes new Refunding Notes of an equal aggregate amount and of analogous form and tenor. The Bank shall pay semi-annually to the United States out of its earnings and before reimbursement of advances made by the United States under the provisions of Sec. 28 of this Act, a tax upon its circulating notes equal to an amount of one and one-half per cent, per annum, calculated upon the amount of refunding notes from time to time so outstanding.

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STATE BANKS AS DEPOSITORS.

SEC. 29. That from and after the organization of the Bank any bank or banking association or trust company organized under any law of any state or under any law of the United States relating to the District of Columbia may make application to the Board and shall by the Board be authorized to become a depositor in the branch organized or to be organized within the district where the principal office of the applicant is located, but before granting such application, and from time to time thereafter, the Board shall satisfy itself that no provision of the charter of such applicant or of any law applying to such applicant prevents a lawful compliance by the applicant with the requirements of this

Before being admitted as a depositor, and during the period when it shall continue as a depositor, each applicant shall comply with the regulations promulgated from time to time by the Board, and with the following requirements :

(a) To establish and maintain a reserve of the character defined in this Act equal to twelve per cent. of its net deposits as defined by the Board ;

(b) To establish and maintain a paid-up and unimpaired capital to an amount not less than that required under the provisions of Section 5138 of the Revised Statutes ~~of the United States~~ ^{of national Banks}, as amended ;

(c) To be subject to such examinations of its books and affairs as the Board may from time to time direct ;

(d) To prepare and submit reports of its condition and transactions at such times and in such forms as the Board shall direct.

Upon the issuance of a certificate of authority by the Board each applicant shall ~~become~~ ^{be} entitled to have all the rights and privileges enjoyed by national banks as depositors in the Bank.

If at any time it shall appear to the Board that any such applicant ~~which~~ ^{lc} has become a depositor has failed or ceased or become unable to comply with the provisions of this section or the regulations of the Board, it shall be within the power of the Board to require such depositor to surrender its rights as a depositor and to pay and discharge in full any and all of its obligations to the Bank and to the United States.

No such applicant admitted as a depositor may surrender its ~~right~~ ^S or withdraw from its obligation as such until after the ex-

written notice of its intention so to do, nor unless and until it shall have paid or discharged in full all indebtedness and obligation of every kind owing by it to the Bank and to the United States.

BANK EXAMINATIONS.

SEC. 30. That the Board shall, at least once in each calendar year, cause an examination to be made of the assets and affairs of every depositor, and more frequently if the Board shall consider ~~X~~ special examinations necessary, in order to furnish a full and complete knowledge of the condition ~~X~~ of any such depositor. The reports of such examination shall be made in triplicate, one copy thereof filed in the office of the Comptroller of the Currency, one copy in the principal office of the Bank and one copy in the office of the branch of the Bank ~~within~~ the district in which such depositor has its principal office. The person assigned to the making of such examinations shall have power to call together a quorum of the directors of the depositor being examined, who may be required to state under oath the character and circumstances of any asset or liability of such depositor. All examiners, their assistants and clerks, other than those appointed by the board, shall be appointed and employed by the Executive Committees of the respective branches, subject to the approval of the Board and for service within the districts where such branches are located. They shall receive fixed salaries, the amounts whereof shall be determined by the Board. The expense of the examinations herein provided for shall be assessed by the

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~~§~~ The Comptroller of the Currency shall, at least once in each calendar year, make an audit and examination of the books, accounts and affairs of the Bank, a report of which he shall include in his annual report to Congress. The cost of such examination shall be paid by the Bank.

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Upon request of any depositor the Executive Committee of any branch may arrange for special or periodical examination of its affairs, the cost and expenses of such examination to be borne by such depositor. All examinations, whether thus regularly provided or specially authorized, shall be so conducted as to inform the Bank of the actual condition of the depositor examined, and the lines of credit being extended by such depositor, and any other information essential to a knowledge of the condition of such depositor, as may be required.

The Board shall, at least once each year, order an examination of each Branch of each sub branch, and a report of such examination shall be made in triplicate and one copy thereof filed in the office of the Comptroller of the Currency, one copy in the principal office of the Bank, and one copy in the office of the respective Branches. Such examinations and reports shall be so conducted and made as to disclose the actual condition of the assets and liabilities of the respective Branches, and the amount and character of their reserves, and of the amount, character and maturity of all of their investments and rediscounted paper.

No depositor, nor any officer, director or employe thereof, shall make any loan or grant any gratuity to any examiner. Any bank officer, director or employe violating this provision shall be deemed guilty of a misdemeanor, and shall be fined not more than five thousand dollars, and a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any depositor shall be deemed guilty of a misdemeanor, and shall be fined not more than five thousand dollars, and a further sum equal to the money so loaned or gratuity given,

and shall forever thereafter be disqualified from holding office as

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an examiner for the Bank. No examiner shall perform any other service for compensation while holding such office, nor shall he be an officer or director of any financial institution.

The Comptroller of the Currency shall file one copy of every report made in accordance with the provisions of Sections 5211 and 5240 of the Revised Statutes with the Board, and one copy in the office of the Branch within the district in which the respective depositors under examination have their offices.

Section 5241 of the Revised Statutes is hereby amended to read as follows: "No association shall be subject to any visitorial powers other than such as are authorized by this title, or are vested in the directors, officers or employees of the Federal Reserve Bank of the United States, or are vested in the courts of justice."

PROHIBITED COMPENSATION.

SEC. 31. That no officer, director or employe of a national bank shall be beneficiary of or receive, either directly or indirectly, any fee (other than the usual salary or director's fee paid to such officer, director or employe by the national bank and other than a legitimate fee paid to an attorney at law for legal services) or any commission, gift or other consideration other than as aforesaid for or account of his services, vote or influence as such officer, director or employe, in connection with or in respect of any loan, purchase, sale, payment, exchange or transaction with respect to stocks, bonds, or other investment securities or notes, bills of exchange, acceptances, bankers' bills, cable transfers or mortgages made by or on behalf of a national bank of which he is such officer, director or employe. Any person violating any provision of this section

shall be punished by a fine of not exceeding \$5,000 or by im-

prisonment not exceeding five years, or both such fine and imprisonment, in the discretion of the court having jurisdiction. Provided, that this restriction shall not be construed to cover transactions in good faith and in the ordinary course of business between a national bank and another national bank or a banking firm or a state bank or a trust company.

by
Power of national Bank

SEC. 32. That from and after the passage of this Act any national bank having a paid up and unimpaired capital stock of not less than one million dollars shall be authorized to establish agencies or branches in foreign countries, such agencies or branches shall be established and maintained under regulations to be prescribed by the Comptroller of the Currency and any national bank whose place of business shall be in a city of not less than fifty thousand population shall be entitled to establish branches within the corporate limits of the municipality, within which its principal office is located and that all national banks shall be authorized to exercise such trust company powers and functions as may be permitted by the laws of the state within which its principal office is located.

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SEC. 33. That so much of the provisions of Section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and Section four of the Act of June twentieth, eighteen hundred and seventy-four, and Section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes, as require that before any National banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds be, and the same is hereby, repealed, and hereafter the National

Repeal of Bond Requirement

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~~Sec. 7~~ From and after the organization of the Bank, no national bank not having Government funds on deposit with it shall be required to maintain on deposit with the Treasurer of the United States any bonds of the United States in excess of the amount required to secure the outstanding circulating notes of the national bank.

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Exemption from 20

bank, having retired all of its National bank note circulation, may withdraw all United States ~~Government~~ bonds deposited with the Treasurer of the United States.

SEC. 34. That Sec. 19 and Sec. 20 of the Act of February 8 1875, shall be amended to read as follows:

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"That every person, firm, association other than national bank associations, and every corporation, State bank, or State banking association other than the Federal Reserve Bank of the United States shall pay a tax of ten per centum on the amount of their own notes used for circulation and paid out by them."

tions

Sec. 19.

"SEC. 20. That every such person, firm, association, corporation, State bank, or State banking association, and also every national banking association, shall pay a like tax of ten per centum on the amount of notes of any person, firm, association other than a national banking association, or any corporation, State bank, other than the Federal Reserve Bank of the United States, or of any town, city or municipal corporation, used for circulation and paid out by them."

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SEC. 26. That all existing statutes relating to the control and examination of the plates and dies for the printing of the notes of national banks, and relating to destroying and replacing of worn out, lost, stolen and mutilated notes of national banks, and to the maceration of notes of national banks, and prescribing penalties for imitating or mutilating all notes of the national banks, and for counterfeiting notes of the national banks, and for using or having control, custody or possession of any such plates without authority, and ~~for~~ passing counterfeit circulation, and for taking unauthorized impressions of tools used in the preparation of notes of national banks, or

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for

having the same in possession, or for dealing in counterfeit circulation, shall apply in all respects to the notes of the Bank and to the plates, dies, and tools of all descriptions connected with the issuance thereof as fully and with the same force and effect as such statutes now apply to the notes of the national banks and to the plates, dies and tools connected with the issuance thereof; and all penal provisions of existing laws in connection with any acts done with respect to any of the matters or things above described shall be applicable to such acts done with respect to the matters and things relating to the issuance of notes of the Bank.

REPEAL CLAUSE.

6 **SEC. 37.** That all provisions of law inconsistent with or superseded by any of the provisions of this Act be, and the same are hereby, repealed.

AMENDMENT CLAUSE.

SEC. 38. That the right to amend, alter, or repeal this Act is hereby expressly reserved.

Insert in Sec. 28:

Immediately after purchasing such bonds the Bank, under regulations to be prescribed by the Secretary of the Treasury and the Board, shall, from time to time, as and when the National bank notes secured by such bonds are redeemed, exchange such bonds with the Treasurer of the United States, to an amount not exceeding at par the aggregate amount of the face value of such redeemed notes. Such exchange shall be for an equal amount at par of refunding notes hereinbefore authorized, and, etc., etc.,

Sec. The Comptroller of the Currency shall, at least once in each calendar year, make an audit and examination of the books, accounts and affairs of the Bank, which he shall include in his annual report to Congress. The cost of such examination shall be paid by the Bank.

AMENDMENT CLAUSE.

Sec. 33. That the right to amend, alter, or repeal this Act is hereby expressly reserved.

REPEAL CLAUSE.

Sec. 52. That all provisions of law inconsistent with or superceded by any of the provisions of this Act be, and the same are hereby, repealed: provided, that nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes."

~~ADDITIONAL POWERS TO NATIONAL BANKING ASSOCIATIONS.~~

Sec. 31. That from and after the passage of this Act any national banking association having a paid up and unimpaired capital stock of not less than one million dollars shall be authorized to establish agencies or branches in foreign countries and that any national banking association whose place of business shall be in a city of not less than fifty thousand population shall be entitled to establish branches within the corporate limits of the municipality within which its principal office is located and that all national banking associations shall be authorized to exercise such trust company powers and functions as may be permitted by the laws of the state within which its principal office is located.

PROHIBITED COMPENSATION.

Sec. 30. That no officer, director or employe of a national bank shall be beneficiary of or receive, either directly or indirectly, any fee (other than the usual salary or director's fee paid to such officer, director or employe by the national bank and other than a legitimate fee paid to an attorney at law for legal services) or any commission, gift or other consideration other than as aforesaid for or on account of his services, vote or influence as such officer, director or employe, in connection with or in respect of any loan, purchase, sale, payment, exchange or transaction with respect to stocks, bonds, or other investment securities or notes, bills of exchange, acceptances, bankers' bills, cable transfers or mortgages made by or on behalf of a national bank of which he is such officer, director or employe. Any person violating any provision of this section shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding five years, or both such fine and imprisonment, in the discretion of the court having jurisdiction. Provided, that this restriction shall not be construed to cover transactions in good faith and in the ordinary course of business between a national bank and another national bank or a banking firm or a state bank or a trust company.

First Revise.

BANK EXAMINATIONS.

Sec. 29. That the Board shall, at least once in each calendar year, cause an examination to be made of the assets and affairs of every depositor, and more frequently if the Board shall consider a special examination necessary, in order to furnish a full and complete knowledge of the condition of any such depositor. The reports of such examination shall be made in triplicate and one copy thereof filed in the office of the Comptroller of the Currency, one copy in the principal office of the Bank and one copy in the office of the branch of the Bank within the district in which such depositor has its principal office. The person assigned to the making of such examinations shall have power to call together a quorum of the directors of the depositor being examined, who may be required to state under oath the character and circumstances of any asset or liability of such depositor. All examiners, their assistants and clerks, other than those appointed by the Board, shall be appointed and employed by the Executive Committee of the respective branches, subject to the approval of the Board and for service within the districts where such branches are located. They shall receive fixed salaries, the amounts whereof shall be determined by the Board. The expense of the examinations herein provided for shall be assessed by the Executive Committee upon the depositors of the respective districts, in proportion to the assets or resources held by such depositors upon the dates of the examinations.

Upon request of any depositor the Executive Committee of any branch may arrange for special or periodical examinations of its affairs, the cost and expenses of such examination to be borne by such depositor. All examinations, whether thus regularly provided or specially authorized, shall be so conducted as to inform the Bank of the actual condition of the depositor examined, and the lines of credit being extended by such depositor, and any

other information essential to a knowledge of the condition of such depositor, as may be required.

The Board shall, at least once each year, order an examination of each branch and of each sub branch, and a report of such examination shall be made in triplicate and one copy thereof filed in the office of the Comptroller of the Currency, one copy in the principal office of the Bank, and one copy in the office of the respective Branches. Such examinations and reports shall be so conducted and made as to disclose the actual condition of the assets and liabilities of the respective Branches, and the amount and character of their reserves, and of the amount, character and maturity of all of their investments and discounted paper.

No depositor, nor any officer, director or employe thereof, shall make any loan or grant any gratuity to any examiner ~~of any such depositor~~. Any bank officer, director or employe violating this provision shall be deemed guilty of a misdemeanor, and shall be fined not more than five thousand dollars, and a \pm further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any depositor ~~examined by him~~ shall be deemed guilty of a misdemeanor, and shall be fined not more than five thousand dollars, and a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as an examiner for the Bank. No examiner shall perform any other service for compensation while holding such office, nor shall he be an officer or director of any financial institution.

The Comptroller of the Currency shall file one copy of every report made in accordance with the provisions of Sections 5211 and 5240 of the Revised Statutes with the Board, and one copy in the office of the Branch within the district in which the respective depositors under examination have their offices.

Section 5241 of the Revised Statutes is hereby amended to read as follows: "No association shall be subject to any visitorial powers other than such as are authorized by this title, or are vested in the directors, officers, or employees of the Federal Reserve Bank of the United States, or are vested in the courts of justice."

STATE BANKS AS DEPOSITORS.

Sec. 23. That from and after the organization of the Bank any bank or banking association or trust company organized under any law of any state or under any law of the United States relating to the District of Columbia may make application to the Board and shall by the Board be authorized to become a depositor in the branch organized or to be organized within the district where the office of the applicant is located, but before granting such application, and from time thereafter, the Board shall satisfy itself that no provision of the charter of such applicant or of any law applying to such applicant prevents a lawful compliance by the applicant with the requirements of this Act and the regulations of the Board, and unless so satisfied the Board shall refuse such application or require the retirement of such depositor.

Before being admitted as a depositor, and during the period when it shall continue as a depositor, each applicant shall comply with the regulations promulgated from time to time by the Board, and with the following requirements:

- (a) To establish and maintain a reserve of the character defined in this Act equal to twelve per cent. of its net deposits;
- (b) To establish and maintain a paid-up and unimpaired capital to an amount not less than that required under the provisions of Section 5138 of the Revised Statutes of the United States, as amended;
- (c) To be subject to such examinations of its books and affairs as the Board may from time to time direct;
- (d) To prepare and submit reports of its condition and transactions at such times and in such forms as the Board shall direct.

Upon the issue of a certificate of authority by the Federal Reserve Board ~~each such applying bank~~ ^{each applicant} shall become entitled to have all the rights and privileges enjoyed by national banks as depositors in the Federal Reserve

Bank.

No such applicant admitted as a depositor may surrender its right or withdraw from its obligation as such until after the expiration of one year from the giving by it and to the Bank of a written notice of its intention so to do, nor unless and until it shall have paid or discharged in full all indebtedness and obligation of every kind owing by it to the Bank and to the United States.

If at any time it shall appear to the Board that any such applicant who has become a depositor has failed or ceased to comply with the provisions of this section or the regulations of the Board, it shall be within the power of the said Board to require such depositor to surrender its rights as a depositor and to pay and discharge in full any and all of its obligations to the Bank and to the United States.

FIRST REVISION.

Sec. 27. That the Bank shall from time to time purchase from the several national banks at prices not ~~over~~ ^{Exceeding} par and accrued interest two per cent. bonds of the United States up to an amount not exceeding one-half of the total of such bonds on deposit at the date of the organization of the Bank with the Treasurer of the United States to secure circulation of such national banks. Such purchases shall be made from the several national banks up to amounts not exceeding the par value of one-half of the amounts of bonds owned by the respective national banks and securing their circulations outstanding at the date of the organization of the Bank, and thereupon the Bank shall be responsible for the redemption and retirement of the notes of each such national bank to the amount of the purchase price of the bonds, less interest, so purchased from it, which responsibility shall constitute payment to such national banks, respectively, for such bonds.

Immediately after purchasing such bonds, the Bank shall, under regulations to be prescribed by the Secretary of the Treasury and the Board, Treasurer exchange such bonds with the ~~EXCHANGER~~ of the United States for an equal amount at par of Refunding Notes hereinafore authorized and upon the maturity of any such Refunding Notes the Bank shall pay such Notes, for the account of the United States, to the holders thereof, but it shall, at the option of the Secretary of the Treasury, for a period of twenty years from the date of the organization of the Bank, in lieu of reimbursement for such payments, accept in exchange for such Notes new Refunding Notes of an equal aggregate amount and of analogous form and tenor. The Bank shall pay semi-annually to the United States, out of its earnings and before reimbursement of advances made by the United States under the provisions of Sec. of this Act, a tax upon its circulating notes equal to an amount of one and one-half per cent. per annum, calculated upon the amount of refunding notes from time to time so outstanding.

Sec. . . That, from the organization of the Bank, no National bank not having Government funds on deposit with it shall be required to maintain on deposit with the Treasurer of the United States any bonds of the United States in excess of the amount required to secure the outstanding circulating notes of the National bank.

Add to the 2nd half of Section 27.

The Secretary of the Treasury is further hereby authorized and directed to refund the balance of such of the two per centum United States bonds having the circulation privilege, the refunding of which is not hereinbefore provided for. He shall accomplish such refunding by the issue of bonds. Such bonds shall be a direct obligation of the United States, shall bear interest at the rate of three per centum per annum, shall be payable in gold coin of the present standard of weight and fineness, shall mature twenty years from the date of issue thereof, shall not have the circulation privilege, and shall be issued under regulations to be prescribed by the Secretary of the Treasury as to the form, tenor and nature thereof. Both the refunding notes and the three per centum bonds hereinabove authorized shall be exempt from Federal, State ~~and~~ municipal *and other* taxation both as to income and principal. The Secretary of the Treasury shall upon the first day of July, nineteen ~~fourteen~~ *hundred and fifteen*, and annually thereafter, under regulations to be prescribed by him, allot among the several National banks, in proportion to the respective amounts of their circulating notes outstanding upon such dates, an aggregate amount of two per centum ~~bonds~~ United States bonds with the circulating privilege, which such banks shall be entitled to exchange for the three per centum United States bonds hereinbefore authorized, provided, that in no one year shall he allot a greater aggregate amount than twenty million dollars thereof, and upon the receipt of such two per centum bonds from such National banks, the Secretary of the Treasury shall effect the exchange. Should any National bank fail in any year so to exchange its full allotment of two per centum bonds for the three per centum bonds as herein provided, the Secretary of the Treasury may permit any other National bank or banks to exchange bonds in an amount equal to the deficiency caused by the failure of any one or more banks to make exchange in such year. At the expiration of twenty years from the passage of this Act every holder of

United States two per centum bonds then outstanding shall receive payment therefor at par and accrued interest, and thereafter such bonds shall carry no interest. Nothing contained in this Act shall be construed to alter, impair or restrict the circulation privileges now given by law to any bonds of the United States.

First Revise.

REFUNDING NOTES. *and bonds -*

that
Sec. 26. [^] The Secretary of the Treasury is hereby authorized and directed to refund one-half of the 2% United States bonds having the circulation privilege *and* an deposit with the Treasurer of the United States to secure National bank note circulation at the ^{*date*} ~~time~~ of the organization of the Bank. He shall accomplish such refunding by the issue of refunding notes. Such refunding notes shall be a direct obligation of the United States, shall bear interest at the rate of three per cent. per annum, shall be payable in gold of the present standard of weight and fineness and only at the Bank or any of its branches, and shall mature at various periods as determined by the Secretary of the Treasury not exceeding one year from their respective dates of issue, and shall be issued under regulations to be prescribed by the Secretary of the Treasury as to the form, tenor and denomination thereof; provided, that such notes may, at the option of the Secretary of the Treasury, be extended for periods of one year during a period of twenty years from the date of the organization of the Bank.

See next page

First Revise.

RATE OF DISCOUNT.

Sec. 25. ^{That} The Board shall establish from time to time a normal rate of discount which shall be uniform at all branches and ~~and~~ sub branches of the Bank, except as herein provided, and the Board shall renew or change such normal rate at stated meetings to be held at least once in each week and shall immediately publish the normal rate so renewed or changed. The normal rate of discount so established shall be charged by the branches and sub branches of the Bank to depositing banks and trust companies, with respect to all rediscounts of such banks and trust companies up to but not exceeding the amount of 20 per centum of the unimpaired capital and surplus of each such bank or trust company; and the rate of discount charged by the branches and sub branches of the bank upon all rediscounts in excess of such twenty per cent. shall be increased by the Board for each ten per cent. of increase in such rediscounts above such twenty per cent. The additional rates of discount established by the Board upon such rediscounts in excess of said twenty per cent. shall in like manner be uniform throughout the country, but ^{additional} such rates may be established by the Board in progressively increasing amounts [^] for each ten per cent. of excess rediscounts above the said twenty per cent., and such additional rates of discount above the normal rate shall, in like manner, be published from time to time by the Board.

GENERAL RESERVES.

Sec. 24. That the General Reserve Fund of the Federal Reserve Bank shall be established and maintained at all times at not less than fifty per centum of the total amount of the deposit liabilities and the outstanding notes of the bank. Such reserve shall consist of gold coin or bullion, and gold certificates, Treasury notes, United States notes and silver certificates.

RESERVES OF NATIONAL BANKING ASSOCIATIONS.

Sec. 22. That from and after a date to be fixed by the ~~Federal Reserve~~ Board, in no event longer than five years nor less than thirty months from the date of the organization of the ~~Federal Reserve~~ Bank, all national ~~banking associations~~ ^S shall be required to keep and maintain a reserve of not less than twelve per centum of its net deposit liabilities, as defined ^{by the Comptroller of the Currency.} ~~in this act.~~ Such reserve shall consist, as to one-half thereof, of a deposit with the ~~Federal Reserve~~ Bank, and as to one-half of gold and lawful money in the vaults of the Bank, but the ^{National any pt} entire amount of such reserve may consist of a deposit with the ~~Federal Reserve~~ Bank.

From and after the organization of the ~~Federal Reserve~~ Bank the ~~Federal Reserve~~ Board shall ^E effect as rapidly as it may deem wise under commercial conditions from time to time existing, and within the periods herein provided, the change to the minimum reserve requirements above set forth. Such change shall be effected by the publication of notices to all national ~~banking associations~~ which shall state the percentage of the total reserve which must thirty months thereafter, and until further notice, be deposited with the ~~Federal Reserve~~ Bank, and the amount which thereafter may be held in gold or lawful money in its vaults. Such requirements, however, shall fairly consider the commercial and industrial conditions of the country and its various sections and be so apportioned and determined as to cause the least restrictions upon the business of national ^{banks} ~~banking associations~~, and compliance with such directions of the Board shall be mandatory upon national ^{banks} ~~banking associations~~, and in such directions the Board shall give due weight to the distinctions recognized under existing laws between country banks, reserve city banks and central reserve city banks, but such directions shall be uniform with respect to

Reserves of National Banking Assoc.

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banks within each of such classes.

Sec. 23. That from and after the organization of the Federal Reserve Bank no action shall be taken under the provisions of Section 1 of the Act of March 3, 1903, or Section 2 of the Act of March 3, 1887, providing for the designation of cities as additional reserve cities and additional central reserve cities, respectively; and from and after the establishment of the new minimum reserve provided in this Act the classification of national ~~banking associations~~ ^{banks}, as now provided by Section 5191 of the Revised Statutes of the United States, as amended, shall be abolished.

FIRST REVISION.

CIRCULATING NOTES.

Sec. 20. The Bank may issue its circulating notes, which shall be receivable at par in all parts of the United States in payment of all taxes and excises and all other dues to the United States and also for all salaries and other debts and demands owing by the United States to individuals, corporations and associations within the United States ^{and its possessions} except interest on the public debt. Such notes shall be a first lien on all of the assets of the Bank ~~and payable in full from such assets before any other obligations of the Bank~~ and shall be redeemable on demand at any office of the Bank in ~~and when so redeemed may be rediscounted.~~ lawful money of the United States. As long as any such notes are outstanding the Bank shall segregate in its own vaults and carry in a special reserve account on its books ^{Gold Coin, Gold Bullion or Gold Certificates} ~~lawful money of the United States~~ to the ^{amount} ~~extent~~ of the ^{face} ~~par~~ value of the notes from time to time so outstanding or, at its option, shall so segregate such ^{amount} ~~lawful money~~ to the ~~extent~~ of 50% of such ^{face} ~~par~~ value. and collaterals, consisting of promissory notes and bills accepted for rediscount under the provisions of Sec. of this Act, or one year exchequer notes of the United States, hereinafter provided for, or both such collaterals and one year exchequer notes, equal at ^{their face} ~~par~~ to 100% of ^{The face} ~~such par~~ value of the notes from time to time so outstanding. Such ^{Collateral} ~~reserve~~ shall be used for the redemption of such notes as and when presented for payment and may be exchanged from time to time for other ~~lawful money or collateral~~ or one year exchequer notes within the limitations aforesaid and of equal par value.

ACCEPTANCES.

Sec. 19. Any National banking association may at its discretion accept drafts or bills of exchange drawn upon it, having not more than six months' sight to run, and growing out of commercial transactions as described in this Section and as defined by the Federal Reserve Board, but no National banking association shall accept such drafts or bills of exchange to an amount at any time exceeding in the aggregate one-half of its paid-up and unimpaired capital and surplus.

First Revise.

RESTRICTION OF INDEBTEDNESS OF NATIONAL AND STATE BANKING
ASSOCIATIONS.

Sec. 16. That no National banking association shall at any time be indebted or in any way liable to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

(a) Notes of circulation;

(b) Moneys deposited with or collected by the association;

(c) Bills of exchange or drafts drawn against credits due the association, or money actually of deposit to the credit of the association or due thereto;

(d) Liabilities to the stockholders of the association for dividends and reserve profits;

(e) Liabilities incurred under the provisions of paragraph .
Section 14, of the Federal Reserve Act;

(f) Liability as endorser on notes, drafts and bills of exchange, arising out of commercial transactions, as defined in paragraph . Section 14, of the Federal Reserve Act;

(g) Liability as acceptor of drafts or bills of exchange, subject to the limitations of paragraph . Section ., of the Federal Reserve Act;

Section 5202 of the Revised Statutes of the United States is hereby repealed.

That banks, banking associations and trust companies organized under State laws, shall be subject to the limitations defined in Section 17 of this Act.

First Revise.

LIMITATION OF DISCOUNTS.

Sec. 17. That no depositing bank, banking association or trust company shall be entitled to discount notes, drafts, bills of exchange or acceptances, with the Federal Reserve Bank, in excess of the amount of the unimpaired capital and surplus of such depositing bank, banking association or trust company, nor shall the aggregate of such notes, drafts, bills of exchange, and acceptances, bearing the signature or endorsement of any one person, company, firm or corporation, rediscounted for any one depositing bank or trust company, at any time exceed ten per centum of the unimpaired capital and surplus of such depositing bank or trust company; but this restriction shall not apply to the discount of bills of exchange payable outside of the continental United States, drawn in good faith against existing values.

FIRST REVISION.

Sec. 16. That the Federal Reserve Bank shall have a first and paramount lien upon all of the assets of every national banking association for all debts and liabilities of such banking associations due to the Federal Reserve Bank, except as to the claims of the United States, and that the Federal Reserve Bank shall likewise have a first and paramount lien upon all the assets of every state bank and banking association organized under the laws of the various states for all debts and liabilities due to the Federal Reserve Bank, except debts due by such banks and banking associations to the United States and to the state of their incorporation, and except with respect to trust funds held by trust companies.

First Revised.

OPERATION AND COLLECTION CHARGES.

Sec. 15. The Federal reserve bank and each of its branches and sub-branches shall receive at par all checks, drafts or other obligations of the said bank and each of its branches or sub-branches. The Executive Committee of each branch shall from time to time, subject to the approval of the Federal Reserve Board, determine and publish exchange and collection charges to be made with respect to all checks, drafts and other exchange and collection items of banks and trust companies, other than those hereinbefore mentioned, received in accordance with paragraph (c), Section 14 of this Act. Such charges shall not be in excess of the approximate actual cost of collection of such checks, drafts and other items.

First Reviso.

GENERAL FUNCTIONS OF THE FEDERAL RESERVE BANK.

Sec. 14. That the Federal reserve bank shall have power:

(a) To purchase and sell the obligations or other securities of the United States, as defined by Section 5413 of the Revised Statutes, and also such of the obligations of the Territories and Insular possessions of the United States as are guaranteed principal and interest by the United States;

(b) To purchase, sell and deal in gold coin and bullion, to make loans thereon, and to contract for loans of gold coin and bullion, giving security therefor when necessary, which security may include the bonds and other obligations of the United States owned by the Federal reserve bank;

(c) To receive for deposit or collection from any depositing bank or trust company deposits of current funds in lawful money, national bank notes, notes of the Federal reserve bank, or checks or drafts upon solvent banks payable upon presentation;

(d) With the acceptance or endorsement of any depositing bank or trust company, to discount notes, drafts, and bills of exchange arising out of commercial transactions, such notes, drafts and bills to be of a character to be determined and defined by the Federal Reserve Board. Such definition shall only include notes, drafts and bills of exchange issued or drawn or the proceeds of which shall be used for agricultural, industrial or commercial purposes, or which shall represent a bona fide sale of agricultural products or other goods, wares or merchandise, or which shall have been issued for the purchase or sale of the bonds or other obligations of the United States. Such definition shall not, however, include notes, drafts or bills of exchange issued or drawn for the purpose of carrying agricultural products or other goods, wares or merchandise, or for carrying or trading in stocks, bonds or investment securities, other than the bonds and obligations of the United States. Notes, drafts and bills of

exchange admitted to rediscount, as so defined under this paragraph, must mature within not exceeding ninety days from the date of discount.

(e) With the acceptance or endorsement of any depositing bank or trust company to discount notes, drafts or bills of exchange which are based upon the exportation or importation of goods, ~~stamps~~ wares, merchandise or agricultural products, as determined and defined by the Federal Reserve Board, and which mature within not exceeding six months from the date of discount;

(f) To purchase from member banks and to sell with or without its endorsement, bills of exchange arising out of commercial transactions as determined and defined by the Federal Reserve Board and payable in foreign countries, but such bills of exchange must mature in not exceeding ninety days from the date of the purchase and must bear the signature, endorsement or acceptance of two or more responsible parties, of which at least one shall be that of a depositing bank or trust company;

(g) Under rules and regulations prescribed by the Federal Reserve Board, to purchase and sell in the open market, either from or to depositing banks and trust companies, or through its foreign agencies from or to foreign banks, firms, corporations or individuals, notes, drafts and bills of exchange of the kinds and maturities by this Act made eligible for discount, and cable transfers;

(h) To open and maintain banking accounts in foreign countries, and establish agencies in such countries, for the purpose of purchasing, selling, collecting, and dealing in foreign bills of exchange, gold coin and bullion, and cable transfers, and to buy and sell, with or without its endorsement, through such correspondents or agencies, prime foreign bills of exchange, arising out of commercial transactions, as may be defined by the Federal Reserve Board, which have not exceeding ninety days to run, and which bear the signature, acceptance or endorsement of two or more responsible parties.

Sec. 13. That the Federal Reserve Bank shall be required to maintain in behalf of the national banking associations which have notes in circulation the five per centum redemption fund held in the general fund of the United States Treasury and any deficiencies in the said fund shall be forthwith paid by the Federal Reserve Bank to the Treasury of the United States upon demand, and the Federal Reserve Bank shall be forthwith reimbursed by the national banking associations in whose behalf such payment is made.

FIRST REVISE

Sec. 12. That the Federal Reserve Bank shall be the fiscal agent and sole depository of the Government, except that for purposes of collection and transfer only the Secretary of the Treasury may designate national banking associations as Government depositories.

The Secretary of the Treasury shall gradually effect a transfer of the general fund of the Treasury to the Federal Reserve Bank, which transfer shall be completed within twelve months of the organization of the Federal Reserve Bank. Such transfer, however, shall not include the five per centum fund for the redemption of outstanding national bank notes, nor that portion of the general fund of the Treasury held by government depositories or ^{by} ~~balances of~~ disbursing officers in the insular possessions or territories of the United States so long as no branch of the Federal Reserve Bank exists in such possessions or territories.

On and after a date to be determined by the Secretary of the Treasury and the Federal Reserve Board, but not later than six months from the organization ^{of} the Federal Reserve Bank, all the revenues of the Government shall be regularly deposited in the Federal Reserve Bank and disbursements shall be made by checks drawn against such deposits, except revenues and disbursements in the insular possessions and territories of the United States.

Original during Revise.

BUSINESS OF THE FEDERAL RESERVE BANK.

Sec. 11. The Federal Reserve Bank shall conduct business solely with the United States Government, with the National banks, and with such State banks and trust companies as may from time to time be permitted to deposit their reserves with the Federal reserve bank, except as otherwise provided in this Act.

Sec. 10. That the net earnings of the Federal Reserve Bank, after deducting taxes, expenses and proper reserves against the acquisition of permanent property, shall be devoted, first, to the payment of a five per cent. cumulative dividend upon the stock, and second, after the reimbursement to the United States of the Seven million dollars appropriated under Sec. 3 of this Act, to the accumulation of a surplus of Twenty million dollars, and after the accumulation of such surplus, one half of such earnings above said dividend requirements shall be paid to the United States and the other ^{one} half devoted to the accumulation of a further surplus until the total surplus reaches Fifty million dollars, and thereafter all earnings beyond such dividend requirements shall be paid to the United States so long as such surplus is maintained. The earnings so distributed to the United States shall be applied by the Secretary of the Treasury, not less than three months after the receipt thereof, to the redemption of outstanding bonds, after advertisement published in each Federal reserve district at least once a week for four successive weeks immediately preceeding the date fixed for such redemption, which advertisement shall call for the tender of bonds by the owners thereof at prices to be fixed by them in such tenders and the Secretary of the Treasury shall thereupon purchase of the bonds so tendered those offered at the lowest prices up to the amount of such earnings in his hands at such redemption date.

Original during Revise.

POWERS OF THE FEDERAL RESERVE BOARD.

Sec. 9 . That the Federal Reserve Board shall be authorized and empowered:

- (a) To govern and manage the operations of the Federal reserve bank;
- (b) To supervise and control the actions of the Executive Committees of the several branch banks;
- (c) To supervise and regulate the issue and retirement of notes of the Federal reserve bank, and to prescribe the form, tenor and denomination of such notes;
- (d) To suspend in an emergency all reserve requirements of the Federal reserve bank for thirty days, and to continue such suspension for periods not to exceed fifteen days;
- (e) To suspend in an emergency all reserve requirements relative to National banking associations for thirty days, and to continue such suspension for periods not to exceed fifteen days;
- (f) To examine, at its discretion, the accounts, books and affairs of National banks and depositing State banks and trust companies;
- (g) (Removal of members of Executive Committees)
- (h) To make regulations for the governing of the Federal reserve bank and its branches not inconsistent with the terms of this Act;
- (i) To employ, suspend and discharge any officer or employe of the Federal reserve bank and its branches;
- (j) To issue, ^{transfer and} ~~cancel and transfer~~ certificates of stock in the Federal reserve bank;

(k) To call for statements of condition of all depositing banks, in such form as they may prescribe;

(l) To require the ^{reevaluation or} writing off, by the Executive Committees of the several branch banks, ~~of~~ [^] doubtful or worthless assets upon the books and balance sheets of such banks;

(m) To determine the profits of the bank and declare dividends and fix the period of payment;

The enumeration of the powers hereinabove set forth shall not be deemed to be a limitation upon the authority of the Federal Reserve Board to perform all the duties, functions or services specified or implied in this Act.

(n) To open and maintain banking accounts in foreign countries, to establish agencies in foreign countries and to make regulations for the conduct of the foreign business of ^{Bank and its} the branches through such agencies.

Sec. 7. The government of the Federal Reserve Bank shall be vested in a board of seven directors to be known as the Federal Reserve Board (hereinafter called the Board), whose powers shall be the same as those conferred upon boards of directors of national banking associations under existing law not inconsistent with the provisions of this Act. Such directors shall be appointed by the President of the United States with the advice and consent of the Senate, ^{such selection shall be made from persons} ~~to be selected from men~~ qualified by experience and training for the proper discharge of the duties imposed upon them by this act, and at least three of the members shall be persons of tested banking experience. Such selection shall be made from residents of different sections of the country, due weight being given to the various commercial interests of such sections.

The term of office of each member of the Board shall be fourteen years, except that the terms of office of six of the persons first appointed to the Board by the President shall expire at the end of two, four, six, eight, ten, and twelve years, respectively. The President shall have power to remove any member of the Board for cause after due hearing, such removal and his reasons therefor to be communicated by him to the Senate. The President shall ^{designate from} ~~select~~ among the members of the Board one person as Governor and one as Deputy Governor who shall, subject to the supervision of the Board, be the active executive officers of the Federal Reserve Bank. No member of the Board shall be an officer or director of any bank or banking institution, or hold stock in any bank or banking institution, and before entering on his duties as a member of the Board, he shall certify under oath that he has complied with this requirement. ^{caused by death, resignation or removal} Vacancies shall be filled by the President with the advice and consent of the Senate, and persons appointed to fill such vacancies shall hold office for the unexpired term of the member to whose place he is appointed. Members of the Board shall devote

by age limitation

all their time to their official duties, and shall retire at the age of seventy years. The Governor, or in his absence the Deputy Governor, shall act as Chairman of the Board. The salary of the Governor shall be \$17,500 per annum, and of the other members of the Board \$15,000 per annum. The Board shall make report annually of the operations of the Federal Reserve Bank to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of Congress.

BRANCH RESERVE BANKS. The Federal Reserve Board shall create and designate in the continental United States, exclusive of Alaska, twelve banking districts for the purpose of establishing within each of such districts a branch of the Federal Reserve Bank. Such districts shall be established with due regard to the convenience and customary course of business of the community and shall not necessarily coincide with the arrangement of such states or states as may be wholly or in part included within any given district. The Board shall also establish within each district a branch of the Federal Reserve Bank which shall be designated by prefixing the name of the city in which such branch is established to the words "Branch, ^{the} Federal Reserve Bank". The number of such branch banks and of such districts may be reduced by the Board when in its judgment the interests of trade and commerce so require; and in like manner the number of such ~~branch~~ branch banks and districts may be increased by the Board after two years from the time of the organization of the original number of branch banks and districts.

The government of such branch banks shall be vested in an Executive Committee consisting of five persons to be appointed by the Federal Reserve Board. The term of office of each member of such Executive Committee shall be five years, except that terms of office of four of the persons first appointed by the Board upon each such Executive Committee shall expire at the

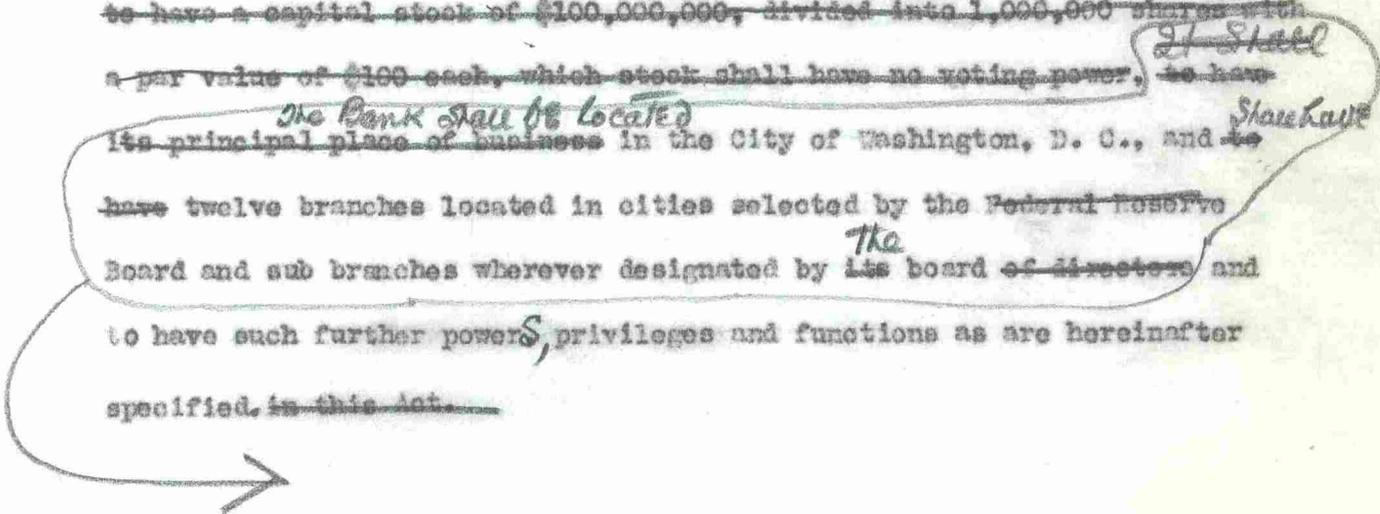
end of one, two, three and four years, respectively. The Federal Reserve Board shall fix the compensation to be received by the members of the Executive Committee and shall designate the chairman and vice-chairman for each Executive Committee. The chairman, or in his absence the vice-chairman, shall preside over the meetings of such Executive Committees and, subject to the supervision of the Executive Committees, shall be the active executive officers of the branch reserve banks. The Executive Committees shall have authority to establish and discontinue sub-branch banks, within their respective districts, subject to the approval of the Federal Reserve Board.

No member of such Executive Committees shall be an officer or a director of any bank or banking institution, or hold stock in any bank or banking institution and, before entering upon his duties as a member of such Committee, he shall certify under oath that he has complied with this requirement. Vacancies caused by death, resignation or removal shall be filled by the Federal Reserve Board and any person appointed to fill such vacancy shall hold office for the unexpired term of the member to whose place he is appointed. Members of such Executive Committees may be summarily suspended and subsequently removed for cause by the Federal Reserve Board after due hearing. Each such Executive Committee shall annually make a report of the operations of the branch Reserve bank to the Federal Reserve Board to be by them transmitted with their annual report to the Speaker of the House of Representatives. Such report of the Executive Committee shall contain reports from each sub-branch bank established in the district.

All actions of the executive committees shall be subject to the approval of the Federal Reserve Board. Each executive committee shall select a president and other executive officers to conduct the business of the branch. Such officers shall have no official or financial relation with any other financial institution.

~~FINAL REVISION.~~

Sec. 7. Upon receipt of such certificate, the Comptroller of the Currency shall issue a charter of incorporation to the persons who shall have been ~~or may be~~ appointed by the President and confirmed by the Senate as the directors of the ~~Federal Reserve Bank~~, which charter shall contain a recital of the compliance with the provisions of this Act by the ~~Organization~~ Committee and the subscription to the ~~full amount of the~~ capital stock of ~~\$100,000,000~~ of the ~~Federal Reserve Bank~~ and the issuance of such charter by the Comptroller of the Currency, countersigned by the Secretary of the Treasury, shall complete ~~the~~ corporate organization of ^{Federal Reserve} the ~~said~~ Bank ^{of the United States.} Upon such organization, the ~~Federal Reserve~~ Board and their successors and the stockholders of the ~~Federal Reserve Bank~~ as they may from time to time exist, shall be a body corporate, to be known as "The Federal Reserve Bank of the United States," to have a term of existence of fifty years from the date of the issuing of the ^{organization} certificate by the Comptroller of the Currency, countersigned by the Secretary of the Treasury, to have the power to sue and be sued, to acquire, ^{lease} own and hold such real and personal property as may be necessary for its business, to buy, sell and deal in gold and silver bullion, promissory notes and other evidences of indebtedness, and ~~warehouse certificates and bills of lading,~~ ^{notes and acceptances} to discount bills, ^{to have} to have a capital stock of \$100,000,000, divided into 1,000,000 shares with a par value of \$100 each, which stock shall have no voting power, ^{It shall} ~~to have~~ its principal place of business in the City of Washington, D. C., and ^{Share have} ~~to~~ have twelve branches located in cities selected by the Federal Reserve Board and sub branches wherever designated by ^{The} its board ~~of directors~~ and to have such further powers, privileges and functions as are hereinafter specified, ~~in this Act.~~



STOCK ISSUE.

Sec. 5. That the capital stock of the ~~Federal Reserve~~ Bank shall be \$100,000,000, divided into ^{1,000,000} shares of ^{a par value} \$100 each; such stock shall be free of all Federal, State, Municipal, or other taxes, except that the holders thereof shall be subject to ^{The provisions of laws} Federal income tax with respect to the income derived therefrom. The holders of such stock shall be entitled to dividends thereon at the rate of five per centum per annum and no more, which dividends shall be cumulative.

Such stock shall be offered for popular subscription at par by the Committee under regulations to be prescribed by it. In case the amount of capital stock is over-subscribed, the Committee shall first allot the shares of stock to the subscribers for the smallest number of shares. In case the full amount of the capital stock is not subscribed for, the Committee shall allot the portion unsubscribed for to the several national banks in existence at the date of the public offering in proportion, as nearly as may be convenient, to their respective amounts of capital, and each such allotment shall fix a liability upon each of the said national banks to subscribe for and take the number of shares so allotted, such liability to accrue as of the date of public offering by the Committee.

Any subscriber failing to pay for the shares allotted to him at the time required by the Committee shall forfeit his right thereto and such shares may thereupon be allotted to other subscribers by the Committee. Every subscriber shall accompany his subscription by cash or a certified check for five per cent. of the total amount thereof, such five per cent. of the subscription to be forfeited upon failure of the subscriber to pay his subscription for the amount allotted to him in full, as above provided. The Committee shall call for such subscriptions and make such allotment within six months of the date of the passage of this Act, and the balance of the subscription shall be paid by each subscriber upon the amount allotted

to him by the Committee upon a date to be fixed by the Board, at a period within six months from the date of allotment, provided that the date upon which such subscriptions shall become payable may be extended by the Board, with the approval of the President of the United States. The proceeds of the five per cent. payment of the stock subscription, shall be deposited in national banks to the credit of the Committee, and by the Committee assigned and transferred to the credit of the Bank upon its organization. Upon the payment of the ninety-five per cent. residue of the stock subscription, the proceeds shall be deposited with national banks by and to the credit of the Bank, and shall be so kept on deposit pending the opening of the Bank for business.

Sec. 6. After the ^{To the Capital Stock of the Bank} ~~entire capital of the Bank shall have been sub-~~ ^{popular subscriptions shall have been closed,} ~~scribed for,~~ the Committee shall make an organization certificate specifying

(a) The names of the several subscribers to the stock, with the respective number of shares subscribed for;

(b) The form of stock certificate adopted by the Committee and the methods of the transfer thereof and such other facts in connection with the organization as the Committee may determine.

Such certificate shall be executed under the name of the Committee by the Chairman and Secretary thereof and attested with its seal and shall be forthwith transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

~~SECRET~~

A N A C T

To incorporate THE FEDERAL RESERVE BANK OF THE UNITED STATES, establish banking districts, mobilize bank reserves, refund and retire a portion of the national debt, provide for an elastic currency, afford means for re-discounting commercial paper, establish more effective supervision of banking, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

That the short title of this Act shall be "The Federal Reserve Act."

ORGANIZATION COMMITTEE.

Sec. ³ That as soon as practicable after the passage of this Act the President shall appoint a committee of five, to be designated The Federal Reserve Bank Organization Committee, hereinafter called the "Committee." The Committee:

(a) Shall select a Chairman and Secretary and such other officers as it may deem necessary from its own members and appoint assistant officers, clerks and other necessary employes;

(b) Shall organize The ^{Federal Reserve} ~~Federal Reserve~~ Bank of the United States, ~~hereinafter called "The Federal Reserve Bank"~~, and branches thereof;

(c) Shall adopt a seal for The ~~Federal Reserve~~ Bank, which shall, during the process of organization thereof, be the seal of the Committee, and adopt seals for the several branches, which shall correspond to the seal of The ~~Federal Reserve~~ Bank with the name of the branch added;

(d) Shall invite and receive popular subscriptions at par to the capital stock of The ~~Federal Reserve~~ Bank, in accordance with the provisions of Sec. ⁵ of this Act and under regulations to be prescribed by the Committee;

(e) Shall make the certificate provided in Sec. ⁶ hereof;

(f) Shall do all other things necessary to effect the corporate

~~THIRD REVISION as to this page~~

organization of the ~~Federal Reserve~~ Bank.

Sec. 4 ~~The sum of seven million dollars, or so much thereof~~
That three

~~as may be necessary,~~ is hereby appropriated out of any money in the Treasury not otherwise appropriated, [^] *a sum sufficient to establish and provide* for the purpose of carrying out the

provisions of this Act, in accordance with the following limitations, viz:

Each member of the Committee shall receive in full compensation for his services the sum of \$10,000, besides his actual and necessary traveling

expenses, and in carrying out the provisions of this Act the Committee is authorized to incur such expenses as it shall deem necessary, all of which

compensation and expenses shall be payable by the Treasurer of the United

States upon vouchers approved by the Committee. ~~Not more than two hundred~~

~~and fifty thousand dollars shall be expended in carrying out the provisions~~

~~of this Act relating to the Committee.~~ The balance of the appropriation

herein made shall be disbursed by the ~~Federal Reserve~~ Board for the pur-

pose ^{*as herein set forth,*} ~~of establishing the Federal Reserve Bank and its several branches and~~

~~for furnishing permanent quarters for the same,~~ payments to be made by the

Treasurer of the United States upon vouchers approved by the Board. The

total amount of the appropriation herein made shall, from time to time, be

reimbursed to the ^{*United States*} ~~Government~~ by the ~~Federal Reserve~~ Bank from its net earn-

ings after the payment of dividends to the stockholders and before the ~~est-~~

~~ablishment a~~
~~cumulation of any surplus fund.~~

*accommodations for the
Bank and its branches, not to
exceed \$500,000 for the Bank
through, and*

not exceeding the sum of \$250,000

ORGANIZATION ADVISORY BOARD

That there is hereby created an Organization Advisory Board to consist of twelve members who shall be selected by the Organization Committee, one member, as near as possible, from each section of the country in which there is to be established a branch of the Federal Reserve Bank. The members of the Organization Advisory Board shall be chosen with reference to their practical banking and business experience. They shall serve without compensation, except that they shall be reimbursed for their actual and necessary traveling expenses. The Organization Advisory Board shall, upon the completion of the duties of the Organization Committee, serve in a like capacity to the Federal Reserve Board, with like reimbursement for their actual and necessary traveling expenses, until the completion ~~and~~ of its work of organization and the beginning of actual operation of the Federal Reserve Bank, at which time it shall cease to exist.

POINTS STILL TO BE EMBODIED.

1. ~~Embody Section 18 of the Glass Bill.~~
2. Application of earnings to retire debt of U.S.
See page 18, Glass Bill.
3. ~~Notes may be reissued when redeemed.~~
4. ~~State enabling act.~~
5. ~~amend provision of Federal law as to 10% tax on circulation.~~
6. Insert provisions now applicable to national bank note circulation as to destruction of mutilated notes, counterfeiting and mutilation of notes and penalties, care of plates, penalty for emitting, etc. All civil and criminal sections applicable to bank notes.
7. ~~Attorney General as advisor.~~
8. ~~Additional definitions.~~
9. ~~Final section reserving the right to repeal or amend.~~
10. ~~General repeal section.~~

~~What, if any provision shall be made with reference to the Sub-Treasuries~~

Extend the provisions of the appropriations section to cover the expenses of organization by the Federal Board as well as by the Organization Committee. Consider whether it should also provide for housing the bank and branches; and should be repayable to the Government before the establishment of any surplus.

Deposit the capital of the bank in National Banks pending the opening for business of the Federal Reserve Bank.

Consider the creation of an Advisory Board, consisting of bankers and perhaps business men, to serve without compensation, and to give aid and advice to both the Organization Committee and the Federal Board on matters of organization. Perhaps this board should be selected by the Advisory Committee.

~~Definition for~~

~~Enabling Act by States~~

~~Define Banking District~~

" ~~and deposits~~

~~Att. Gen.~~

MEMORANDUM FOR CHANGES AND ADDITIONS TO DRAFT OF BILL.

Shall there be a limitation on the number of branches in relation to the deposits. That is, that no branch shall be organized with less deposits than (blank) amount.

Insert a clause to distinctly tie a depositor to a branch or a sub-branch. Prohibition that a depositing bank can have only one account with a branch or sub-branch is suggested to do this.

Insert provision to the effect that within five years the Federal Reserve Board shall submit a plan and recommendation to the appropriate Committees of the House and Senate for the retirement and cancellation of greenbacks.

See Section 5176, National Bank Act, page 14 of N.C.B. book, powers that ought to be embodied; see that powers of Board are specified.

Section 4, dictated draft. It is necessary to provide that members of the Federal Reserve Board shall not be connected with any other financial institution.

Application of surplus earnings for the payment of the public debt. In connection with that read Mr. Fisher's memorandum regarding retirement of United States bonds.

In the event of dissolution, stock holders shall receive back par value and nothing more, and the balance shall be applied to the payment of the public debt. Insert in "Organization Section".

Federal Reserve Bank should be exempt from state and local taxation, except with respect to tax on real estate. Page 13, line 20 of the Bill.

Put in a provision that the Bank shall have the right to contract.

~~Provide a short route for state bank to enter National system.~~

~~Provision in regard to by-laws and regulations to be made by the Federal Reserve Board.~~

~~State Bank must submit to "inspection and regulation". Leave out the word regulation?~~

~~If a bank fails to comply with the provisions of the law and the regulations of the Board, what is to happen to it? That is, what is to be the character of the control of state bank members who fail to comply with the provisions of the law.~~

~~Members of the Board shall devote their entire time to their duties. Insert "entire time".~~

~~Requirement that Federal Reserve Board shall publish weekly a statement of the condition of the Federal Reserve Bank as to certain items which will be specified in that clause, and if the Bank wants to publish a statement of all members bank they must furnish a statement weekly or otherwise. (Powers of Board, page 20 of the bill.)~~

~~Machinery for the printing and delivery of the notes to the Bank. Auditing of the notes should be done by the Government. This ^{all} should be at the expense of the Government. Also provide machinery for redemption. Notes should go to the proper Government bureau for cancellation upon presentation for redemption~~

3.

It should be mandatory upon the Government to issue notes upon the application of the Federal Reserve Board.

Federal Reserve Board should have power to fix "the form and tenor of such notes". See Glass-Owen Bill.

Power to reissue notes when they are presented for redemption.

Clause in Act to repeal section of National Bank Act in regard to distinction between country, reserve and central reserve city banks.

Ten per cent. tax provision on state bank notes must not apply.

Power to remove any officer or employee except those appointed by the President. Section 202, page 83 N.B.S. book.

Give Board power to "perform the duties and exercise the functions necessary or convenient to the carrying out of the provisions of this Act". Substitute for present paragraph giving "implied" powers.

There should be provision for depositors in insular possessions under the provision where the Federal Reserve Bank, including its branches and sub-branches, shall be the fiscal agent and sole depository of the government. See page 28 of the bill.

Insert "temporarily for transmission" in the above paragraph where the Bank and its branches are made the depositories of the Government, "and the Secretary of the Treasury may designate other depositories temporarily, etc"

~~There should be provisions limiting the receipt of deposits to the Government and member banks, and for domestic transactions except as provided in the paragraph relating to open market operations.~~

The Act must specify the following things: (1) the right of a depositing bank to a discount, and (2) the right of a depositing bank to get notes of the Bank against discounts or its balance. The clause providing for the latter should contain, "so far as not violating the reserve provisions of the Act".

~~Read provision regarding collection of items in connection with line 23, etc., page 22 of the bill.~~

The Federal Reserve Board shall make reports to Congress and the reports shall be accompanied by the certificate of the Comptroller of the Currency as to audit, and there should be stated periods provided for this.

No new bank need buy Government bonds.

No existing bank need own Government bonds.

Treas shall be made specifically maturing in 20 years. Each year the Government shall buy on tender, at not exceeding par, up to \$20,000,000.

~~REPEL Shall no longer have privilege of securing circulation.~~

~~Repeal the classification of central reserve cities.~~

~~Leave out savings bank clause.~~

~~Give power to call for reports as well as make examinations at~~

~~their discretion. Make Comptroller's reports available to the Federal Reserve Board.~~

~~Provision in regard to enlarging powers of national banks, which would include or would not include power to establish domestic branches, power to establish foreign branches, power to conduct business of trust company where permitted by laws of various states.~~

B.S.

Sections of the new bill:

1. Short title. *{ 1 1/2 Definitions*
2. Organization Committee.
3. Compensation and appropriation for the Committee.
4. Stock issue.
5. Certificate of Organization Committee.
6. Issue of charter by Comptroller.
7. Organization of permanent Board.
8. Terms of office, etc., of Board.
9. Powers of Federal Reserve Board.
10. Earnings.
11. Business of the Federal Reserve Board.
12. Fiscal agency and depository.
13. General fund and transfer thereof.
14. General functions of the Bank.
15. Operation and collection charges.
16. Liens of Federal Reserve Bank.
17. Limitation on discounts.
18. Restrictions on indebtedness.
19. Acceptances.
20. Note issues and circulation.
21. Printing notes.
22. Reserves of national banks.
23. Classification of national banking associations abolished.
24. General reserves.
25. Rate of discount.
26. Refunding notes.
27. Purchase of $2\frac{1}{2}$ bonds.
28. State banks as depositors.
29. Bank examinations.
30. *Prohibited Compensation.*
31. *Additional Privileges to National Banks*
32. *Repeal Clause.*
33. *Amendment Clause*

UNCOMPLETED MATTER

✓
Language specifying the right of a depositor to obtain a discount which must be limited by the reserve provisions of the Act, etc.

✓
The Controller of the Currency shall make an annual examination of the Federal Reserve Bank and its branches and the Board shall make an annual report to Congress or to the Speaker of the House, accompanied by a certificate of the Controller of the Currency as to the examination.

✓
No new national bank required to buy Government bonds.

✓
No existing national bank required to maintain Government bonds on deposit with the Treasurer of the United States except for an amount sufficient to secure outstanding national bank notes.

✓
All two per cent bonds which have the circulation privilege and which are not refunded into refunding notes shall be purchased on tenders at not exceeding par and accrued interest and to an amount not exceeding \$20,000,000. per annum until the entire amount is retired and cancelled with authority to the proper officers to issue a new bond to be authorized or to issue bonds which have already been authorized for the purpose of such refunding.

✓
Provision that pending the retirement of all 2/s no impairment of the circulation privilege shall occur by reason of the Act and at the end of twenty years after passage of the Act no national bank shall hereafter have the privilege of issuing circulating notes.

BENJ. STRONG, Jr.
PERSONAL. 207
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MEMORANDUM FOR CHANGES AND ADDITIONS TO DRAFT OF BILL.

Shall there be a limitation on the number of branches in relation to the deposits. That is, that no branch shall be organized with less deposits than (blank) amount.

Insert a clause to distinctly tie a depositor to a branch or a sub-branch. Prohibition that a depositing bank can have only one account with a branch or sub-branch is suggested to do this.

Insert provision to the effect that within five years the Federal Reserve Board shall submit a plan and recommendation to the appropriate Committees of the House and Senate for the retirement and cancellation of greenbacks.

See Section 5136, National Bank Act, page 14 of N.C.B. book, powers that ought to be embodied; see that powers of Board are specified.

Section 4, dictated draft. It is necessary to provide that members of the Federal Reserve Board shall not be connected with any other financial institution.

Application of surplus earnings for the payment of the public debt. In connection with that read Mr. Fisher's memorandum regarding retirement of United States bonds.

In the event of dissolution, stock holders shall receive back par value and nothing more, and the balance shall be applied to the payment of the public debt. Insert in "Organization Section".

Federal Reserve Bank should be exempt from state and local taxation, except with respect to tax on real estate. Page 13, line 20 of the Bill.

Put in a provision that the Bank shall have the right to contract.

Provide a short route for state bank to enter National system.

Provision in regard to by-laws and regulations to be made by the Federal Reserve Board.

State Bank must submit to "inspection and regulation". Leave out the word regulation?

If a bank fails to comply with the provisions of the law and the regulations of the Board, what is to happen to it? That is, what is to be the character of the control of state bank members who fail to comply with the provisions of the law.

Members of the Board shall devote their entire time to their duties. Insert "entire time".

Requirement that Federal Reserve Board shall publish weekly a statement of the condition of the Federal Reserve Bank as to certain items which will be specified in that clause, and if the Bank wants to publish a statement of all members bank they must furnish a statement weekly or otherwise. (Powers of Board, page 20 of the bill.)

Machinery for the printing and delivery of the notes to the Bank. Auditing of the notes should be done by the Government. This^{all} should be at the expense of the Government. Also provide machinery for redemption. Notes should go to the proper Government bureau for cancellation upon presentation for redemption

It should be mandatory upon the Government to issue notes upon the application of the Federal Reserve Board.

Federal Reserve Board should have power to fix "the form and tenor of such notes". See Glass-Owen Bill.

Power to reissue notes when they are presented for redemption.

Clause in Act to repeal section of National Bank Act in regard to distinction between country, reserve and central reserve city banks.

Ten per cent. tax provision on state bank notes must not apply.

Power to remove any officer or employee except those appointed by the President. Section 202, page 83 N.C.B. book.

Give Board power to "perform the duties and exercise the functions necessary or convenient to the carrying out of the provisions of this Act". Substitute for present paragraph giving "implied" powers.

There should be provision for depositors in insular possessions under the provision where the Federal Reserve Bank, including its branches and sub-branches, shall be the fiscal agent and sole depository of the government. See page 28 of the bill.

Insert "temporarily for transmission" in the above paragraph where the Bank and its branches are made the depositories of the Government, "and the Secretary of the Treasury may designate other depositories temporarily, etc"

4.

There should be provisions limiting the receipt of deposits to the Government and member banks, and for domestic transactions except as provided in the paragraph relating to open market operations.

The Act must specify the following things: (1) the right of a depositing bank to a discount, and (2) the right of a depositing bank to get notes of the Bank against discounts or its balance. The clause providing for the latter should contain, "so far as not violating the reserve provisions of the Act".

Read provision regarding collection of items in connection with line 23, etc., page 22 of the bill.

The Federal Reserve Board shall make reports to Congress and the reports shall be accompanied by the certificate of the Comptroller of the Currency as to audit, and there should be stated periods provided for this.

No new bank need buy Government bonds.

No existing bank need own Government bonds.

Twos shall be made specifically maturing in 20 years. Each year the Government shall buy on tender, at not exceeding par, up to \$20,000,000.

~~Twos~~ Shall no longer have privilege of securing circulation.

Repeal the classification of central reserve cities.

Leave out Sec. 21.

Leave out savings bank clause.

Give power to call for reports as well as make examinations at

their discretion. Make Comptroller's reports available to the Federal Reserve Board.

Provision in regard to enlarging powers of national banks, which would include or would not include power to establish domestic branches, power to establish foreign branches, power to conduct business of trust company where permitted by laws of various states.

*Adapt a form of Stock Certs -
Books for transfer Etc -*

Section

Bank Examinations.

Revised Statutes

See 29. That

Section 5341 of the ~~National Bank Act~~ is hereby amended to read as follows: " No association shall be subject to any visitorial powers other than such as are authorized by this title, or are vested in the directors, officers, or employees of the Federal Reserve ~~Board~~ *Board*, or are vested in the courts of justice. "

The Comptroller of the Currency shall hereafter file a duplicate of every report required by Sections 5211 and 5243 of the National Bank Act, one with the Federal Reserve Board at Washington, and one in the office of the branch of the Federal reserve bank within the district in which the respective banks under examination have their offices.

That

~~the Federal Reserve Board~~ shall, at least once in each calendar year, cause an examination of the assets and affairs of every depositing bank, banking association and trust company to be made, and more frequently if the Federal Reserve Board shall consider a special examination necessary, in order to furnish a full and complete knowledge of the condition of any such bank or trust company. The reports of such examinations shall be made in duplicate, one copy thereof filed in the office of the Comptroller of the Currency, and one copy in the office of the branch of the Federal Reserve bank within the district in which such depositing bank or trust company has its office. The person assigned to the making of the examinations herein provided shall have power to call together a quorum of the directors of the institution being examined, who may be required to state under oath the character and circumstances of any asset or liability of such bank or trust company. All examiners, their assistants and clerks, shall be appointed and employed subject to the approval of the Federal Reserve Board, by the Executive Committee of the respective branches, for service within the districts where such branches are located. They shall receive fixed salaries,

FIRST DRAFT.

the amount whereof shall be determined by the Federal Reserve Board and annually reported to Congress. The expense of the examinations herein provided for shall be assessed by the Executive Committee upon the depositing banks, banking associations and trust companies of the respective districts, in proportion to the assets or resources held by such institutions upon the date of the examinations.

Upon request of any depositing bank, banking association or trust company, the Executive Committee of any branch of the Federal reserve bank may arrange for special or periodical examinations of depositing banks and trust companies within its district, the cost and expenses of such examination to be borne by such depositing bank or trust company. All examinations, whether thus regularly provided or specially authorized, shall be so conducted as to inform the Federal reserve bank and its respective branches of the actual condition of the bank or trust company examined, and the lines of credit being extended by such banks and trust companies, and any other information essential to a knowledge of the condition of such bank or trust company, as may be required by the Executive Committee of the respective branches or by the Federal Reserve Board, under special or general regulations of the Board.

The Federal Reserve Board shall, at least once each year, order an examination of each branch of the Federal reserve bank and of each sub-branch thereof, and report of such examination shall be made in duplicate, one copy thereof filed in the office of the branch, and one copy in the office of the Federal Reserve Board at Washington, and such examination and report shall be so conducted and made as to disclose the actual condition of the assets and liabilities of such branches, and the amount and character of its reserve, and of the amount, character and maturity of all of its investments and discounted paper.

No depositing bank, banking association or trust company, nor any officer, director or employee thereof, shall make any loan or grant any gratuity

to any examiner of any such bank or trust company. Any bank officer, director or employee violating this provision shall be deemed guilty of a misdemeanor, and shall be fined not more than five thousand dollars, and a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him, shall be deemed guilty of a misdemeanor, and shall be fined not more than five thousand dollars, and a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as a national bank examiner. No examiner shall perform any other service for compensation while holding such office, nor shall he be an officer ~~or~~ director ^{or stockholder} of any bank.

STATE BANKS AS MEMBERS.

~~organization of the bank, any~~

Sec. 10. That from and after the ~~passage of this act~~ any bank

or banking association or trust company incorporated by special laws of
^{or in the District of Columbia} any State, or organized under the general laws of any State, may make
^{and shall by the Board be authorized} application to the ~~Federal Reserve Board~~ ~~to be created for the right to~~

become a depositor in the ~~Federal Reserve Bank~~ branch organized or to be
^{banking} organized within the ~~Federal Reserve~~ district where the applicant is lo-
^{financial office of the} cated. ~~The Federal Reserve Board, under such rules and regulations as it~~

~~may prescribe, subject to the provisions of this section, shall permit~~
^{applicant} ~~such applying bank to become a depositor in the Federal Reserve Bank of~~
^{Such branch} ~~the district in which such applying bank is located. Each such applying~~
^{applicant}

~~bank shall be required, before becoming such depositor, to have complied~~
^a ~~with the provisions of this act relating to reserves and with all provis-~~
~~ions of the National Bank Act and all amendments thereto relating to~~

~~paid-up unimpaired capital. Each such applying bank shall also be and~~
^{applicant} ~~continue subject to such examination into its books and affairs on behalf~~
~~of the Federal Reserve Board as the Board may from time to time direct.~~

Whenever the Federal Reserve Board shall permit such an applying bank to
become a depositor in the branch of the Federal Reserve Bank of the dis-
trict in which the applying bank is located, such applying bank shall become

entitled, under the rules and regulations in this act provided, to enjoy
all the rights and privileges of national banks. ^{Such applicant} ~~No applying bank~~ admitted
as a depositor may surrender its rights or withdraw from its obligations

as such until after the expiration of one year from the giving by it to the
~~Federal Reserve Bank~~ of written notice of its intention so to do, nor unless
and until it shall have paid, or discharged in full all indebtedness and ob-

ligations of every kind ^{owing} owed by it to the ~~Federal Reserve Bank~~ or to any
^{or Subchapter} ~~branch thereof~~ and to the United States.

Enabling Act.

~~It shall be the duty of the Federal Reserve Board to establish by-laws consonant with the provisions of this section for the general government of its conduct in acting upon applications made by said State banks and banking associations and trust companies to become depositors in the Federal Reserve Bank.~~

~~It at any time it shall appear to the Federal Reserve Board that~~
any such applicant who has become a depositor
~~a state bank or banking association or trust company organized under the laws of any State or of the United States has failed or ceased to comply with the provisions of this section or the regulations of the Board, it shall be within the power of the said Board to require such~~
depositor
~~banking association or trust company to surrender its rights as a depositor in the Federal Reserve Bank branch in which it has become a depositor, and to pay and discharge any and all of its obligations to the Federal Reserve Bank~~
at full
and ~~or to any of its branches or to the United States.~~

Sec. ~~27~~. That the Federal Reserve Bank shall from time to time purchase from the national banking associations, at prices not over par and accrued interest, the two per cent. bonds of the United States, having the circulation privilege, up to an amount not exceeding their par value, one-half of the amount of circulation of the national banking associations from which purchased, and thereupon shall assume responsibility for the redemption and retirement of the notes of each such national banking association, to the amount of the bonds so purchased from it, which assumption and responsibility shall constitute payment to such national banking associations for such bonds. # Immediately after purchasing any such bonds the Bank shall exchange them with the Treasury of the United States for an equal amount at par value of three per cent. notes of the United States, payable within one year of the dates of their issue, at various periods, as determined by the Secretary of the Treasury, ^{at} ~~within~~ the Bank of any of its branches. All such notes to be issued under regulations to be prescribed by the Secretary of the Treasury as to the form and tenor thereof, are hereby authorized. Upon the maturity of any such notes, the Bank shall, for a period of twenty years from the organization of the Bank, at the option of the Secretary of the Treasury, accept and pay for to the United States new notes of like aggregate amounts and similar form and tenor. The Bank shall pay to the United States out of its earnings and before reimbursement to the United States for the advance of seven million dollars, herein provided for, a tax of one and ~~and~~ one-half per cent. per annum on the amount of its circulating notes equal at par to the amount of such Treasury ~~of~~ three per cent. notes from time to time outstanding.

Section . The Federal Reserve Bank, ~~including its branches and sub-branches,~~ ^{sole} shall be the fiscal agents and depository of the Government, except that for ~~temporary~~ ^{of collection and transfer only} purposes, the Secretary of the Treasury may designate other Government depositories. The Federal Reserve Bank shall be required to maintain in behalf of the National Banking Associations which have Notes in circulation the five per cent redemption fund now held in the General Fund of the United States Treasury and any deficiency of the said fund shall be forthwith paid by the Federal Reserve Bank to the Treasurer of the United States upon demand being made by him, and the said bank shall be forthwith reimbursed by the National Banking Association in whose behalf such payment is made.

That ^{shall} The Federal Reserve Bank ~~is authorized and empowered, in the discretion of the Federal Reserve Board,~~ from time to time to purchase at a price not to exceed par and interest two per cent Bonds of the United States deposited to secure circulating National Banking Association Notes, but not to exceed an amount equal to one-half the total amount of such Bonds deposited with the Treasurer of the United States as security for the circulation of such National Bank Notes. It shall pay for the purchase of these Bonds by assuming the responsibility for the redemption and retirement of the National Bank Notes secured thereby. Immediately upon the purchase of such Bonds, the Federal Reserve Bank shall exchange the bonds so purchased with the Treasurer of the United States who shall deliver and exchange therefor an equal amount at par of One Year Notes of the United States bearing three per cent interest which Notes may be renewed, at the option of the United States to be exercised by the Secretary of the Treasury, each year at maturity for twenty years. Such Notes shall be made to mature at various periods during a calendar year, the dates of maturity thereof to be determined by the Secretary of the Treasury. During the existence of such Notes, or Renewal Notes, before payment or cancellation, the Federal Reserve Bank shall pay to the United States out of its earnings and before any dividends are paid upon its stock

a tax of one and one-half ($1\frac{1}{2}$) per cent per annum on an amount of circulating Notes equal to the amount of such Treasury three per cent Notes outstanding.

FIRST DRAFT

(Reserves)

2.

of gold or lawful money other than national bank notes and Federal Reserve Bank notes. The lawful amount of the minimum reserve of each such bank, from and after five years from the filing of said certificate of organization, or from the date of the issuance of the last such notice, shall be twelve per centum of the aggregate amount of the deposits of each such bank other than the savings deposits hereinafter authorized, of which reserve at least one-half shall be deposited with the Federal Reserve Bank and the remainder shall be and continue in the vaults of such bank and not elsewhere.

The Federal Reserve Bank shall at all times maintain a reserve not less than fifty per centum of its demand liabilities, including any note issue by it then outstanding; such reserve shall consist of gold or lawful money, other than national bank notes and Federal Reserve Bank notes, and shall be kept in the vaults of the Federal Reserve Bank at its headquarters or at any of its branches in such proportions as the Federal Reserve Board may from time to time establish, and not elsewhere.

The Federal Reserve Board may, if in the judgment of a majority of its members, ~~xxx~~ expressed by resolution at a duly assembled meeting, an emergency exists, suspend all the foregoing reserve requirements for a period of thirty days and by like resolution for additional periods not exceeding fifteen days each.

*Power A
Board*

RESERVES

From and after the date of the filing hereunder of the certificate of organization of the Federal Reserve Bank, the Federal Reserve Board shall have power to, and shall bring about as rapidly as it may deem wise under commercial conditions from time to time existing, the change of the minimum reserve requirements of national banking associations (including state banks which shall nationalize themselves hereunder) until the reserve of each such association or bank shall be maintained at not less than the lawful minimum hereinafter ordained. Such change shall be accomplished in a period not shorter than thirty months nor longer than five years from the filing of said certificate of organization. From time to time, at intervals of not less than three months, the Federal Reserve Board shall issue to all such associations and banks notices setting forth that each of them may, not later than one month from the issuance of such notice, cause the reduction of its reserve by an amount, on the occasion of each such notice, (a) in the case of all country banks, as intended by existing law, not greater than $\frac{3}{10}$ of one per cent., nor less than $\frac{3}{20}$ of one per cent. of the amount of the deposits of such bank, as hereinafter defined, at the date of the first of such notices; and, (b) in the case of all reserve city banks and central reserve city banks, as intended by existing law, not greater than $1\frac{3}{4}$ per cent. nor less than $\frac{65}{100}$ of one per cent. of the amount of the deposits of such bank, as hereinafter defined, at the date of the first of such notices.

Upon the issuance of such notice, each such bank shall forthwith make the necessary transfers and withdrawals thereby indicated and shall also, to such extent as may be specified in such notice, transfer to the Federal Reserve Bank a portion of its lawful reserve. Such reserve, whether in its own vaults or in the custody of the Federal Reserve Bank, shall consist only

Limitation of Discounts.

Section 17....

Banking Association,

That ^{B.A.} no depositing bank or trust company shall be entitled to discount notes, drafts, bills of exchange or acceptances, with the Federal reserve bank, in excess of the amount of the unimpaired capital and surplus of such depositing bank or trust company, nor shall the aggregate of such notes, drafts, bills of exchange, and acceptances, bearing the signature or endorsement of any one person, company, firm or corporation, rediscounted for any one depositing bank or trust company, at any time exceed ten per centum of the unimpaired capital and surplus of such depositing bank or trust company; but this restriction shall not apply to the discount of bills of exchange payable outside of the continental United States, drawn in good faith against existing values.

Section 5202 of the Revised Statutes of the United States is hereby amended so as to read as follows: ^{That no} association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against credits due the association, or money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of section ~~14~~ ^{Paragraph -} ~~fourteen~~ of the Federal Reserve Act.

Sixth. Liability as endorser on notes or bills of exchange arising out of commercial transactions, as defined in ~~the~~ ^{Paragraph section 14 of the Federal Reserve} Act.

Seventh. Liability as acceptor of drafts or bills of exchange, subject to the limitations ^{of Par - of Section 14 of the Federal Reserve Act,} ~~hereinafter set forth.~~

Any national bank may at its discretion accept drafts or bills of exchange drawn upon it having not more than six months sight to run and flowing out of commercial transactions as described in this section, and as defined by the Federal Reserve Board, but no bank shall accept such drafts or bills of exchange to an amount at any time exceeding in the aggregate one-half of its paid-up and unimpaired capital and surplus.

Bank
The Federal Reserve Board shall have a first and paramount lien upon *all*
the assets of every national bank, and, except as such lien may conflict
with the existing State laws, upon the assets of every State bank, banking
association and trust company, for all debts and liabilities of such banks,
banking associations and trust companies due to the Federal reserve bank.

FIRST DRAFT

Section (blank). The Federal Reserve Bank and each of its branches and sub-branches shall receive at par all checks, drafts or other obligations of the said Bank and each of its branches or sub-branches. The Executive Committee of each branch ~~shall~~ ^{from time to time} shall, subject to the approval of the Federal Reserve Board ~~arrange a scale of charges for~~ ^{determine and publish} ~~the collection of all checks, drafts and other obligations of banks and trust companies, other than those hereinbefore mentioned, received in accordance with paragraph (c), Section (b)(4) of this Act.~~ ^{exchange & collection} ~~Such charges shall not to be in excess of the actual cost of collection of such checks, drafts and other obligations.~~ ^{charges to be made with respect to} ~~exchange and collection items~~ ^{approximate} ~~items.~~ ^{items.}

(Functions of the Federal Reserve Bank) 2.

company to discount notes, drafts or bills of exchange which are based upon the exportation or importation of goods, wares, merchandise ~~and~~ or agricultural products, as determined and defined by the Federal Reserve Board, and which mature ~~within~~ within not exceeding six months from the date of discount; (f) to purchase from member banks and to sell with or without its endorsement, bills of exchange arising out of commercial transactions as determined and defined by the Federal Reserve Board and payable in foreign countries, but such bills of exchange must mature in not exceeding ninety days from the date of the purchase and must bear the signature, endorsement or acceptance of two or more responsible parties, of which at least one shall be that of a depositing bank or trust company; (g) under rules and regulations prescribed by the Federal Reserve Board, to purchase and sell in the open market, either from or to depositing banks and trust companies, or through its foreign agencies from or to foreign banks, firms, corporations or individuals ~~and~~, notes, drafts and bills of exchange of the kinds and maturities by this Act made eligible for discount and ~~and~~ cable transfers.

SECTION.....

Functions of the Federal Reserve Bank.

The Federal Reserve Bank shall have power (a) to invest in the bonds and other obligations of the United States ~~and of its insular possessions~~; (b) to deal in gold coin and bullion; to make loans thereon, and to contract for loans of gold coin and bullion, giving security therefor when necessary, ^{which may} including the bonds and other obligations of the United States ^{to deposit or collection} ~~and of its insular possessions~~ owned by the Bank; (c) to receive from any depositing bank or trust company deposits of current funds in lawful money, national bank notes, notes of the Federal Reserve Bank, ~~and~~ checks or drafts upon solvent banks payable upon presentation; (d) with the acceptance or endorsement of any depositing bank or trust company, to discount notes, drafts, and bills of exchange arising out of commercial transactions, such notes, drafts and bills to be of a character to be determined and defined by the Federal Reserve Board. Such definition shall ^{take} include notes, drafts and bills of exchange issued or drawn or the proceeds of which shall be used for agricultural, industrial or commercial purposes, or which shall represent a bona fide sale of agricultural products or other goods, wares or merchandise, or which shall have been issued for the purchase or sale of the bonds or other obligations of the United States ~~or of its insular possessions~~. Such definition shall not, however, include notes, drafts or bills of exchange issued or drawn for the purpose of carrying agricultural products or other goods, wares or merchandise, or for carrying or trading in stocks, bonds or investment securities, other than the bonds and obligations of the United States ~~and of its insular possessions~~. Notes, drafts and bills of exchange admitted to rediscount, as so defined under this paragraph, must mature within not exceeding ninety days from the date of discount.

(e) With the acceptance or endorsement of any depositing bank or trust

PRINTING, DENOMINATIONS AND FORM OF THE CIRCULATING NOTES OF THE BANK.

Sec. In order to furnish suitable notes for the Bank, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, and numbered, such quantity of notes, in blank, of the denominations of five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall upon their face be certified by the written or engraved signatures of the Treasurer and Register and by the imprint of the seal of the Treasury. They shall also express upon their face the promise of the Bank to pay on demand, attested by the signature of the Governor or Deputy Governor and Cashier. The Comptroller of the Currency, acting under the direction of the Secretary of the Treasury, shall as soon as practicable cause notes to be prepared and printed, upon the distinctive or special paper which has heretofore or may hereafter be lawfully adopted by him for printing United States notes, to an amount equal to the requirements of the Bank.

THIRD DRAFT.

Sec. The Bank may issue its circulating notes, which shall be receivable at par in all parts of the United States in payment of all taxes and excises and all other dues to the United States except duties on imports and also for all salaries and other debts and demands owing by the United States to individuals, corporations and associations within the United States except interest on the public debt. Such notes shall be a first lien on all of the assets of the Bank and payable in full from such assets before any other obligations of the Bank and shall be redeemable on demand at any office of the Bank in lawful money of the United States. As long as any such notes are outstanding the Bank shall segregate in its own vaults and carry in a special reserve account on its books lawful money of the United States to the extent of the par value of the notes from time to time so outstanding or, at its option, shall so segregate such lawful money to the extent of 50% of such par value, and collaterals, consisting of promissory notes and bills accepted for rediscount under the provisions of Sec. of this Act, or one year exchequer notes of the United States, hereinafter provided for, or both such collaterals and one year exchequer notes equal at par to 100% of such par value of the notes from time to time so outstanding. Such reserve shall be used for the redemption of such notes as and when presented for payment and may be exchanged from time to time for other lawful money or collaterals or one year exchequer notes within the limitations aforesaid and of equal par value. (The Board of the Bank may, in an emergency, suspend all reserve requirements for 30 days and may continue such suspension for periods of 15 days.)

*Trans. To
Powers &
Boards*

said Committee at a period within six months from the date of allotment, provided that the date upon which such subscriptions shall become payable may be extended by the Board of Directors of the Federal Reserve Bank, with the approval of the President of the United States.

STOCK ISSUE

Section *B.*

That the Capital Stock of the Federal Reserve Bank shall be \$⁰⁰1,000,000. divided into shares of \$100. each; such stock shall be free of all Federal, State, Municipal or other taxes, except that the holders thereof shall be subject to ~~the~~ Federal Income Tax with respect to the income derived therefrom. The holders of such stock shall be entitled to dividends thereon at the rate of five per centum per annum and no more, which dividends shall be cumulative.

Such stock shall be offered for ^{to Public} subscription ~~to the public~~ at par by the ~~Organization~~ Committee under regulations to be prescribed by *it.* ~~them~~ In case the amount of Capital Stock is over-subscribed, the Committee shall allot the shares of stock to the smallest subscribers ^{first}. In case the full amount of the Capital Stock is not subscribed for, the Committee shall allot the portion unsubscribed for to the several National Banks in existence at the date of their allotment in proportion to their respective amounts of capital, and such allotment shall fix a liability upon each of the said National Banks to subscribe for and take the number of shares so allotted, such liability to accrue on the date of allotment by the Committee.

Any subscriber ^{failing} ~~neglecting~~ to pay for the shares allotted to him at the time required by the Committee shall forfeit his right thereto and such shares may thereupon be allotted to other ^{Subscribers} ~~persons~~ by the Committee. Every subscriber shall accompany his subscription with a certified check for five per cent of the total amount, ^{thereof} such five per cent of the subscription to be forfeited upon failure of the subscriber to pay his subscription for the amount allotted to him in full, as above provided. The ~~Organization~~ Committee shall call for such subscriptions and make such allotment within six months of the date of passage of this Act, and the balance of the subscription shall be paid by each subscriber upon the amount allotted to him by the Committee, upon a date to be fixed by the

hold stock in any bank or banking institution and, before entering upon his duties as a member of such Committee, he shall certify under oath that he has complied with this requirement. Vacancies shall be filled by the Federal Reserve Board and any person appointed to fill such vacancy shall hold office for the unexpired term of the member to whose place he is appointed. Members of such Executive Committees may be removed for cause by the Federal Reserve Board after due hearing. Each such Executive Committee shall annually make a report of the operations of the Branch Reserve Bank to the Federal Reserve Board to be by them transmitted with their annual report to the Speaker of the House of Representatives. Such report of the Executive Committee shall contain reports from each ^{sub} said Branch Bank established in the district.

Members of the Board shall devote all their time to their official duties, and shall automatically retire at the age of seventy (70) years. The Governor, or in his absence the Deputy Governor, shall act as Chairman of the Board. The salary of the Governor shall be \$17,500. per annum, and of the other members of the Board, \$15,000. per annum. The Board shall make a report of the operations of the Federal Reserve Bank to the Speaker of the House of Representatives who shall cause the same to be printed for the information of Congress.

BRANCH RESERVE BANKS. The Federal Reserve Board shall cause the Country to be divided into twelve (12) districts for the purpose of establishing within each of such districts a Branch Reserve Bank to be known as _____, provided that the number of such Branch Banks and of such districts may be reduced by the said Board when, in its judgment, the interests of trade and commerce so require; and in the like manner the number of such Branch Banks and districts may be increased by the said Board after two years from the time of the organization of the original number of Branch Banks and districts. The government of such Branch Banks shall be vested in a Board of five (5) Directors to be appointed for terms of _____ years by the Federal Reserve Board which shall also fix the compensation to be paid to such Governors. Such a Board of Governors of the Branch Reserve Banks shall be called the Executive Committee and shall be presided over by the Chairman, or, in his absence, the Vice-Chairman, both of whom shall be appointed by the Federal Reserve Board. The Executive Committee of such Branch Reserve Banks shall have authority to establish and discontinue said *sub* Branch Banks within their respective districts, subject to the approval of the Federal Reserve Board. The Chairman and Vice-Chairman, subject to the supervision of the Executive Committee, shall be the active executive officers of the Branch Reserve Banks. No member of such Executive Committee shall be an officer or a director of any bank or banking institution, or

Section 4. The government of the Federal Reserve Bank shall be vested in a Board of seven (7) Directors to be known as the Federal Reserve Board (hereinafter called the Board) whose powers shall be the same as those conferred upon Boards of Directors of National banking associations under existing law not inconsistent with the provisions of this Act. Such Directors shall be appointed by the President of the United States with the advice and consent of the Senate, to be selected from men qualified by experience and training for the proper discharge of the duties imposed upon them by this Act, and at least three (3) of the members shall be persons of tested banking experience. Such ^{selection} shall be made from residents of different sections of the Country, due weight being given to the various commercial interests of such sections.

The term of office of each member of the Board shall be fourteen (14) years, except that the terms of office of ^{six of} the persons first appointed to the Board by the President shall expire at the end of two (2), four (4), six (6), eight (8), ten (10), ^{and} twelve (12) ~~and fourteen (14)~~ years, respectively. The President shall have power to remove any member of the Board for cause after due hearing, such removal and his reasons therefor to be communicated by him to the Senate. The President shall designate from among the members of the Board one person as Governor and one as Deputy Governor, who shall, subject to the supervision of the Board, be the active executive officers of the Federal Reserve Bank. No member of the Board shall be an officer or director of any bank or banking institution, or hold stock in any bank or banking institution, and before entering on his duties as a member of the Board he shall certify under oath that he has complied with this requirement. Vacancies shall be filled by the President with the advice and consent of the Senate and persons appointed to fill such vacancies shall hold office for the unexpired term of the member to whose place he is appointed.

by the Secretary of the Treasury, not less than three months after the receipt thereof, to the redemption of such outstanding bonds by advertisement published in each of the Federal reserve districts at least once a week in the four successive weeks immediately preceding, the date fixed for such redemption, which advertisement shall call for the tender of bonds by the owners thereof at prices to be fixed ~~by~~ by them in such tenders, and the Secretary of the Treasury shall thereupon purchase from the bonds so tendered those offered at the lowest prices up to the amount of such funds in his hands at such redemption date.

DIVISION OF EARNINGS.

Sec. 7. That, after the payment of all necessary expenses and taxes of the Federal reserve bank, its net earnings shall be applied to the payment of a dividend of five per centum per annum, which dividend shall be cumulative. Any overplus of such net earnings in excess of dividend requirements in any year shall be devoted to the upbuilding of a surplus of twenty per centum upon the paid-in capital. After such surplus shall have attained to an amount equal to such twenty per centum, subsequent net earnings shall be distributed, subject to the payment of said cumulative five per centum dividend under the conditions herein prescribed, to the United States and the remaining one-half thereof to the accumulation of a further surplus until the total surplus of the Federal Reserve Bank shall attain to an amount equal to fifty per centum upon the paid-in capital. When said surplus shall have attained to such fifty per centum, all net earnings beyond the amount necessary to pay said five per cent. dividend shall be paid to the United States. The payment of said dividends upon the stock may at any time or from time to time be deferred for such period as may be necessary to restore any impairment of surplus below the amount thereof which the same shall have theretofore attained, to the end that such surplus shall never be diminished and that after such surplus shall have equalled fifty per centum upon the paid-in capital the same shall thereafter be continuously maintained at that amount.

The earnings distributed to the United States under the foregoing provisions shall be applied to the retirement of its outstanding bonded indebtedness. All funds so received by the United States shall be applied

an annual salary of \$ besides their necessary traveling and other expenses connected with the performance of their duties and the governor of the Bank shall receive an additional salary of \$ and the deputy governor shall receive an additional salary of \$. The compensation of the members of the executive committees of the several branches shall be fixed and determined by the Board of the Bank and need not be the same for each branch. The compensation of the president, vice-president and other officers of each branch shall be fixed by the executive committee thereof.

Sec. 9. The net earnings of the bank after deducting taxes and expenses, including proper reserves against the acquisition of permanent property, shall be devoted, first, to paying a 6% cumulative dividend upon the stock, and, second, to an accumulation of a surplus equal to 20% of the capital, and one-half of such earnings above such dividends and surplus shall be paid to the Government and the other one-half devoted to the accumulation of a further surplus until the total surplus reaches 50% of the capital, and thereafter all earnings beyond the dividend requirements shall be paid to the Government.

Sec. 10. The Bank shall conduct business solely with the Government and the qualified member banks, which shall include all national banks and such state banks and trust companies as may from time to time be admitted by the Board of the Bank under such rules and regulations as the Board may prescribe for the government of all member banks.

(4) The form of stock certificate adopted by the committee and the methods of the transfer thereof and such other facts in connection with the organization as the committee may determine.

Such certificate shall be executed under the name of the committee by the president and secretary thereof and attested with its seal and shall be forthwith transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Sec. 6. The Board of the Bank shall appoint for each branch an executive committee of seven members, the members of each of which executive committees shall be selected as to qualifications, territorial distribution and banking and financial experience with the same regard as hereinbefore provided in respect of the selection of the members of the Board of the Bank. The terms of office of the members of the executive committees shall be seven years, but in the case of the first members of each executive committee appointed, they shall be classified so that one member of each executive committee shall retire each year. The Board of the Bank shall designate one member of each executive committee as a chairman and one as a vice-chairman and the chairman or, in his absence, the vice-chairman, shall act as chairman of that executive committee.

Sec. 7. All actions of the executive committees shall be subject to the approval of the Board of the Bank. Each executive committee shall select a president and other executive officers to conduct the business of the branch, the men filling such offices to have no official or financial relation with any other financial institution.

Sec. 8. Members of the Board of the Bank shall each receive

Governor, shall act as chairman of the board and be the chief executive officer of the Bank. Directors shall retire at the age of seventy and a vacancy thereby created.

Sec. 4. Such board of directors and their successors and the stockholders as they may from time to time exist are hereby created a body corporate to be known as "The Federal Reserve Bank of the United States", to have a term of existence of fifty years from the date of the filing of the organization certificate, to have the power to sue and be sued, to acquire, own and hold such real and personal property as may be necessary for its business, to buy, sell and deal in gold and silver bullion, promissory notes and other evidences of indebtedness and warehouse certificates and bills of lading, and to discount bills, to have a capital stock of One hundred million dollars, divided into One million shares with a par value of One hundred dollars each, which stock shall have no voting power, to have its principal place of business in the City of Washington, D. C., and to have twelve branches located in cities selected by the organization committee and sub branches wherever designated by its board of directors and to have such further power, privileges and functions as are hereinafter specified in this act.

Sec. 5. After the entire capital of the Bank shall have been subscribed for, the organization committee shall make an organization certificate specifying

- (1) The names of the several subscribers to the stock;
- (2) The territorial extent of the several commercial districts as determined by the committee and the designated cities in each district as the seats of the several branches;
- (3) A description of the seal of the Bank;

process of organization thereof, be the seal of the Committee, and adopt seals for the several branches, which shall correspond to the seal of the Bank with the name of the branch added;

^{Federal Reserve}
~~(6) ^{Continental United States} divide the country into twelve commercial districts and designate one city in each district as the seat of a branch of the Bank;~~

~~(6)~~ Invite public subscriptions to the capital stock of the Bank under such terms as the Committee may determine and receive from all national banks in the United States their subscriptions for their pro rata proportions to any of such stock not taken by the public, all of such national banks being hereby required, under the direction of said Committee, to subscribe for such pro rata proportions.

INCORPORATION AND ORGANIZATION OF THE FEDERAL RESERVE BANK OF THE UNITED STATES.

Sec. 3. The President shall appoint, with the advice and consent of the Senate, seven directors of the Bank, which directors shall be selected from among men resident in different sections of the country so as to give due weight to the commercial districts and from among men who are qualified by experience and training for the proper discharge of the duties imposed upon them. At least three members of the board shall at all ^{times} be men who have had wide financial and banking experience. The terms of office of such directors shall be fourteen years, but the board first appointed shall be classified so that the term of one director shall expire every two years. The President also, with the advice and consent of the Senate, shall designate one director as Governor and another as Deputy Governor, and shall fill all vacancies on said board for the unexpired terms. The Governor, or, in his absence, the Deputy

mobilize bank reserves

refund and retire a portion of the national debt

AS

Second Draft.

AN ACT

to
~~to provide for the incorporation of the~~ FEDERAL RESERVE BANK OF
THE UNITED STATES ~~and branches thereof,~~ *establish banking*
districts, ~~to furnish~~ *provide for* an elastic currency, ~~to afford~~ *means for*
rediscounting commercial paper, ~~to establish~~ *more effective*
supervision of banking ~~in the United States~~ and for other purposes.

Be it enacted by the Senate and House of Representatives of
the United States of America in Congress assembled:

~~Section~~ *That* The short title of this Act shall be "The Federal
Reserve Act."

ORGANIZATION COMMITTEE.

That
Sec. 2. *as* soon as practicable after the passage of this
Act the President shall appoint a committee of five, to be desig-
nated ~~The Federal Reserve Bank Organization Committee~~ *hereinafter called the "Committee."*
committee shall ~~have power to~~ organize *The Federal Reserve Bank*
of the United States, ~~hereinafter called "The Bank"~~ *Federal Reserve* and ~~the~~ branches
thereof, and shall receive, in full compensation for *his* services,
Each member the sum of \$10,000. ~~It, shall, immediately after its ap-~~
The Committee
pointment, ~~proceed~~

(a) ~~to~~ *decide* Select a Chairman and Secretary and such other offi-
cers as it may ~~desire~~ *decide* from its own members and ~~to~~ appoint assistant
officers, clerks and other necessary employes, ~~and to incur such ex-~~
penses in carrying out the provisions of this Act as it shall deem
necessary, which expenses shall be payable by the Treasurer of the
United States upon vouchers ~~approved by the~~ *Committee*, and the sum
of \$250,000 or so much thereof as may be necessary is hereby appro-
priated out of any moneys in the Treasury not otherwise appropriated
for the payment of such expenses;

(b) ~~to~~ *Federal Reserve* Adopt a seal for the *Bank*, which shall, during the

207

IN THE SENATE OF THE UNITED STATES.

Read twice and referred to the Committee on Banking and Currency.

SEPTEMBER 18, 1913.

AN ACT

To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the short title of this Act shall be the "Federal Reserve
4 Act."

FEDERAL RESERVE DISTRICTS.

5
6 SEC. 2. That within ninety days after the passage of
7 this Act, or as soon thereafter as practicable, the Sec-
8 retary of the Treasury, the Secretary of Agriculture, and
9 the Comptroller of the Currency, acting as "The Reserve
10 Bank Organization Committee," shall designate from among
11 the reserve and central reserve cities now authorized by
12 law a number of such cities to be known as Federal
13 reserve cities, and shall divide the continental United
14 States into districts, each district to contain one of such
15 Federal reserve cities: *Provided*, That the districts shall
16 be apportioned with due regard to the convenience and

*As soon
as prac-
ticable*

*Secy of Tr.
and 5 abbott
by Post.
Shd. remain
diff. sections
Shall be
Combined.*

1 customary course of business of the community and shall not
 2 necessarily coincide with the area of such State or States as
 3 may be wholly or in part included in any given district. The
 4 districts thus created may be readjusted (and new districts
 5 may) from time to time (be created) by the Federal Reserve
 6 Board hereinafter established (acting upon a joint application
 7 made by not less than ten member banks desiring to be organ-
 8 ized into a new district.) The districts thus constituted shall
 9 be known as Federal reserve districts and shall be designated
 10 by number according to the pleasure of the organization
 11 committee, and no Federal reserve district shall be abolished,
 12 nor the location of a Federal reserve bank changed, except
 13 upon the application of ^{1/2} ~~three fourths~~ of the member banks of
 14 such district.

15 The organization committee shall, in accordance with
 16 regulations to be established by itself, proceed to organize in
 17 each of the reserve cities designated as hereinbefore specified
 18 a Federal reserve bank. Each such Federal reserve bank
 19 shall include in its title the name of the city in which it is
 20 situated, as "Federal Reserve Bank of Chicago," and so
 21 forth. The total number of reserve cities designated by the
 22 organization committee shall be not ^{in the first instance more} (less) than ^{five} (twelve), and
 23 the organization committee shall be authorized to employ
 24 counsel and expert aid, to take testimony, to send for persons
 25 and papers, to administer oaths, and to make such investiga-
 26 tions as may be deemed necessary by the said committee for the

Too few, shd depend on total Cap. of banks. Petitioning to small banks shd not initiate plan involving banks of 50 m total Cap (see p 3 lines 17-18)

Too many. Impossible to reduce. Easier to increase.

and districts

1 purpose of determining the reserve cities to be designated
2 and organizing ^{ed as} ~~the~~ reserve districts hereinbefore provided.

3 Every national bank located within a given district
4 shall be required to subscribe to the capital stock of the
5 Federal reserve bank of that district a sum equal to twenty
6 per centum of the capital stock of such national
7 bank fully paid in and unimpaired, one-fourth of such
8 subscription to be paid in cash and one-fourth within

9 sixty days after said subscription is made. The remain-
10 der of the subscription ^{To the extent not called for payment} (or any part thereof) shall become

11 a liability of the member bank, subject to call and pay-
12 ment thereof whenever necessary to meet the obligations
13 of the Federal reserve bank under such terms and in ac-
14 cordance with such regulations as the board of directors
15 of said Federal reserve bank may prescribe: *Provided,*

16 That no Federal reserve bank shall commence business with
17 a paid-up and unimpaired capital less in amount than ^{\$ 15,000,000} \$5,000,-
18 000. The organization committee shall have power to appoint

19 such assistants and incur such expenses in carrying out the pro-
20 visions of this Act as it shall deem necessary, and such ex-
21 penses shall be payable by the Treasurer of the United States
22 upon voucher approved by the Secretary of the Treasury, and

23 the sum of \$100,000, or so much thereof as may be necessary,
24 is hereby appropriated, out of any moneys in the Treasury not
25 otherwise appropriated, for the payment of such expenses.

authorized?

distribute over long period in smaller payts.

protection of 10 cents and not cover \$ 5,000,000 Cap. for new F.R.B.

insufficient 250 m at least,

STOCK ISSUES.

1
 2 SEC. 3. That the capital stock of each Federal reserve
 3 bank shall be divided into shares of \$100 each. The out-
 4 standing capital stock shall be increased from time to time as
 5 member banks increase their capital stock or as additional
 6 banks become members, and shall be decreased as member
 7 banks reduce their capital stock or cease to be members.
 8 Each Federal reserve bank may establish branch offices under
 9 regulations of the Federal Reserve Board at points within
 10 the Federal reserve district in which it is located: *Provided,*
 11 That the total number of such branches shall not exceed one
 12 for each \$500,000 of the capital stock of said Federal reserve
 13 bank.

Junctious.
 Limit looks
 too small. We
 prefer to leave to
 discretion of
 F.R. Bank Sub-
 ject to review
 by F.R. Board.
 See p. 27. lines
 2-8

FEDERAL RESERVE BANKS.

14
 15 SEC. 4. The national banks in each Federal reserve
 16 district uniting to form the Federal reserve bank therein,
 17 hereinbefore provided for, shall under their seals, make an
 18 organization certificate, which shall specifically state the name
 19 of such Federal reserve bank so organized, the territorial ex-
 20 tent of the district over which the operations of said Federal
 21 reserve bank are to be carried on, the city and State in which
 22 said bank is to be located, the amount of capital stock and the
 23 number of shares into which the same is divided, the names
 24 and places of doing business of each of the makers of said cer-
 25 tificate and the number of shares ^{Subscribed} (held) by each of them, and the

1 fact that the certificate is made to enable such banks to avail
 2 themselves of the advantages of this Act. The said organiza-
 3 tion certificate shall be acknowledged before a judge of some
 4 court of record or notary public; and shall be, together with
 5 the acknowledgment thereof, authenticated by the seal of
 6 such court, or notary, transmitted to the Comptroller of the
 7 Currency, who shall file, record, and carefully preserve the same
 8 in his office. Upon the filing of such certificate with the
 9 Comptroller of the Currency as aforesaid, the said Federal
 10 reserve bank so formed shall become a body corporate, and as
 11 such, and in the name designated in such organization certifi-
 12 cate, shall have power to perform all those acts and to enjoy
 13 all those privileges and to exercise all those powers described
 14 in section fifty-one hundred and thirty-six, Revised Statutes,
 15 save in so far as the same shall be limited by the provisions
 16 of this Act. The Federal reserve bank so incorporated shall
 17 have succession for a period of twenty years from its organiza-
 18 tion, unless sooner dissolved by Act of Congress.

19 Every Federal reserve bank shall be conducted under
 20 the oversight and control of a board of directors, whose
 21 powers shall be the same as those conferred upon the
 22 boards of directors of national banking associations under
 23 existing law, not inconsistent with the provisions of this
 24 Act. Such board of directors shall be constituted and elected
 25 as hereinafter specified and shall consist of nine members,

Should be furnished with certificate to the effect that requirements of act have been complied with. See p. 2 & 4-14. Is it intended that new dir. of new F.R. Bank may be organized without approval of F.R. Board?

Plan should not be organized until sufficient banks join to insure incorporation of all F.R. Banks provided to be organized.

What reference to legislation or withdrawal of

insolvency of member banks reduces capital of F.R. Bank below \$500,000. This may be liable to happen if branch banking authorized. Branch banking is not consistent with this plan.

1 fact that the certificate is made to enable such banks to avail
 2 themselves of the advantages of this Act. The said organiza-
 3 tion certificate shall be acknowledged before a judge of some
 4 court of record or notary public; and shall be, together with
 5 the acknowledgment thereof, authenticated by the seal of
 6 such court, or notary, transmitted to the Comptroller of the
 7 Currency, who shall file, record, and carefully preserve the same
 8 in his office. Upon the filing of such certificate with the
 9 Comptroller of the Currency as aforesaid, the said Federal
 10 reserve bank so formed shall become a body corporate, and as
 11 such, and in the name designated in such organization certifi-
 12 cate, shall have power to perform all those acts and to enjoy
 13 all those privileges and to exercise all those powers described
 14 in section fifty-one hundred and thirty-six, Revised Statutes,
 15 save in so far as the same shall be limited by the provisions
 16 of this Act. The Federal reserve bank so incorporated shall
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 20 the oversight and control of a board of directors, whose
 21 powers shall be the same as those conferred upon the
 22 boards of directors of national banking associations under
 23 existing law, not inconsistent with the provisions of this
 24 Act. Such board of directors shall be constituted and elected
 25 as hereinafter specified and shall consist of nine members,

Should be furnished with certificate to the effect that requirements of act have been complied with. See p. 26 4-14. Is it intended that new dir. & new 2.R. Bank may be organized without approval Fed. R. Board?

Plan should not be operation until sufficient laws have been introduced of all 2.R. Banks provided to be organized.

What happens if legislation or withdrawal of

insolvency of member banks power Capital of 2.R. Bank below \$5,000,000. This more liable to failure if branch banking authorized. Branch banking is not consistent with this plan.

1 holding office for three years, and divided into three classes,
2 designated as classes A, B, and C.

3 Class A shall consist of three members, who shall be
4 chosen by and be representative of the stock-holding banks.

5 Class B shall consist of three members, who shall be repre-
6 sentative of the general public interests of the reserve district.

7 Class C shall consist of three members, who shall be
8 designated by the Federal Reserve Board.

9 Directors of class A shall be chosen in the following
10 manner:

11 It shall be the duty of the chairman of the board of
12 directors of the Federal reserve bank of the district in which
13 each such bank is situated to classify the member banks of the
14 said district into three general groups or divisions. ^{according to Capitalization} Each
15 such group shall contain as nearly as may be one-third of
16 the aggregate number of said member banks of the said dis-
17 trict and shall consist, as nearly as may be, of banks of simi-
18 lar capitalization. The said groups shall be designated by
19 number at the pleasure of the chairman of the board of di-
20 rectors of the Federal reserve bank. *What does this mean.*

21 At a regularly called directors' meeting of each member
22 bank in the Federal reserve district aforesaid, the board of
23 directors of such member bank shall elect by ballot one of its
24 own members as a district reserve elector and shall certify his
25 name to the chairman of the board of directors of the Federal

*Will Chairman
be appointed
before organ-
ization? He
thinks not depend
on one man.
This one man
arrangement
is a bad, what
happens in case
of sudden death
or disability -
The board has no
power to fill his
place even then -
forarily -*

Select

1 reserve bank of the district. The said chairman shall
 2 establish lists of the district reserve electors, class A,
 3 thus named by banks in each of the aforesaid three groups and
 4 shall transmit one list to each such elector in each
 5 group. Every elector shall, within fifteen days of the receipt
 6 of the said list, select and certify to the said chairman from
 7 among the names on the list pertaining to his group, trans-
 8 mitted to him by the chairman, one name, not his own, as rep-
 9 resenting his choice for Federal reserve director, class A. The
 10 name receiving the greatest number of votes, not less than a
 11 majority, shall be designated by said chairman as Federal re-
 12 serve director for the group to which he belongs. In case no
 13 candidate shall receive a majority of all votes cast in any
 14 group, the chairman aforesaid shall establish an eligible list,
 15 consisting of the three names receiving the greatest number
 16 of votes on the first ballot, and shall transmit said list to the
 17 electors in each of the groups of banks established by him.
 18 Each elector shall at once select and certify to the said chair-
 19 man from among the three persons submitted to him his choice
 20 for Federal reserve director, class A, and the name receiving
 21 the greatest number of such votes shall be declared by the
 22 chairman as Federal reserve director, class A. In case of a
 23 tie vote ^{or no candidate receiving a majority} the balloting shall continue in the manner hereinbe-
 24 fore prescribed until one candidate receives more votes than
 25 either of the others.

*Not clear
 enough as
 to finish
 Election and
 as to subse-
 quent elections*

1 Directors of class B shall be chosen by the electors
 2 of the respective groups at the same time and in the same
 3 manner prescribed for directors of class A, except that they
 4 must be selected from a list of names furnished, one by each
 5 member bank, and such names shall in no case be those of offi-
 6 cers or directors of any bank or banking association. They
 7 shall not accept office as such during the term of their service
 8 as directors of the Federal reserve bank. They shall be fairly
 9 representative of the commercial, agricultural, or industrial
 10 interests of their respective districts. The Federal Reserve
 11 Board shall have power at its discretion to remove any di-
 12 rector of class B in any Federal reserve bank, if it should ap-
 13 pear at any time that such director does not fairly represent
 14 the commercial, agricultural, or industrial interests of his
 15 district, ~~or becomes disqual.~~

16 Three directors belonging to class C shall be chosen
 17 directly by the Federal Reserve Board, and shall be residents
 18 of the district for which they are selected, one of whom shall be
 19 designated by said board as chairman of the board of directors
 20 of the Federal reserve bank of the district to which he is
 21 appointed and shall be designated as "Federal reserve agent."
 22 He shall be a person of tested banking experience; and in
 23 addition to his duties as chairman of the board of directors of
 24 the Federal reserve bank of the district to which he is
 25 appointed, he shall be required to maintain under regulations
 26 to be established by the Federal Reserve Board a local office

F.R. Board
 would need
 to be org.
 first.

or both
 or supra

1 of said board, which shall be situated on the premises
 2 of the Federal reserve bank of the district. He shall make
 3 regular reports to the Federal Reserve Board, and shall
 4 act as its official representative for the performance of the
 5 functions conferred upon it by this Act. He shall receive an
 6 annual compensation to be fixed by the Federal Reserve
 7 Board and paid monthly by the Federal reserve bank to which
 8 he is designated.

9 Directors of Federal reserve banks shall receive, in
 10 addition to any compensation otherwise provided, a reason-
 11 able allowance for necessary expenses in attending meetings
 12 of their respective boards, which amount shall be paid by
 13 the respective Federal reserve banks. Any compensation
 14 that may be provided by boards of directors of Federal
 15 reserve banks for members of such boards shall be subject
 16 to review by the Federal Reserve Board.

17 The Reserve Bank Organization Committee may, in or-
 18 ganizing Federal reserve banks for the first time, call such meet-
 19 ings of bank directors in the several districts as may be neces-
 20 sary to carry out the purposes of this Act and may exercise the
 21 functions herein conferred upon the chairman of the board of
 22 directors of each Federal reserve bank pending the complete
 23 organization of such bank.

24 At the first meeting of the full board of directors of each
 25 Federal reserve bank after organization it shall be the duty of

1 the directors of classes A and B and C, respectively, to desig-
 2 nate one of the members of each class whose term of office
 3 shall expire in one year from the first of January nearest to
 4 date of such meeting, one whose term of office shall expire
 5 at the end of two years from said date, and one whose term
 6 of office shall expire at the end of three years from said date.
 7 Thereafter every director of a Federal reserve bank chosen
 8 as hereinbefore provided shall hold office for a term of three
 9 years; but the chairman of the board of directors of
 10 each Federal reserve bank designated by the Federal Reserve
 11 Board, as hereinbefore described, shall be removable at
 12 the pleasure of the said board without notice, and his
 13 successor shall hold office during the unexpired term of the
 14 director in whose place he was appointed. Vacancies that
 15 may occur in the several classes of directors of Federal reserve
 16 banks may be filled in the manner provided for the original
 17 selection of such directors, such appointees to hold office for
 18 the unexpired terms of their predecessors.

19 INCREASE AND DECREASE OF CAPITAL.

20 SEC. 5. That shares of the capital stock of Federal reserve
 21 banks shall not be transferable, nor be hypothecated.
 22 In case a member bank increases its capital, it shall there-
 23 upon subscribe for an additional amount of capital stock of
 24 the Federal reserve bank of its district equal to twenty per
 25 centum of the bank's ^{member} own increase of capital, one-half of

*Does classification
of member banks
continue?*

1 said subscription to be paid in cash ~~in the manner herein~~
 2 before provided for original subscription, and one-half to
 3 become a liability of the member bank according to the
 4 terms of the original subscription. A bank applying for stock
 5 in a Federal reserve bank at any time after the formation of
 6 the latter must subscribe for an amount of the capital of said
 7 Federal reserve bank equal to twenty per centum of the
 8 capital stock of said subscribing bank, paying therefor its par
 9 value in accordance with the terms prescribed by section two
 10 of this Act. *Except that one half shall be payable forthwith.* When the capital stock of any Federal reserve
 11 bank has been increased either on account of the increase of
 12 capital stock of member banks or on account of the increase
 13 in the number of member banks, the board of directors shall
 14 make and execute a certificate to the Comptroller of the Cur-
 15 rency showing said increase in capital, the amount paid in,
 16 and by whom paid. In case a member bank reduces its
 17 capital stock it shall surrender a proportionate amount of its
 18 holdings in the capital of said Federal reserve bank, and in
 19 case a member bank goes into voluntary liquidation it shall
 20 surrender all of its holdings of the capital stock of said Federal
 21 reserve bank. In either case the shares surrendered shall
 22 be canceled and such member bank shall receive in payment
 23 therefor, under regulations to be prescribed by the Federal
 24 Reserve Board, a sum equal to its cash paid subscriptions on
 25 the shares surrendered. *and divd.*

*upon such
increase being
paid in full*

examination

✓

1 SEC. 6. That if any member bank shall become
 2 insolvent and a receiver be appointed, the stock held
 3 by it in said Federal reserve bank shall be canceled
 4 and the balance, after deducting from the amount of its
 5 cash paid subscriptions all debts due by such insolvent
 6 bank to said Federal reserve bank, shall be paid to the
 7 receiver of the insolvent bank. Whenever the capital stock
 8 of a Federal reserve bank is reduced, either on account of a
 9 reduction in capital stock of any member bank or of the liquida-
 10 tion or insolvency of any such member bank, the board of
 11 directors shall make and execute a certificate to the Comp-
 12 troller of the Currency showing such reduction of capital
 13 stock and the amount repaid to such bank.

14 DIVISION OF EARNINGS.

15 SEC. 7. That after the payment of all necessary expenses
 16 and taxes of a Federal reserve bank, the member banks
 17 shall be entitled to receive an annual dividend of five per
 18 centum on the paid-in capital stock, which dividend shall
 19 be cumulative. One-half of the net earnings, after the afore-
 20 said dividend claims have been fully met, shall be paid into
 21 a surplus fund until such fund shall amount to twenty per
 22 centum of the paid-in capital stock of such bank,
 23 and of the remaining ~~one-half~~ (sixty per centum) shall
 24 be paid to the United States (and forty per centum
 25 to the member banks in the ratio of their average bal-

1 ances with the Federal reserve bank for the preceding year.)
 2 Whenever and so long as the surplus fund of a Federal
 3 reserve bank amounts to twenty per centum of the
 4 paid-in capital stock and the member banks shall
 5 have received the dividends at the rate of five per
 6 centum per annum hereinbefore provided for, sixty
 7 per centum of all excess earnings shall be paid to the
 8 United States and forty per centum to the member banks in
 9 proportion to their annual average balances with such Federal
 10 reserve bank, all earnings derived by the United States from
 11 Federal reserve banks shall constitute a sinking fund to be
 12 held for the reduction of the outstanding bonded indebtedness
 13 of the United States, said reduction to be accomplished under
 14 regulations to be prescribed by the Secretary of the Treasury.
 15 Should a Federal reserve bank be dissolved or go into liquida-
 16 tion, the surplus fund of said bank, after the payment of all
 17 debts and dividend requirements as hereinbefore provided
 18 for, shall be paid to and become the property of the United
 19 States.

20 Every Federal reserve bank incorporated under the
 21 terms of this Act and the capital stock therein held by mem-
 22 ber banks shall be exempt from Federal, State, and local
 23 taxation, except in respect to taxes upon real estate.

24 SEC. 8. That any national banking association here-
 25 tofore organized may upon application at any time

Bad -
Dividends?

Bad -
Why not auto
Sag. Fund of
Greenback

1 within one year after the passage of this Act, and
 2 with the approval of the Comptroller of the Currency,
 3 be granted, as herein provided, all the rights, and be sub-
 4 ject to all the liabilities, of national banking associations
 5 organized subsequent to the passage of this Act: *Provided,*
 6 That such application on the part of such associations shall
 7 be authorized by the consent in writing of stockholders
 8 owning not less than a majority of the capital stock of the
 9 association. Any national banking association now organ-
 10 ized which shall not, within one year after the passage of this
 11 Act, become a national banking association under the pro-
 12 visions hereinbefore stated, or which shall fail to comply
 13 with any of the provisions of this Act applicable thereto,
 14 shall be dissolved; but such dissolution shall not take away
 15 or impair any remedy against such corporation, its stockholders
 16 or officers, for any liability or penalty which shall have pre-
 17 viously been incurred.

18 SEC. 9. That any bank or banking association incor-
 19 porated by special law of any State or of the United States,
 20 or organized under the general laws of any State or the
 21 United States, and having an unimpaired capital sufficient
 22 to entitle it to become a national banking association under
 23 the provisions of existing laws, may, by the consent in writ-
 24 ing of the shareholders owning not less than fifty-one per
 25 centum of the capital stock of such bank or banking associa-

2
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tion, and with the approval of the Comptroller of the Currency,
 become a national banking association (under its former name
 or) by any name approved by the comptroller. The directors
 thereof may continue to be the directors of the association so
 organized until others are elected or appointed in accordance
 with the provisions of the law. When the comptroller has
 given to such bank or banking association a certificate that
 the provisions of this Act have been complied with, such
 bank or banking association, and all its stockholders, officers,
 and employees, shall have the same powers and privileges,
 and shall be subject to the same duties, liabilities, and regu-
 lations, in all respects, as shall have been prescribed by
 this Act or by the national banking Act for associations
 originally organized as national banking associations.

*How about
 State Power
 Excomm?*

STATE BANKS AS MEMBERS.

SEC. 10. That from and after the passage of this Act
 any bank or banking association or trust company incor-
 porated by special law of any State, or organized under
 the general laws of any State or the United States, may
 make application to the Federal Reserve Board hereinafter
 created for the right to subscribe to the stock of the Federal
 reserve bank organized or to be organized within the Federal
 reserve district where the applicant is located. The Federal
 Reserve Board, under such rules and regulations as it may
 prescribe, subject to the provisions of this section, shall

with the case of div. of CC. of

Banking Association or Trust Co

1 permit such applying bank to become a stockholder in the
 2 Federal reserve bank of the district in which such apply-
 3 ing bank is located. Whenever the Federal Reserve Board
 4 shall permit such applying bank to become a stockholder
 5 in the Federal reserve bank of the district in which the ap-
 6 plying bank is located, stock shall be issued and paid for under
 7 the rules and regulations in this Act provided for national
 8 banks which become stockholders in Federal reserve banks.

9 It shall be the duty of the Federal Reserve Board to
 10 establish by-laws for the general government of its conduct
 11 in acting upon applications made by the State banks
 12 and banking associations and trust companies hereinbefore
 13 referred to for stock ownership in Federal reserve banks.

14 Such by-laws shall require applying banks not organ-
 15 ized under Federal law to comply with the reserve
 16 requirements and submit to the inspection (and regula-
 17 tion) provided for in this and other laws relating to
 18 national banks. No such applying bank shall be admitted
 19 to membership in a Federal reserve bank unless it pos-
 20 sesses a paid-up unimpaired capital sufficient to entitle it to
 21 become a national banking association in the place where it is
 22 situated, under the provisions of the national banking Act,
 23 and conforms to the provisions herein prescribed for national
 24 banking associations of similar capitalization and to the regu-
 25 lations of the Federal Reserve Board.

Examined

B.A. or T. Co.

omit

*F.R. Banks
Regulation*

*in State?
in laws?*

1 If at any time it shall appear to the Federal Reserve
 2 Board that a ^{bank} banking association or trust company organized
 3 under the laws of any State or of the United States has failed
 4 to comply with the provisions of this section or the regu-
 5 lations of the Federal Reserve Board, it shall be within
 6 the power of the said board to require such banking associa-
 7 tion or trust company to surrender its stock in the Federal
 8 reserve bank in which it holds stock upon receiving from
 9 such Federal reserve bank the cash-paid subscriptions to
 10 the said stock in (current funds) and said Federal reserve
 11 bank shall upon notice from the Federal Reserve Board
 12 be required to suspend said banking association or trust
 13 company from further privileges of membership, and shall
 14 within thirty days of such notice cancel and retire its
 15 stock and make payment therefor in the manner herein
 16 provided.

*How about
 amendment
 of State laws
 causing con-
 flict with
 this Act.*

?

FEDERAL RESERVE BOARD.

18 SEC. 11. That there shall be created a Federal Reserve
 19 Board, which shall consist of seven members, including the
 20 Secretary of the Treasury, the Secretary of Agriculture, and
 21 the Comptroller of the Currency, who shall be ^{an} ~~members~~ ^{omit} ~~ex~~
 22 ^{members} ~~four~~ ^{Sec} members appointed by the President of the ^{3 representatives}
 23 United States, by and with the advice and consent of the ^{banks}
 24 Senate. In selecting the four appointive members of the
 25 Federal Reserve Board, ~~not more than one of whom~~

1 ~~shall be selected from any one Federal reserve district,~~
 2 the President shall have due regard to a fair represen-
 3 tation of different ^{Commercial} ~~geographical~~ divisions of the country.
 4 The four members of the Federal Reserve Board appointed
 5 by the President and confirmed as aforesaid shall de-
 6 vote their entire time to the business of the Federal Re-
 7 serve Board and shall each receive an annual salary of
 8 ^{\$12000} ~~\$10,000~~, together with an allowance for actual necessary
 9 traveling expenses, ~~and the Comptroller of the Currency, as~~
 10 ~~ex officio member of said Federal Reserve Board, shall,~~
 11 ~~in addition to the salary now paid him as comptroller,~~
 12 ~~receive the sum of \$5,000 annually for his services as a mem-~~
 13 ~~ber of said board.~~ Of the four members thus appointed by the
 14 President not more than two shall be of the same political
 15 party, and at least one of whom shall be a person experienced
 16 in banking. One shall be designated by the President to
 17 serve for two, one for four, one for six, and one for
 18 eight years, respectively, and thereafter each member so
 19 appointed shall serve for a term of eight years unless sooner
 20 removed for cause by the President. Of the four persons thus
 21 appointed, one shall be designated by the President as ^{gov} ~~manager~~
 22 and one as ^{gov} ~~vice manager~~ of the Federal Reserve Board. The
 23 manager of the Federal Reserve Board, subject to the super-
 24 vision of ^{omit} (the Secretary of the Treasury and) Federal Reserve
 25 Board, shall be the active executive officer of the Federal
 26 Reserve Board.

1 The Federal Reserve Board shall have power to levy
 2 semiannually upon the Federal reserve banks, in proportion to
 3 their capital stock, an assessment sufficient to pay its esti-
 4 mated expenses for the half year succeeding the levying of
 5 such assessment, together with any deficit carried forward
 6 from the preceding half year.

7 The first meeting of the Federal Reserve Board shall
 8 be held in Washington, District of Columbia, as soon as may
 9 be after the passage of this Act, at a date to be fixed by the Re-
 10 serve Bank Organization Committee. The Secretary of the
 11 Treasury shall be ~~ex officio chairman~~ of the Federal Reserve
 12 Board. No member of the Federal Reserve Board shall
 13 be an officer or director of any bank or banking institution
 14 or Federal reserve bank nor hold stock in any bank or bank-
 15 ing institution; and before entering upon his duties as a
 16 member of the Federal Reserve Board he shall certify under
 17 oath ~~to the Secretary of the Treasury~~ that he has complied
 18 with this requirement. Whenever a vacancy shall occur,
 19 other than by expiration of term, among the four members of
 20 the Federal Reserve Board appointed by the President, as
 21 above provided, a successor shall be appointed by the Presi-
 22 dent, with the advice and consent of the Senate, to fill such
 23 vacancy, and when appointed shall hold office for the
 24 unexpired term of the member whose place he is selected
 25 to fill.

Chairman

?

Why?

See

Copy sent to Banco

1 The Federal Reserve Board shall annually make a report
 2 of its fiscal operations to the Speaker of the House of Repre-
 3 sentatives, who shall cause the same to be printed for the
 4 information of the Congress.

5 Section three hundred and twenty-four of the Revised
 6 Statutes of the United States shall be amended so as to
 7 read as follows: "There shall be in the Department of the
 8 Treasury a bureau charged, except as in this Act otherwise
 9 provided, with the execution of all laws passed by Congress
 10 relating to the issue and regulation of currency issued by
 11 or through banking associations, the chief officer of which
 12 bureau shall be called the Comptroller of the Currency, and
 13 shall perform his duties under the general direction of the
 14 Secretary of the Treasury, (acting as the chairman of the
 15 Federal Reserve Board:)" *omit* *Provided, however,* That nothing
 16 herein contained shall be construed to affect any power now
 17 vested by law in the Comptroller of the Currency or the
 18 Secretary of the Treasury.

19 SEC. 12. That the Federal Reserve Board hereinbefore
 20 established shall be authorized and empowered:

21 (a) To examine at its discretion the accounts, books, and
 22 affairs of each Federal reserve bank and to require such *from said Banks*
 23 statements and reports as it may deem necessary. The said
 24 board shall publish once each week a statement showing the
 25 condition of each Federal reserve bank and a consolidated

1 statement for all Federal reserve banks. Such statements
 2 shall show in detail the assets and liabilities of
 3 such Federal reserve banks, single and combined, and
 4 shall furnish full information regarding the character
 5 of the (lawful money) held as reserve and the amount, na-
 6 ture, and maturities of the paper owned by Federal reserve
 7 banks,

8 (b) To permit ^{Classification of this Secy to require} (or require) ^{or} in time of emergency, Federal
 9 reserve banks to rediscount the discounted prime paper of
 10 other Federal reserve banks, at least five members of the
 11 Federal Reserve Board being present when (such) action is
 12 taken ^{requiring such discount} and all present consenting to the requirement. The
 13 exercise of this compulsory rediscount power by the Federal
 14 Reserve Board shall be subject to an interest charge to the
 15 accommodated bank of not less than one nor greater than
 16 three per centum above the higher of the rates prevailing
 17 in the districts immediately affected.

18 (c) To suspend for a period not exceeding thirty days
 19 (and to renew such suspension for periods not to exceed
 20 fifteen days) any and every reserve requirement specified in
 21 this Act: *Provided*, That it shall establish a graduated tax
 22 upon the amounts by which the reserve requirements of
 23 this Act may be permitted to fall below the level hereinafter
 24 specified, such tax to be uniform in its application to all banks;

?

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1 but said board shall not suspend the reserve requirements
2 with reference to Federal reserve notes.

3 (d) To supervise and regulate the issue and retirement
4 of Federal reserve notes and to prescribe the form and tenor
5 of such notes.

6 (e) To add to the number of cities classified as reserve
7 and central reserve cities under existing law in which national
8 banking associations are subject to the reserve requirements
9 set forth in section twenty of this Act; or to reclassify
10 existing reserve and central reserve cities and to desig-
11 nate the banks therein situated as country banks at its
12 discretion.

13 (f) To suspend the officials of Federal reserve banks
14 and, for cause stated in writing with opportunity of hearing,
15 require the removal of said officials for incompetency, derelic-
16 tion of duty, fraud, or deceit, such removal to be subject to
17 approval by the President of the United States.

18 (g) To require the writing off of doubtful or worthless
19 assets upon the books and balance sheets of Federal reserve
20 banks.

21 (h) To suspend, for cause relating to violation of any of
22 the provisions of this Act, the operations of any Federal
23 reserve bank and appoint a receiver therefor.

24 (i) To perform the duties, functions, or services specified
25 (or implied) in this Act.

*Prod. Reserve
Should be
uniform
anyway*

omit

FEDERAL ADVISORY COUNCIL.

1
 2 SEC. 13. There is hereby created a Federal Advisory
 3 Council, which shall consist of as many members as there are
 4 Federal reserve districts. Each Federal reserve bank by its
 5 board of directors shall annually select from its own Fed-
 6 eral reserve district one member of said council, who shall
 7 receive no compensation for his services, but may be re- *why not*
 8 imbursed for actual necessary expenses. / The meetings
 9 of said advisory council shall be held at Washington,
 10 District of Columbia, at least four times each year, and
 11 oftener if called by the Federal Reserve Board. The council *often in*
 12 may select its own officers and adopt its own methods of pro- *Pratt's terms*
 13 cedure, and a majority of its members shall constitute a quo-
 14 rum for the transaction of business. / Vacancies in the council
 15 shall be filled by the respective reserve banks, and members
 16 selected to fill vacancies shall serve for the unexpired term.
 17 The Federal Advisory Council shall have power (1) to
 18 meet and confer directly with the Federal Reserve Board on *often meeting*
 19 general business conditions; (2) to make oral or written rep-
 20 resentations concerning matters within the jurisdiction of
 21 said board; (3) to call for complete information and to make
 22 recommendations in regard to discount rates, rediscount
 23 business, note issues, reserve conditions in the various districts,
 24 the purchase and sale of gold or securities by reserve banks,
 25 open-market operations by said banks, and the general affairs
 26 of the reserve banking system.

1 REDISCOUNTS.

2 SEC. 14. That any Federal reserve bank may receive
 3 from any member bank deposits of current funds in lawful
 4 money, national bank notes, Federal reserve notes, or
 5 checks and drafts upon solvent banks, payable upon presenta-
 6 tion; or, solely for exchange purposes, may receive from other
 7 Federal reserve banks deposits of current funds in lawful
 8 money, national bank notes, or checks and drafts upon
 9 solvent banks, payable upon presentation.

10 Upon the indorsement of any member bank any Federal
 11 reserve bank may discount notes and bills of exchange aris-
 12 ing out of commercial transactions; that is, notes and bills
 13 of exchange issued or drawn for agricultural, industrial, or
 14 commercial purposes, or the proceeds of which have been used,
 15 ~~or may be used~~, for such purposes, the Federal Reserve Board to
 16 (have the right to) determine ^{and} ~~or~~ define the character of the
 17 paper thus eligible for discount, within the meaning of this
 18 Act; nothing herein contained shall be construed to prohibit
 19 ^(or drafts) such notes) and bills of exchange, secured by staple agri-
 20 cultural products, or other goods, wares, or merchandise ~~from~~
 21 being eligible for such discount; but such definition shall not
 22 include notes or bills issued or drawn for the purpose of carry-
 23 ing or trading in stocks, bonds, or other investment securities.
 24 Notes and bills admitted to discount under the terms of
 25 this paragraph must have a maturity of not more than
 26 ninety days.

1 Upon the indorsement of any member bank any Federal
 2 reserve bank may discount the paper of the classes herein-
 3 before described having a maturity of more than ninety
 4 and not more than one hundred and twenty days, when its
 5 own cash reserve exceeds thirty-three and one-third per cent
 6 of its total outstanding demand liabilities exclusive of its *reserve upon*
 7 outstanding Federal reserve notes by an amount to be fixed
 8 by the Federal Reserve Board; but not more than ~~(fifty)~~ *Twenty Five* per
 9 cent of the total paper so discounted for any member bank
 10 shall have a maturity of more than ninety days.

11 Upon the indorsement of any member bank any
 12 Federal reserve bank may discount acceptances of
 13 such banks which are based on the exportation or
 14 importation of goods ^{*including gold coin and gold bullion*} and which mature in not *later*
 15 more than six months and bear the signature of at
 16 least one member bank in addition to that of the acceptor.
 17 The amount so discounted shall at no time exceed one-half the
 18 capital stock of the bank for which the rediscounts are made. *?*

19 The aggregate of such notes ^{*draft*} and bills bearing the signa-
 20 ture or indorsement of any one person, company, firm, or *improves*
 21 corporation rediscounted for any one bank shall at no time *definition*
 22 exceed ten per centum of the unimpaired capital and surplus
 23 of said bank; but this restriction shall not apply to the
 24 discount of bills of exchange drawn in good faith against
 25 actually existing values.

1 Any national bank may, at its discretion, accept
 2 drafts or bills of exchange drawn upon it having
 3 not more than six months sight to run (and growing out
 4 of transactions involving the ^{Purchase or Sale} importation or exportation)
 5 of goods; but no bank shall accept such bills
 6 to an amount equal at any time in the aggregate to more
 7 than (one-half) the face value of its paid-up and unim-
 8 paired capital. *and its surplus*

9 Section fifty-two hundred and two of the Revised Statutes
 10 of the United States is hereby amended so as to read as follows:

11 No association shall at any time be indebted, or in any way
 12 liable, to an amount exceeding the amount of its capital stock
 13 at such time actually paid in and remaining undiminished by
 14 losses or otherwise, except on account of demands of the
 15 nature following:

- 16 First. Notes of circulation.
- 17 Second. ^{and} Moneys deposited with or collected by the
 18 association.
- 19 Third. Bills of exchange or drafts drawn against money
 20 actually on deposit to the credit of the association, or due
 21 thereto. ^{credits due such association or} ^{money}
- 22 Fourth. Liabilities to the stockholders of the associa-
 23 tion for dividends and reserve profits.
- 24 Fifth. Liabilities incurred under the provisions of sec-
 25 tions two, five, and fourteen of the Federal reserve Act.

6th Acceptances
7th Endorsements on paper paid

1 OPEN-MARKET OPERATIONS.

2 SEC. 15. That any Federal reserve bank may, under
 3 rules and regulations prescribed by the Federal Reserve Board,
 4 purchase and sell in the open market, either from or to
 5 *member banks* (domestic) or *through its foreign offices from or to* foreign banks, firms, corporations, or individ-
 6 uals, prime bankers' bills, and bills of exchange of the kinds
 7 and maturities by this Act made eligible for rediscount, and
 8 cable transfers. *SEE p. 4, Lines 8-13. Branches of established banks necessary for open market operations.*

9 Every Federal reserve bank shall have power (a) to deal
 10 in gold coin and bullion both at home and abroad, to make
 11 loans thereon, and to contract for loans of gold coin or bullion,
 12 giving therefor, when necessary, acceptable security, includ-
 13 ing the hypothecation of United States bonds; *and bonds of dependencies* (b) to invest
 14 in United States bonds, *and bonds of dependencies* and ~~bonds issued by any State,~~
 15 ~~county, district, or municipality;~~ *and sell to* (c) to purchase from mem-
 16 ber banks *(and to sell)* with or without its indorsement, bills
 17 of exchange arising out of commercial transactions, as herein-
 18 before defined, payable in foreign countries; but such bills
 19 of exchange must have not exceeding ninety days to run *Supra*
 20 and must bear the signature of two or more responsible parties,
 21 of which the last shall be that of a member bank; (d) to
 22 establish each week, or as much oftener as required, subject
 23 to review and determination *by* of the Federal Reserve Board,
 24 a rate of discount to be charged by such bank for each
 25 class of paper, which shall be fixed with a view of accom-
 26 modating the commerce of the country; and (e) with the

1 consent of the Federal Reserve Board, to open and maintain
 2 banking accounts in foreign countries and establish agencies
 3 in such countries wheresoever it may deem best for the pur-
 4 pose of purchasing, selling, and collecting foreign bills of
 5 exchange, and to buy and sell with or without its indorsement,
 6 through such correspondents or agencies, prime foreign bills
 7 of exchange arising out of commercial transactions which
 8 have not exceeding ninety days to run and which bear the
 9 signature of two or more responsible parties.

Supra

10 GOVERNMENT DEPOSITS.

11 SEC. 16. That all moneys now held in the general fund
 12 of the Treasury except the five per centum fund for the
 13 redemption of outstanding national-bank notes shall,
 14 upon the direction of the Secretary of the Treasury,
 15 within twelve months after the passage of this Act,
 16 be deposited in Federal reserve banks, which banks shall
 17 act as fiscal agents of the United States; and thereafter the
 18 revenues of the Government shall be regularly deposited in
 19 such banks, and disbursements shall be made by checks
 20 drawn against such deposits.

21 The Secretary of the Treasury shall, subject to the
 22 approval of the Federal Reserve Board, from time to time,
 23 apportion the funds of the Government among the said
 24 Federal reserve banks, distributing them, as far as practi-
 25 cable, equitably between different sections, and may, at
 26 their joint discretion, charge interest thereon and fix, from

the 5% fund for red. F.R. notes and that 15,000,000 Fed. Reserve and the 5% fund + 90% Fed. Reserve and interest

1 month to month, a rate which shall be regularly paid by the
 2 banks holding such deposits: *Provided*, That no Federal
 3 reserve bank shall pay interest upon any deposits except
 4 those of the United States, *except as provided in Sec.*

5 No Federal reserve bank shall receive or credit deposits
 6 except from the Government of the United States, its own
 7 member banks, and, to the extent permitted by this Act,
 8 from other Federal reserve banks. All domestic transactions
 9 of the Federal reserve banks involving loans made by such
 10 banks, rediscount operations or the creation of deposit ac-
 11 counts shall be confined to the Government and the deposit-
 12 ing and Federal reserve banks, with the exception of the
 13 purchase or sale of Government or ^{insular} (State) securities ^{and} or of gold
 14 coin or bullion.

15 NOTE ISSUES.

16 SEC. 17. That Federal reserve notes, to be issued at
 17 the discretion of the Federal Reserve Board for the purpose
 18 of making advances to Federal reserve banks as hereinafter
 19 set forth and for no other purpose, are hereby authorized.

20 The said notes shall be obligations of the ^{Federal Reserve Banks} (United States)
 21 and shall be receivable for all taxes, customs, and other ?
 22 public dues. They shall be redeemed in gold (or lawful
 23 money) on demand at (the Treasury Department of the United
 24 States, in the city of Washington, District of Columbia, or
 25 at) any Federal reserve bank.

1 Any Federal reserve bank may, upon vote of its direc-
2 tors, make application to the local Federal reserve agent
3 for such amount of the Federal reserve notes hereinbefore
4 provided for as it may deem best. Such application shall be
5 accompanied with a tender to the local Federal reserve agent
6 of collateral in amount equal to the sum of the Federal reserve
7 notes thus applied for and issued pursuant to such applica-
8 tion. The collateral security thus offered shall be notes and
9 bills accepted for rediscount under the provisions of sec-
10 tion 14 of this Act, and the Federal reserve agent shall
11 each day notify the Federal Reserve Board of issues and
12 withdrawals of notes to and by the Federal reserve bank to
13 which he is accredited. The said Federal Reserve Board
14 shall be authorized at any time to call upon a Federal reserve
15 bank for additional security to protect the Federal reserve
16 notes issued to it.

17 Whenever any Federal reserve bank shall pay out or
18 disburse Federal reserve notes issued to it as hereinbefore pro-
19 vided, it shall segregate in its own vaults and shall carry to
20 a special reserve account on its books gold (or lawful money)
larger 21 equal in amount to (thirty-three and one-third) per centum
22 of the reserve notes so paid out by it, such reserve to be
23 used for the redemption of said reserve notes as presented;
24 but any Federal reserve bank so using any part of such re-
25 serve to redeem notes shall immediately carry to said

1 reserve account an amount of gold (or lawful money) sufficient
 2 to make said reserve equal to (thirty-three and one-third) per
 3 centum of its outstanding Federal reserve notes. Notes so
 4 paid out shall bear upon their faces a distinctive letter and
 5 serial number, which shall be assigned by the Federal Reserve
 6 Board to each Federal reserve bank. Whenever Federal
 7 reserve notes issued through one Federal reserve bank shall
 8 be received by another Federal reserve bank they shall be
 9 returned (for redemption) to the Federal reserve bank through
 10 which they were originally issued (or shall be charged off
 11 against Government deposits) ^{by it} and ^{Federal Reserve agent} returned to the (Treasury
 12 of the United States, or shall be presented to the said Treas-
 13 ury) for redemption. No Federal reserve bank shall pay out
 14 notes issued through another under penalty of a tax of ten
 15 per centum upon the face value of notes so paid out. Notes
 16 (^{paid into} presented for redemption at) the Treasury of the United States
 17 shall be (paid and) returned to the Federal reserve banks
 18 through which they were originally issued, and (Federal re- ^{re write}
 19 serve notes received by the Treasury otherwise than for
 20 redemption shall be exchanged for lawful money out of the
 21 five per centum redemption fund hereinafter provided and
 22 returned as hereinbefore provided to the reserve bank through
 23 which they were originally issued.

24 The Federal Reserve Board shall have power, in its dis-
 25 cretion, to require Federal reserve banks to maintain on de-

1 posit in the Treasury of the United States a sum in
 2 gold equal to five per centum of such amount of Fed-
 3 eral reserve notes as may be issued to them under
 4 the provisions of this Act; but such five per centum
 5 shall be counted and included as part of the thirty-three
 6 and one-third per centum reserve hereinbefore required.

7 The said board shall also have the right
 8 to grant in whole or in part or to reject entirely
 9 the application of any Federal reserve bank for Federal
 10 reserve notes; but to the extent and in the amount
 11 that such application may be granted the Federal Reserve
 12 Board shall, through its local Federal reserve agent, deposit
 13 Federal reserve notes with the ^{Federal Reserve} bank so applying, and
 14 such bank shall be charged with the amount of such notes
 15 and shall pay such rate of interest on said amount as may be
 16 established by the Federal Reserve Board, which rate shall
 17 not be less than one-half of one per centum per annum, and
 18 the amount of such Federal reserve notes so issued to any
 19 such bank shall, upon delivery, become a first and para-
 20 mount lien on all the assets of such bank.

21 Any Federal reserve bank may at any time reduce its
 22 liability for outstanding Federal reserve notes by the
 23 deposit of Federal reserve notes, (whether issued to such
 24 bank or to some other reserve bank) ~~(or lawful money~~
 25 ~~of the United States)~~ or gold bullion, with ~~any~~

*if gold may
not lawful
money*

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the *33,*
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1 Federal reserve agent or with the Treasurer of the United
2 States, and such reduction shall be accompanied by a
3 corresponding reduction in the required reserve fund of
4 lawful money set apart for the redemption of said notes and
5 by the release of a corresponding amount of the collateral
6 security deposited with the local Federal reserve agent, *and the return*
of a proportionate amount of 5% redemption fund
7 Any Federal reserve bank may at its discretion withdraw
8 collateral deposited with the local Federal reserve agent for
9 the protection of Federal reserve notes deposited with
10 it and shall at the same time substitute other collateral
11 of equal value approved by the Federal reserve agent under *Over this*
12 regulations to be prescribed by the Federal Reserve Board. *Carry with*
orig. provision

13 It shall be the duty of every Federal reserve bank to
14 receive on deposit, at par and without charge
15 for exchange or collection, checks and drafts drawn upon
16 any of its depositors or by any of its depositors upon
for collection and settlement
17 any other depositor and checks and drafts drawn by any *Questionable*
18 depositor in any other Federal reserve bank upon funds to the
19 credit of said depositor in said reserve bank last mentioned,
20 nothing herein contained to be construed as prohibiting mem-
21 ber banks from making reasonable charges to cover actual ex-
22 penses incurred in collecting and remitting funds for their
23 patrons. The Federal Reserve Board shall make and pro-
24 mulgate from time to time regulations governing the transfer
and their branches
25 of funds at par among Federal reserve banks, and may at its

1 discretion exercise the functions of a clearing house for such
 2 Federal reserve banks, or may designate a Federal reserve
 3 bank to exercise such functions, and may also require each
 4 such bank to exercise the functions of a clearing house for its
 5 member banks, *all under regulation appropriate F.R.B.*

6 SEC. 18. That so much of the provisions of section
 7 fifty-one hundred and fifty-nine of the Revised Statutes
 8 of the United States, and section four of the Act of
 9 June twentieth, eighteen hundred and seventy-four, and
 10 section eight of the Act of July twelfth, eighteen hundred
 11 and eighty-two, and of any other provisions of existing stat-
 12 utes, as require that before any national banking association
 13 shall be authorized to commence banking business it shall
 14 transfer and deliver to the Treasurer of the United States
 15 a stated amount of United States registered bonds be, and
 16 the same is hereby, repealed.

REFUNDING BONDS.

17
 18 SEC. 19. That upon application the Secretary of the
 19 Treasury shall exchange the two per centum bonds of the
 20 United States bearing the circulation privilege deposited by
 21 any national banking association with the Treasurer of the
 22 United States as security for circulating notes for three per
 23 centum bonds of the United States without the circulation
 24 privilege, payable after twenty years from date of issue, and
 25 exempt from Federal, State, and municipal taxation both as to

*Provision
 should be
 made for
 purchase by
 F.R.B. of
 3% bonds
 Redeemed.
 Sent to con-
 vert fixed
 percentage
 into 1 year
 obligations,
 with priv. of
 renewal from
 year to year
 so long as
 held by Bank*

Two mo

1 income and principal. No national bank shall, in any one
2 year, present two per centum bonds for exchange in the manner
3 hereinbefore provided to an amount exceeding five per centum
4 of the total amount of bonds on deposit with the Treasurer by
5 said bank for circulation purposes. Should any national bank
6 fail in any one year to so exchange its full quota of two per cen-
7 tum bonds under the terms of this Act, the Secretary of the
8 Treasury may permit any other national bank or banks to ex-
9 change bonds in excess of the five per centum aforesaid in an
10 amount equal to the deficiency caused by the failure of any one
11 or more banks to make exchange in any one year, allotment to be
12 made to applying banks in proportion to their holdings of bonds.
13 At the expiration of twenty years from the passage of this Act
14 every holder of United States two per centum bonds then out-
15 standing shall receive payment at par and accrued interest.
16 After twenty years from the date of the passage of this Act
17 national-bank notes still remaining outstanding shall be re-
18 called and redeemed by the national banking associations
19 issuing the same within a period and under regulations to be
20 prescribed by the Federal Reserve Board, and notes still
21 remaining in circulation at the end of such period shall be
22 secured by an equal amount of lawful money to be deposited
23 in the Treasury of the United States by the banking associa-
24 tions originally issuing such notes. Meanwhile every na-
25 tional bank may continue to apply for and receive circulating

1 notes from the Comptroller of the Currency based upon the
 2 deposit of two per centum bonds or of any other bonds bearing
 3 the circulation privilege; but no national bank shall be per-
 4 mitted to issue other circulating notes except such as are
 5 secured as in this section provided or to issue or to make
 6 use of any substitute for such circulating notes in the form of
 7 clearing-house loan certificates, cashier's checks, or other
 8 obligation.

9 **BANK RESERVES.**

10 **SEC. 20.** That from and after the date when the Sec-
 11 retary of the Treasury shall have officially announced, in
 12 such manner as he may elect, the fact that a Federal reserve
 13 bank has been established in any designated district, every
 14 banking association within said district which shall have
 15 subscribed for stock in such Federal reserve bank shall be
 16 required to establish and maintain reserves as follows:

17 (a) If a country bank as defined by existing law, it
 18 shall hold and maintain a reserve equal to twelve per centum
 19 of the aggregate amount of its deposits, not including savings
 20 deposits hereinafter provided for. Five-twelfths of such
 21 reserve shall consist of money which national banks may
 22 under existing law count as legal reserve, held actually in the
 23 bank's own vaults; and for a period of fourteen months from
 24 the date aforesaid at least three-twelfths and thereafter at
 25 least five-twelfths of such reserve shall consist of a credit

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1 balance with the Federal reserve bank of its district. The
 2 remainder of the twelve per centum reserve hereinbefore
 3 required may, for a period of thirty-six months from and
 4 after the date fixed by the ^{Federal Reserve Board} (Secretary of the Treasury) as here-
 5 inbefore provided, consist of balances due from national
 6 banks in reserve or central reserve cities as now defined by
 7 law. From and after a date thirty-six months subsequent
 8 to the date fixed by the ^{Federal Reserve Board} (Secretary of the Treasury) as herein-
 9 before provided the said remainder of the twelve per centum
 10 reserve required of each country bank shall consist either in
 11 whole or in part of reserve money in the bank's own vaults or
 12 of credit balance with the Federal reserve bank of its district.

13 (b) If a reserve city bank as defined by existing law,
 14 it shall hold and maintain, for a period of sixty days from the
 15 date fixed by the ^{Federal Reserve Board} (Secretary of the Treasury) as hereinbefore
 16 provided, a reserve equal to twenty per centum of the
 17 aggregate amount of its deposits, not including savings
 18 deposits hereinafter provided for, and permanently thereafter
 19 eighteen per centum. At least one-half of such reserve shall
 20 consist of money which national banks may under existing
 21 law count as legal reserve, held actually in the bank's own
 22 vaults. After sixty days from the date aforesaid, and for a
 23 period of one year, at least three-eighteenths and perma-
 24 nently thereafter at least five-eighteenths of such reserve shall
 25 consist of a credit balance with the Federal reserve bank of

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1 its district. The remainder of the reserve in this paragraph
 2 required may, for a period of thirty-six months from and after
 3 the date fixed by the ^{Federal Reserve Board} (Secretary of the Treasury) as herein-
 4 before provided, consist of balances due from national banks
 5 in central reserve cities as now defined by law. From and
 6 after a date thirty-six months subsequent to the date
 7 fixed by the ^{Federal Reserve Board} (Secretary of the Treasury) as hereinbefore pro-
 8 vided, the said remainder of the eighteen per centum reserve
 9 required of each reserve city bank shall consist either in
 10 whole or in part of reserve money in the bank's own vaults
 11 or of credit balance with the Federal reserve bank of its
 12 district.

13 (c) If a central reserve city bank as defined by exist-
 14 ing law, it shall hold and maintain for a period of sixty days
 15 from the date fixed by the ^{Federal Reserve Board} (Secretary of the Treasury) as
 16 hereinbefore provided a reserve equal to twenty per centum
 17 of the aggregate amount of its deposits, not including savings
 18 deposits hereinafter provided for, and permanently there-
 19 after eighteen per centum. At least one-half of such reserve
 20 shall consist of money which national banks may under
 21 existing law count as legal reserve, held actually in the
 22 bank's own vaults. After sixty days from the date afore-
 23 said, and thereafter for a period of one year, at least three-
 24 eighteenths and permanently thereafter at least five-eight-
 25 eenths of such reserve shall consist of a credit balance with the
 26 Federal reserve bank of its district. The remainder of the

200 Cargh

1 eighteen per centum reserve required of each central reserve
 2 city bank shall consist either in whole or in part of reserve
 3 money actually held in its own vaults or of credit balance with
 4 the Federal reserve bank of its district.

5 SEC. 21. That so much of sections two and three of the
 6 Act of June twentieth, eighteen hundred and seventy-four,
 7 entitled "An Act fixing the amount of United States notes,
 8 providing for a redistribution of the national bank currency,
 9 and for other purposes," as provides that the fund deposited
 10 by any national banking association with the Treasurer of
 11 the United States for the redemption of its notes shall be
 12 counted as a part of its lawful reserve as provided in the Act
 13 aforesaid, be, and the same is hereby, repealed. And from
 14 and after the passage of this Act such fund of five per centum
 15 shall in no case be counted by any national banking associa-
 16 tion as a part of its lawful reserve.

17 SEC. 22. That every Federal reserve bank shall at
 18 all times have on hand in its own vaults, in gold or lawful
 19 money, a sum equal to not less than thirty-three and one-third
 20 per centum of its outstanding demand liabilities.

21 The Federal Reserve Board may notify any Federal re-
 22 serve bank whose lawful reserve shall be below the amount
 23 required to be kept on hand, to make good such reserve; and
 24 if such bank shall fail for thirty days thereafter so to make
 25 good its lawful reserve, the Federal Reserve Board may
 26 appoint a receiver to wind up the business of said bank.

1 BANK EXAMINATIONS.

2 SEC. 23. That the examination of the affairs of every

3 (^{Member Bank} ~~national banking association~~ authorized by existing law)

4 shall take place at least twice in each calendar year and as

5 much oftener as the Federal Reserve Board shall con-

6 sider necessary in order to furnish a full and complete knowl-

7 edge of its condition. The Secretary of the Treasury may,

8 however, at any time direct the holding of a special examina-

9 tion. The person assigned to the making of such examina-

10 tion of the affairs of any national banking association shall

11 have power to call together a quorum of the directors of such

12 association, who shall, under oath, state to such examiner the

13 character and circumstances of such of its loans or discounts

14 as he may designate; and from and after the passage of this

15 Act all bank examiners shall receive fixed salaries, the amount

16 whereof shall be determined by the Federal Reserve Board

17 and annually reported to Congress. But the expense

18 of the examinations herein provided for shall be assessed by

19 the Federal Reserve Board upon the associations exam-

20 ined in proportion to assets or resources held by such asso-

21 ciations upon a date during the year in which such examina-

22 tions are held to be established by the Federal Reserve

23 Board. The Comptroller of the Currency shall so arrange

24 the duties of national-bank examiners that no two successive

25 examinations of any association shall be made by the same

26 examiner.

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1 In addition to the examinations made and conducted by
 2 the Comptroller of the Currency, every Federal reserve bank
 3 may, with the approval of the Federal Reserve Board, arrange
 4 for special or periodical examination of the member banks
 5 within its district. Such examination shall be so conducted
 6 as to inform the Federal reserve bank under whose auspices
 7 it is carried on of the condition of its member banks and of
 8 the lines of credit which are being extended by them.
 9 Every Federal reserve bank shall at all times furnish to
 10 the Federal Reserve Board such information as may be de-
 11 manded by the latter concerning the condition of any national
 12 banking association located within the district of the said
 13 Federal reserve bank.

14 The Federal Reserve Board shall as often as it deems best,
 15 and in any case not less frequently than four times each year,
 16 order an examination of national banking associations in
 17 reserve cities. Such examinations shall show in detail the
 18 total amount of loans made by each bank on demand, on
 19 time, and the different classes of collateral held to protect
 20 the various loans, and the lines of credit which are being ex-
 21 tended by them. The Federal Reserve Board shall, at least
 22 once each year, order an examination of each Federal re-
 23 serve bank, and upon joint application of ten member banks
 24 the Federal Reserve Board shall order a special examination
 25 and report of the condition of any Federal reserve bank.

agent

In person by approval of F.R.B.

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not an officer or director thereof

1 SEC. 24. That no national bank shall hereafter make
 2 any loan or grant any gratuity to any examiner of such bank.
 3 Any bank ^{*officer or director*} offending against this provision shall be deemed
 4 guilty of a misdemeanor and shall be fined not more than
 5 \$5,000, and a further sum equal to the money so loaned or
 6 gratuity given; and the officer or officers of a bank making
 7 such loan or granting such gratuity shall be likewise deemed
 8 guilty of a misdemeanor and each shall be fined not to exceed
 9 \$5,000. Any examiner accepting a loan or gratuity from any
 10 bank examined by him shall be deemed guilty of a misde-
 11 meanor and shall be fined not more than \$5,000, and a further
 12 sum equal to the money so loaned or gratuity given; and shall
 13 forever thereafter be disqualified from holding office as a
 14 national-bank examiner. No national-bank examiner shall
 15 perform any other service for compensation while holding
 16 such office, *nor shall he be an officer or director of any bank etc*
 17 No officer or director of a national bank shall receive or
 18 be beneficiary, either directly or indirectly, of any fee (other
 19 than a legitimate fee paid an attorney at law for legal serv-
 20 ices), commission, gift, or other consideration for or on account
 21 of any loan, purchase, sale, payment, exchange, or transac-
 22 tion with respect to stocks, bonds, or other investment
 23 securities or notes, bills of exchange, acceptances, bankers'
 24 bills, cable transfers or mortgages made by or on behalf of a

1 national bank of which he is such officer or director. Any
 2 person violating any provision of this section shall be punished
 3 by a fine of not exceeding \$5,000 or by imprisonment not
 4 exceeding five years, or both such fine and imprisonment, in
 5 the discretion of the court having jurisdiction.

6 Except so far as already provided in existing laws this
 7 provision shall not take effect until six months after the pas-
 8 sage of this Act.

9 SEC. 25. That from and after the passage of this Act the
 10 stockholders of every national banking association shall be
 11 held individually responsible for all contracts, debts, and
 12 engagements of such association, each to the amount of his
 13 stock therein, at the par value thereof in addition to the
 14 amount invested in such stock. The stockholders in any
 15 national banking association who shall have transferred their
 16 shares or registered the transfer thereof within sixty days
 17 next before the date of the failure of such association to meet
 18 its obligations shall be liable to the same extent as if they had
 19 made no such transfer; but this provision shall not be con-
 20 strued to affect in any way any recourse which such share-
 21 holders might otherwise have against those in whose names
 22 such shares are registered at the time of such failure. Sec-
 23 tion fifty-one hundred and fifty-one, Revised Statutes of the
 24 United States, is hereby reenacted except in so far as modi-
 25 fied by this section.

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LOANS ON FARM LANDS.

1
2 SEC. 26. That any national banking association not
3 situated in a reserve city or central reserve city may make
4 loans secured by improved and unencumbered farm land,
5 but no such loan shall be made for a longer time than twelve
6 months, nor for an amount exceeding fifty per centum of the
7 actual value of the property offered as security, and such
8 property shall be situated within the Federal reserve district
9 in which the bank is located. Any such bank may make
10 such loans in an aggregate sum equal to twenty-five per
11 centum of its capital and surplus.

12 The Federal Reserve Board shall have power from
13 time to time to add to the list of cities in which national
14 banks shall not be permitted to make loans secured upon real
15 estate in the manner described in this section.

SAVINGS DEPARTMENT.

17 SEC. 27. That any national banking association may,
18 subsequent to a date one year after the organization of
19 the Federal Reserve Board, make application to the Com-
20 troller of the Currency for permission to open a savings
21 department. Such application shall set forth that the
22 directors of said national bank have by a majority vote appor-
23 tioned a specified percentage of their paid-in capital and sur-
24 plus to said savings department and to that end have segre-

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1 gated specified assets for the uses of said department, or that
 2 cash capital for the said savings department has been obtained
 3 by subscription to additional issues of the capital stock of
 4 said national bank: *Provided*, That the capital thus set
 5 apart for the uses of the proposed savings department
 6 aforesaid shall in no case be less than \$15,000, or than
 7 a sum equal to twenty per centum of the paid-up capital and
 8 surplus of the said national bank.

9 In making the application aforesaid any national bank-
 10 ing association may further apply for power to act as trustee
 11 for mortgage loans subject to the conditions and limitations
 12 herein prescribed or to be established as hereinafter provided.

13 Whenever the Comptroller of the Currency shall have
 14 approved any such application as hereinbefore provided, he
 15 shall so inform the applying bank, and thereafter it shall be
 16 authorized to receive savings deposits as so defined, and the
 17 organization and business conducted or possessed by said
 18 bank at the time of making said application, except such as
 19 has been specifically segregated for the savings department,
 20 and subsequent expansions thereof shall be known as the
 21 commercial department of the said bank. The said depart-
 22 ments shall, to all intents and purposes, be separate and
 23 distinct institutions save and except as hereinafter expressly
 24 provided. The capital, surplus, deposits, securities, invest-

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1 ments, and other property, effects, and assets of each of said
2 departments shall, in no event, be mingled with those of
3 the other department, or used, either in whole or in part,
4 to pay any of the deposits of the other department until all
5 of the deposits of its own department have been fully
6 paid and satisfied. National banks may increase or
7 diminish their capital stock in the manner now provided
8 by law, but whenever such general increase or reduction of
9 the capital stock of any national bank operating upon the
10 provisions of this section shall be made such increase or reduc-
11 tion shall be apportioned between the commercial and sav-
12 ings departments of the said bank as its board of directors
13 shall prescribe, notice of such increase or reduction, and of the
14 apportionment thereof, being forthwith given to the Comp-
15 troller of the Currency; and any such national bank may
16 increase or diminish the capital already apportioned to either
17 its savings or commercial department to an extent not incon-
18 sistent with the provisions of this section, notifying the
19 Comptroller of the Currency as hereinbefore provided. The
20 savings department for which authority has been solicited
21 and granted shall have control of the cash or assets appor-
22 tioned to it as hereinbefore provided, and shall be organized
23 under rules and regulations to be prescribed by the Comp-
24 troller of the Currency.

1 Both the savings and commercial departments so cre-
 2 ated shall, however, be under the control and direction of a
 3 single board of directors and of the general officers of said
 4 bank.

5 All business transacted by the commercial department
 6 of any such national bank shall be in every respect subject
 7 to the limitations and requirements provided in the national
 8 banking Act as modified by this Act, and such business
 9 shall henceforward be known as commercial business.

10 The savings department of each such national bank
 11 shall be authorized to accumulate and loan the funds of
 12 its depositors, to receive deposits of current funds,
 13 to purchase securities authorized by the Federal Reserve
 14 Board, to loan any funds in its possession upon real
 15 estate or other authorized security, and to collect the same
 16 with interest, and to declare and pay dividends or in-
 17 terest upon its deposits. The Federal Reserve Board is
 18 hereby authorized to exempt the savings departments of
 19 national banking associations from any and every restriction
 20 upon classes or kinds of business laid down in the national
 21 banking Act, and it shall be the duty of the said board within
 22 one year after its organization to prepare and publish rules
 23 and regulations for the conduct of business by such savings
 24 departments. The said regulations shall require every na-

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1 tional bank which shall conduct a savings department and a
2 commercial department to segregate in its own vaults the cash
3 and assets belonging to such departments respectively and
4 shall prescribe the general forms of separate books of account
5 to be used by each such department for its exclusive and
6 individual use. The regulations aforesaid shall further
7 specify the period of notice for the withdrawal of deposits
8 made in the said savings department and shall forbid the
9 acceptance of deposits by one department of such national
10 bank from the other department of such bank. The Federal
11 Reserve Board shall make and publish at its discretion lists of
12 securities, paper, bonds, and other forms of investment, which
13 the savings departments of national banks shall be authorized
14 to buy or loan upon; and said lists need not be uniform
15 throughout the United States, but shall be adapted to the
16 conditions of business in different sections of the country.

17 It shall be the duty of every national bank to main-
18 tain, with respect to all deposit liabilities of its
19 savings department, a reserve in money which may
20 under existing law be counted as reserve, equal
21 to not less than five per centum of the total deposit
22 liabilities of such department, and every national bank
23 authorized to maintain a savings department is hereby
24 exempted from the reserve requirements of the national

1 banking Act and of this Act in respect to the said deposit
2 liabilities of its savings department, except as in this section
3 provided. Every regulation made in pursuance of this
4 section shall be duly published, and also posted in every
5 member bank having a savings department.

6 Every officer, director, or employee of any member
7 bank who shall knowingly or willfully violate any of the
8 provisions of this section, or any of the regulations of the
9 Federal Reserve Board, or of the Comptroller of the Cur-
10 rency, made under and by virtue of the provisions of this
11 section shall be guilty of a felony, and on conviction thereof
12 shall be punished by a fine not exceeding \$5,000 or by
13 imprisonment not exceeding two years, or both, in the dis-
14 cretion of the court.

15 **FOREIGN BRANCHES.**

16 **SEC. 28.** That any national banking association possess-
17 ing a capital of \$1,000,000 or more may file application with
18 the Federal Reserve Board, upon such conditions and under
19 such circumstances as may be prescribed by the said board,
20 for the purpose of securing authority to establish branches
21 in foreign countries for the furtherance of the foreign com-
22 merce of the United States and to act, if required to do so,
23 as fiscal agents of the United States. Such application shall
24 specify, in addition to the name and capital of the banking

1 association filing it, the foreign country or countries or the
 2 dependencies of the United States where the banking opera-
 3 tions proposed are to be carried on and the amount of capital
 4 set aside by the said banking association filing such applica-
 5 tion for the conduct of its foreign business at the branches
 6 proposed by it to be established in foreign countries. The
 7 Federal Reserve Board shall have power to approve or to
 8 reject such application if, in its judgment, the amount of
 9 capital proposed to be set aside for the conduct of foreign
 10 business is inadequate or if for other reasons the granting
 11 of such application is deemed inexpedient.

12 Every national banking association which shall receive
 13 authority to establish branches in foreign countries
 14 shall be required at all times to furnish information con-
 15 cerning the condition of such branches to the Comptroller
 16 of the Currency upon demand, and the Federal Reserve
 17 Board may ^{Employ Special Examiners and} order special examinations of the said for-
 18 eign branches at such time or times as it may deem
 19 best. Every such national banking association shall
 20 conduct the accounts of each foreign branch independently
 21 of the accounts of other foreign branches established by it
 22 and of its home office, and shall at the end of each fiscal period
 23 transfer to its general ledger the profit or loss accruing at
 24 each such branch as a separate item.

*Amended
 act Sec. 1704a*

1 SEC. 29. That all provisions of law inconsistent with or
2 superseded by any of the provisions of this Act be, and the
3 same are hereby, repealed: *Provided*, That nothing in this
4 Act contained shall be construed to repeal the parity pro-
5 vision or provisions contained in an Act approved March
6 fourteenth, nineteen hundred, entitled "An Act to define
7 and fix the standard of value, to maintain the parity of all
8 forms of money issued or coined by the United States, to
9 refund the public debt, and for other purposes."

10 SEC. 30. That the right to amend, alter, or repeal this
11 Act is hereby expressly reserved.

Passed the House of Representatives September 18, 1913.

Attest:

SOUTH TRIMBLE,

Clerk.

AN ACT

To provide for the establishment of Federal reserve banks, for furnishing an elastic currency, affording means of rediscounting commercial paper, and to establish a more effective supervision of banking in the United States, and for other purposes.

SEPTEMBER 18, 1913.—Read twice and referred to the Committee on Banking and Currency.

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