

Office Correspondence

FEDERAL RESERVE
BOARD

Date May 27, 1935.

To Governor Eccles,
From Mr. Wyatt, General Counsel.

Subject: Letters transmitting further
amendments to Banking Act of 1935.

16-852

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In accordance with your request I am handing you herewith letters to Senators Fletcher and Glass and to Representative Steagall transmitting certain suggested amendments to the Banking Act of 1935 in the form in which it passed the House of Representatives.

These amendments include the following:

1. All amendments which you recommended to the House Banking and Currency Committee but which were not adopted.
2. Amendments necessary to restore the salary and retirement provisions of the original bill in amended form.
3. The compromise amendment requiring nonmember State banks having deposits of \$500,000 or more to become members of the Federal Reserve System on or before July 1, 1937 in order to have their deposits insured.
4. The substitute amendments to the Clayton Act and section 32 of the Banking Act of 1933 recently approved by the Board.
5. Miscellaneous technical amendments.

In accordance with my understanding with you the Clayton Act amendment would become effective January 1, 1936 instead of February 1, 1936. You authorized me to make this change on account of the fact that a paragraph of the Clayton Act which would not be repealed authorizes any person lawfully elected a director or appointed an officer or employee to serve for a year after his election or appointment.

Mr. Oliphant has suggested that section 14(a) of the Federal Reserve Act be amended so as to authorize the Federal Reserve banks to deal in silver as well as gold coin and bullion, but I have not incorporated such an amendment because it may become controversial and I have not had an opportunity to discuss it with you.

Inasmuch as the Board voted to have these letters prepared, Mr. Morrill thinks they should be approved by the Board before being sent out.

Respectfully,

Walter Wyatt
Walter Wyatt,
General Counsel.

See letters 6/6/35

2-1-7

Honorable Duncan U. Fletcher, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C.

Revised

My dear Senator Fletcher:

Following my testimony before the Subcommittee of the Senate Committee on Banking and Currency which is conducting hearings on the proposed Banking Act of 1935 (S. 1715) there was filed with the Committee a memorandum containing drafts of a number of amendments to the bill as originally introduced (H. R. 5357 and S. 1715) which I had recommended to the Committee on Banking and Currency of the House of Representatives and which are published in the report of the hearings before the Senate Subcommittee, commencing on page 320.

I am now inclosing for the consideration of your Committee a memorandum containing certain suggested amendments to H. R. 7617 in the form in which it passed the House of Representatives. Some of these amendments are designed to effectuate changes in the bill which I recommended to the Banking and Currency Committee of the House of Representatives but which were not adopted by the House of Representatives and others are designed to make further changes in the bill in the light of further study and discussions which have taken place since the bill passed the House of Representatives. The memorandum contains a brief explanation of the purpose and effect of each amendment; but I desire to add further comments regarding certain of the more important amendments.

The first amendment suggested in the inclosed memorandum pertains to the insurance of deposits of State banks which are not members of the Federal Reserve System. As you know, the existing law denies to nonmember banks after July 1, 1937 the benefit of the insurance of their deposits by the Federal Deposit Insurance Corporation; but this provision would be repealed by the bill in the form in which it passed the House of Representatives.

The Federal Reserve Board has heretofore gone on record

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as favoring unanimously the unification of all commercial banking under Federal supervision and the Board is still of the opinion that such an accomplishment would be distinctly in the public interest and is essential to any fundamental reform in our banking system. The Board is of the opinion that it would be a distinct step backward to repeal the provision of existing law which requires all insured nonmember State banks to become members of the Federal Reserve System by July 1, 1937 in order to continue to have their deposits insured by the Federal Deposit Insurance Corporation. The Board believes that this requirement should be retained as proposed in the original House bill and as proposed in the Senate bill (page 37, line 18).

However, if the provisions of existing law on this subject cannot be preserved, it is suggested that the first amendment contained in the inclosed memorandum be adopted as a compromise. This amendment would exempt from the requirement all banks now in existence whose average deposits amount to less than \$500,000, thus exempting a large number of small banks which hold in the aggregate only a very small portion of the total deposits of the country and which feel that they cannot afford to be members of the Federal Reserve System, principally because of the fact that membership would deprive them of the privilege of collecting exchange charges on checks presented to them for payment by the Federal Reserve banks. It is estimated that 5,644 banks would be exempted by this amendment and that only 2,038 nonmember State banks now insured would be required to become members of the Federal Reserve System by July 1, 1937 in order to continue to have their deposits insured.

The inclosed memorandum also suggests substitutes for sections 307 and 329 of the bill which would revise section 32 of the Banking Act of 1933 and the provisions of the Clayton Antitrust Act relating to interlocking bank directorates. It was proposed in the bill as originally introduced to simplify the provisions of the existing law on this subject and to eliminate the necessity of the Federal Reserve Board passing upon thousands of individual cases and issuing individual permits. The bill as originally introduced would authorize the Board to make exceptions by general regulations; but, after further study, it is believed that it would be preferable to provide for no exceptions except those stated in the statute itself. The substitute sections would incorporate in the statute all of the exceptions which the Board believes to be desirable.

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Honorable Duncan U. Fletcher - 3

I sincerely hope that your Committee will give favorable consideration to the amendments to H. R. 7617 suggested in the inclosed memorandum.

Very truly yours,

M. S. Eccles,
Governor.

Inclosure.

CENTRAL COUNSEL'S OFFICE

Dictated by

Approved by

Revised by

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Honorable Carter Glass, Chairman,
Subcommittee on Monetary Policy,
Banking and Deposit Insurance,
United States Senate,
Washington, D. C.

Revised

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Honorable Carter Glass - 3

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Very truly yours,

M. S. Eccles,
Governor.

Inclosure.

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COMMUNICATIONS OFFICE

Dictated by.....

Approved by.....

Revised by.....

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