

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 31, 1938To Governor RansomSubject: Revised draft of banking bill.From Mr. Wyatt, General Counsel

On March 15th, I gave you a tentative draft of a proposed banking bill based upon the specifications which were furnished to this office on March 9th.

Since then Mr. Vest has worked diligently and has produced a revised draft (dated March 25th) which I have reviewed carefully and believe to be in form suitable for introduction in Congress (except that the "specifications" and catchlines should be omitted), if it should be decided to recommend legislation in accordance with the specifications of March 9th.

If anything further is needed in this connection at a time when I am not available, Mr. Vest would be the best person in this office to supply it, because he has worked closely with me on this subject and is most familiar with it.

Respectfully,



Walter Wyatt,
General Counsel.

CONFIDENTIAL

DRAFT OF PROPOSED BANKING BILL PREPARED
ON THE BASIS OF SPECIFICATIONS FURNISHED
TO COUNSEL

March 25, 1938

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SPECIFICATIONS FURNISHED TO COUNSEL
UNDER DATE OF
MARCH 9, 1938

1. Formulate a mandate as to objectives of Federal Reserve policy together with instructions to the Board to submit recommendations to the President or to Congress as to matters requiring executive or legislative action outside the powers of the Board.
2. Eliminate ownership by member banks of stock of the Federal Reserve banks and substitute ownership by individual members of the public in each district. Limit number of shares that each stockholder may own and limit to not exceeding 4% the rate of dividends, making them cumulative.
3. Reduce boards of directors of Federal Reserve banks from nine to seven members each, none of whom shall be a director, officer or employee of any bank. Retain three-year terms but limit service to not exceeding two consecutive terms.
 - (a) Retain present provisions for grouping member banks into three groups, Classes A, B and C, but, instead of permitting member banks to elect any directors, provide for submission of two names annually to the stockholders (each class of member banks nominating two persons every three years) of whom one shall be elected by the stockholders to serve for a term of three years, so that the stockholders will elect one director every year and be represented by a total of three directors on the board of each bank. Voting in person or by ballot through the mails to be permitted, but not by proxy.
 - (b) Board of Governors to appoint annually one director of each bank for a term of three years so that the Board of Governors will select a total of three directors at each bank with the present qualifications of Class C directors.
 - (c) The State Banking Superintendents or Commissions of States within the territory of each Federal Reserve bank to elect one director of each Federal Reserve bank for a term of three years.
4. Separate the offices of Chairman and Federal Reserve Agent, authorizing the Board to designate one of the directors of each Federal Reserve bank as Chairman and to appoint a different person who need not be a director to serve as Federal Reserve Agent. The Board of Governors also to designate one of the directors as Deputy Chairman.

5. The board of directors of each Federal Reserve bank to nominate to the Board of Governors for a term of three years a President and a First Vice President whose nomination as well as salary shall be subject to the Board's approval.

6. Provide that the Presidents of the Federal Reserve banks shall constitute the membership of the Federal Advisory Council and that the First Vice President shall be their alternates.

7. Transfer to the Board of Governors all functions of the Federal Open Market Committee.

8. Provide that the Chairman of the Federal Deposit Insurance Corporation shall be a member ex officio of the Board of Governors (with provision for representation by another director of the Federal Deposit Insurance Corporation designated by the Chairman of the Corporation as his alternate for the purpose) and that the Chairman of the Board of Governors (with similar provision as to alternate representation) shall be a member ex officio of the Board of Directors of the Federal Deposit Insurance Corporation. Provide for assignment of space by Board of Governors in its building or annex to be constructed for personnel of Federal Deposit Insurance Corporation, with reimbursement for proportionate share of cost of such space.

9. Provide that the Chairman of the Board of Governors may be appointed from any part of the country, making his term of office end at the same time as that of the President of the United States by whom he is appointed, except that he may continue to serve until his successor is appointed, and provide that upon the termination of his membership he will not be subject to restrictions as to subsequent employment.

10. Change the terms of the remaining five members as hereafter appointed to ten years, one term to expire each two years, without restriction upon reappointment, but service in any event to terminate not later than the age of 70, and permit members of the Board to be members of the Federal Reserve Retirement System. (Ex officio member?)

11. Abolish the office of the Comptroller of the Currency, transferring all currency functions to the Treasurer of the United States and all other functions to the Board of Governors of the Federal Reserve System.

12. Draft provision for permitting national banks to establish branches anywhere within territory of Federal Reserve branch or head office in which national bank is located as well as anywhere within same State, if such State extends over territory of two or more branches or head offices. (For further limitations, see proposal formulated for consideration in connection with Banking Act of 1935).

13. Draft program as to bank holding companies (to be co-related with foregoing proposal as to branch banking).

14. Authorize Board of Governors to assign performance of specific duties and functions, other than determination of national or system policies and power to make regulations, to individual members, to members of its staff, and to Federal Reserve banks.

15. Decentralize administrative matters, other than determination of national or system policy or the adoption of regulations, by authorizing Federal Reserve banks in each district to issue charters, permit the exercise of trust powers, approve the establishment of branches, carry on section 30 proceedings, admit banks to membership, and handle other matters of a local character affecting banks in their district, within such restrictions as the Board of Governors may prescribe and subject to appeal to, or review by, the Board of Governors under regulations made by it.

16. Move up to 1939 the provision of existing law requiring banks having deposits of \$1,000,000 or more to become members of the Federal Reserve System.

17. Permit only banks having deposits of less than \$1,000,000, whether members of the Federal Reserve System or non-member insured banks, to absorb exchange and collection charges for other banks.

18. Strike out all present provisions of sections 13 and 13a of the Federal Reserve Act relating to eligibility of paper for discount and substitute provisions of section 10(b) without the requirement as to a penalty rate.

A BILL

To provide a better banking system for the United States, to state the objectives of policies to be pursued by the Federal Reserve System, to amend the Federal Reserve Act and the National Bank Act, and for other purposes.

1. OBJECTIVES OF FEDERAL RESERVE POLICY

Specifications

1. Formulate a mandate as to objectives of Federal Reserve policy together with instructions to the Board to submit recommendations to the President or to Congress as to matters requiring executive or legislative action outside the powers of the Board.

Tentative Draft of Amendment

Be it enacted by the Senate and House of Representatives
of the United States of America in Congress assembled, That sec-
tion 10 of the Federal Reserve Act, as amended, is amended by add-
ing at the end thereof the following:

"The objectives of policies pursued by the Federal Reserve System shall be to use the powers conferred upon it by Congress to maintain sound banking and credit conditions and to contribute to the restoration and maintenance of full and sustained employment of labor and of the productive resources of the nation.

"It shall be the duty of the Board of Governors of the Federal Reserve System from time to time to recommend to the President of the United States or to the Congress such administrative actions or such legislation as, in the judgment of the Board, will contribute to the attainment of these objectives."

2. STOCK OF FEDERAL RESERVE BANKS

Specifications

Eliminate ownership by member banks of stock of the Federal Reserve banks and substitute ownership by individual members of the public in each district. Limit number of shares that each stockholder may own and limit to not exceeding 4% the rate of dividends, making them cumulative.

Tentative Draft of Amendment

Sec. 2. (a) Section 2 of the Federal Reserve Act is amended by striking out the third, fifth, eighth, ninth, tenth, eleventh, and twelfth paragraphs thereof and by inserting in lieu of the third paragraph thereof the following:

"On or before June 30, 1939, the stock held by each member bank in a Federal Reserve bank shall be canceled by said Federal Reserve bank, and the member bank shall be paid therefor a sum equal to its cash-paid subscriptions on the shares canceled and 1/2 of 1 per centum per month from the period of the last dividend, after due provision has been made, if deemed necessary in the discretion of the Federal Reserve bank, for any indebtedness due or to become due to the Federal Reserve bank. Thereupon such Federal Reserve bank shall be completely discharged from all liability

or claims of any kind upon or by reason of stock theretofore issued to such member bank. On or before the aforesaid date each Federal Reserve bank shall offer at par for public subscription by natural persons shares of its stock in an amount not exceeding its paid-in capital stock on January 1, 1939, and may in addition thereto from time to time, with the approval of the Board of Governors of the Federal Reserve System, offer at par for public subscription by natural persons shares of its stock in an additional aggregate amount not exceeding its paid-in capital stock on January 1, 1939. Shares subscribed by the public shall be fully paid in within thirty days after subscription, and if not so paid by the subscriber may be offered to others. After June 30, 1939, no bank or other financing institution and no corporation, association, partnership, or business trust shall subscribe to or hold any shares of stock in any Federal Reserve bank or any rights or benefits by virtue thereof. No natural person shall own shares of stock in a Federal Reserve bank situated in a district other than that in which such person resides, nor shall any natural person own shares of stock in any Federal Reserve bank in an amount exceeding \$ In no case shall any one natural person own shares of stock in more than one

Federal Reserve bank. Subject to the specific restrictions of this section such stock may be sold or the ownership thereof otherwise transferred. The Board of Governors of the Federal Reserve System may prescribe regulations not inconsistent with law regarding the subscription for, issuance of, payment for, and transfer of, stock of Federal Reserve banks pursuant to this section. The capital stock of each Federal Reserve bank shall be divided into shares of \$100 each. Such shares shall not be entitled to vote except as provided in section 4 of this Act."

(b) The sixth paragraph of section 2 of the Federal Reserve Act is amended to read as follows:

"All national banks located in any of the States of the United States or the District of Columbia shall be members of the Federal Reserve System. No newly organized national bank shall be authorized to commence business until it has deposited with the Federal Reserve bank of the district in which its head office is located the reserve balances required by section 19 of this Act. Should any national bank which is a member of the Federal Reserve System fail to comply with any of the provisions of this Act

applicable thereto, all of the rights, privileges, and franchises of such bank granted to it under the National Bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which the head office of such bank is located by the Board of Governors of the Federal Reserve System in its own name before the association shall be declared dissolved. In cases of such noncompliance or violation, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation."

(c) The Federal Reserve Act, as amended, is amended by striking out all of section 5 thereof.

(d) The first paragraph of section 6 of the Federal Reserve Act, as amended, is amended to read as follows:

"Sec. 6. If any member bank shall (1) be declared insolvent, (2) be placed in the hands of a receiver or conservator or any other official having

similar authority, or (3) go into voluntary liquidation, its membership in the Federal Reserve System shall thereupon be terminated, and, after provision has been made for any indebtedness due or to become due to the Federal Reserve bank, it shall be entitled to repayment of its deposits in the Federal Reserve bank and of any other balance due from the Federal Reserve bank."

(e) The second paragraph of section 6 of the Federal Reserve Act, as amended, is amended by striking out the second sentence thereof.

(f) The first sentence of section 7 of the Federal Reserve Act, as amended, is amended to read as follows:

"Sec. 7. After all necessary expenses of a Federal Reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 4 per centum on the paid-in capital stock, which dividend shall be cumulative."

(g) The first paragraph of section 9 of the Federal Reserve Act, as amended, is amended to read as follows:

"Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, including

Morris Plan banks and other incorporated banking institutions engaged in similar business, may make application to the Board of Governors of the Federal Reserve System, under such rules and regulations as it may prescribe, for membership in the Federal Reserve System. The Board of Governors of the Federal Reserve System, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a member of the Federal Reserve System. When the application of such bank has been approved, it has accepted the conditions of membership prescribed by the Board, and it has deposited with the Federal Reserve bank of the district in which its head office is located the reserve balances required by section 19 of this Act, it shall thereupon be a member bank."

(h) The second paragraph of section 9 of the Federal Reserve Act, as amended, is amended by striking out the words "a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank" and by inserting in lieu thereof the words "a member of the Federal Reserve System; but no such State bank may remain or become a member of the Federal Reserve System".

(i) Section 9 of the Federal Reserve Act, as amended, is amended by striking out the fourth paragraph thereof.

(j) The eighth paragraph of section 9 of the Federal Reserve Act, as amended, is amended by striking out the words "require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership" and by inserting in lieu thereof the words "forfeit the membership of such bank in the Federal Reserve System".

(k) The ninth paragraph of section 9 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any State bank or trust company desiring to withdraw from membership in the Federal Reserve System may do so, after six months' written notice shall have been filed with the Board of Governors of the Federal Reserve System: Provided, That the Board of Governors of the Federal Reserve System, in its discretion and subject to such conditions as it may prescribe, may waive such six months' notice in individual cases and may permit any such State bank or trust company to withdraw from membership prior to the expiration of six months from the date of the written notice of its intention to withdraw. All such applications shall be dealt with in the order in which they are filed with the Board of Governors of the Federal Reserve System. Whenever a member bank shall surrender its membership in the

Federal Reserve System, or shall be ordered to do so by the Board of Governors of the Federal Reserve System, under authority of law, all of its rights and privileges as a member bank shall thereupon terminate, and, after provision has been made for any indebtedness due or to become due to the Federal Reserve bank, it shall be entitled to repayment of its deposits in the Federal Reserve bank and of any other balance due from the Federal Reserve bank."

(1) The fifteenth paragraph of section 9 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any mutual savings bank having no capital stock (including any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends), but having surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust companies. Each such mutual savings bank

shall comply with all the provisions of law applicable to State member banks and trust companies, with the regulations of the Board of Governors of the Federal Reserve System, and with the conditions of membership prescribed for such savings bank at the time of admission to membership."

(m) The paragraph of section 19 of the Federal Reserve Act, as amended, beginning with the words "National banks, or banks organized under local laws" is amended by striking out the words "take stock" and the comma following such words and also the comma following the words "maintain reserves".

(n) The second paragraph of section 21 of the Federal Reserve Act, as amended, is amended by striking out the words "stockholders in any Federal reserve bank" and by inserting in lieu thereof the words "members of the Federal Reserve System".

3. DIRECTORS OF FEDERAL RESERVE BANKS

Specifications

Reduce boards of directors of Federal Reserve banks from nine to seven members each, none of whom shall be a director, officer or employee of any bank. Retain three-year terms but limit service to not exceeding two consecutive terms.

(a) Retain present provisions for grouping member banks into three groups, Classes A, B and C, but, instead of permitting member banks to elect any directors, provide for submission of two names annually to the stockholders (each class of member banks nominating two persons every three years) of whom one shall be elected by the stockholders to serve for a term of three years, so that the stockholders will elect one director every year and be represented by a total of three directors on the board of each bank. Voting in person or by ballot through the mails to be permitted, but not by proxy.

(b) Board of Governors to appoint annually one director of each bank for a term of three years so that the Board of Governors will select a total of three directors at each bank with the present qualifications of Class C directors.

(c) The State Banking Superintendents or Commissions of States within the territory of each Federal Reserve bank to elect one director of each Federal Reserve bank for a term of three years.

Tentative Draft of Amendment

Section 3. (a) Section 4 of the Federal Reserve Act, as amended, is amended by striking out the paragraph which begins with the words "Such board of directors shall be selected as hereinafter specified", and all subsequent paragraphs in said section down to and including the paragraph which ends with the words "An

immediate report of election shall be declared", and by inserting in lieu thereof the following:

"Such board of directors shall be selected as hereinafter specified and shall consist of seven members holding office for three years and divided into three classes, designated as Classes A, B and C.

"Class A shall consist of one member who shall be elected by bank supervisory officials of the States any part of which is included in the territory of the Federal Reserve district served by such Federal Reserve bank or any of its branches, as hereinafter provided. One such official from each such State shall be entitled to vote in such election and he shall be the chairman or chief officer of the State board or commission charged by law with the examination and supervision of banks; or, if there be no such board or commission, the State superintendent of banks; or, if there be no such board or commission or superintendent of banks, some other State official having supervisory duties in connection with banks as may be designated from time to time by the Governor of such State.

"Class B shall consist of three members to be elected by the stockholders of the Federal Reserve bank from candidates who shall be nominated by the member banks, as hereinafter provided.

"Class C shall consist of three members appointed by the Board of Governors of the Federal Reserve System.

"No Senator or Representative in Congress shall be a member of the Board of Governors of the Federal Reserve System or a director, officer, or employee of a Federal Reserve bank.

"No director of a Federal Reserve bank shall be an officer, director, or employee of any bank. No director of a Federal Reserve bank who has served continuously for two or more consecutive terms or parts of terms shall again serve as a director pursuant to a new election or appointment until after an intervening period of not less than three years.

"One Class A director shall be elected every three years and one Class B director elected annually. The chairman of the board of directors shall call a meeting of the stockholders of the Federal Reserve bank annually for the purpose of consummating the

election of such directors and if desired for other purposes. The date and time of such meeting shall be so fixed as to provide reasonable time for consideration of and casting ballots by mail as herein provided.

"Directors of Class A shall be chosen in the following manner: Each bank supervisory official designated as hereinbefore provided shall be given reasonable opportunity by the chairman of the board of directors to nominate a candidate for Class A director. He shall be given a reasonable time in which to cast his vote on a ballot furnished for the purpose by the chairman containing a list of candidates so nominated. Said list shall not contain the name of any candidate who, in the opinion of the chairman, is ineligible to serve as a director under the provisions of this section. In order to be valid and counted in the election any such ballot must be (a) signed by the designated official and (b) presented at the meeting of the stockholders of the Federal Reserve bank called as above provided or sent through the mails and received by the chairman on or before the date and time prescribed for such meeting. In case of the absence or disability

or a vacancy in the office of any such bank supervisory official, a nomination may be made or vote cast by the official who under State law is authorized to perform the duties of such bank supervisory official in such circumstances.

"Directors of Class B shall be chosen in the following manner:

"The Board of Governors of the Federal Reserve System shall classify the member banks of the district into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization and shall nominate two candidates from whom the stockholders of the Federal Reserve bank shall elect one of the three Class B directors. Each member bank shall be permitted to suggest to the chairman of the board of directors of the Federal Reserve bank of the district one candidate for director of Class B. The candidates so suggested shall be listed by the chairman, indicating by whom suggested, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. The said list shall not contain the name of any suggested candidate who, in the opinion of the chairman of the

board of directors, is ineligible to serve as a director under the provisions of this section. Each member bank by a resolution of its board of directors or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the nominations of Class B directors: Provided, That whenever any two or more member banks within the same Federal Reserve district are subsidiaries of the same bank holding company, participation by such member banks in any such nomination procedure shall be confined to one of such banks, which may be designated for the purpose by such bank holding company.

"Within fifteen days after receipt of the list of suggested candidates, the duly authorized officer of a member bank may vote for two of the suggested candidates as his choices for nominees for director of Class B upon a form of ballot furnished by the chairman, but such officer shall not cast more than one of such votes for any one suggested candidate.

"The two suggested candidates who have the highest number of votes shall be declared nominated. In case a tie prevents a determination of which two have the highest number of votes, a renomination shall be held. Within a

reasonable time after such nominations have been completed a ballot listing the names of the two nominees shall be sent to each stockholder of the Federal Reserve bank by mail addressed to such stockholder at the address shown on the records of the Federal Reserve bank. Such ballot shall contain a statement as to the number of shares of stock outstanding in the name of the stockholder to whom it is sent on the date such nominations are completed, and the casting of any such ballot shall be considered as the casting of a number of votes equivalent to the number of shares specified thereon. In order to be valid and counted in the election any such ballot must be (a) signed by the stockholder or his duly authorized agent representing no other stockholder and (b) presented at the meeting of the stockholders by the voting stockholder or a duly authorized agent representing no other stockholder or sent through the mails and received by the chairman on or before the date and time prescribed for such meeting.

"The Board of Governors of the Federal Reserve System may prescribe regulations not inconsistent with law regarding the time and manner of and procedure for making nominations and holding elections of Class A and

Class B directors and regulations by which the chairman of each Federal Reserve bank may determine whether a bank supervisory official or a stockholder is properly entitled to vote and whether votes are otherwise validly cast in accordance with the provisions of this section. The chairman of the board of directors of the Federal Reserve bank shall be charged with the duty of arranging for such nominations and holding such elections in accordance with the law and the regulations prescribed by the said Board of Governors, and he shall declare the results of any such election. In case of a tie vote in any such election, the chairman shall declare that no election has resulted and shall proceed as promptly as possible to have nominations made again and to hold another election."

(b) Section 4 of the Federal Reserve Act, as amended, is amended by striking out the last paragraph thereof and by inserting in lieu thereof the following:

"At the first meeting of the full board of directors of each Federal Reserve bank after elections and appointments have been completed under this section as amended, it shall be the duty of the directors of Classes B and C, respectively, to designate one of the members of each class whose term of office shall

expire in one year from the first of January nearest to the date of such meeting, one whose term of office shall expire at the end of two years from the first of said January, and one whose term of office shall expire at the end of three years from the first of said January; and the term of the Class A director first hereafter elected shall expire at the end of three years from the first of said January. Thereafter every director of a Federal Reserve bank shall hold office for a term of three years from the expiration of the term of his predecessor. Vacancies that may occur in the several classes of directors of Federal Reserve banks may be filled in the manner provided for the original selection of such directors, those selected to fill vacancies to hold office for the unexpired term of their predecessors."

4. CHAIRMAN OF BOARD AND FEDERAL RESERVE AGENT

Specifications

4. Separate the offices of Chairman and Federal Reserve Agent, authorizing the Board to designate one of the directors of each Federal Reserve bank as Chairman and to appoint a different person who need not be a director to serve as Federal Reserve Agent. The Board of Governors also to designate one of the directors as Deputy Chairman.

Tentative Draft of Amendment

Sec. 4. (a) Section 4 of the Federal Reserve Act, as amended, is amended by striking out the paragraph thereof which commences with the words "Class C directors shall be appointed by the Board" and by inserting in lieu thereof the following:

"Class C directors shall be appointed by the Board of Governors of the Federal Reserve System. They shall have been for at least two years residents of the district for which they are appointed, and one of them shall be designated by said Board of Governors as chairman of the board of directors of the Federal Reserve bank. In addition to his duties as director and other duties specifically given him by statute, he shall preside at meetings of the board of directors. Another of the Class C directors shall be appointed by the said Board of Governors as deputy chairman to exercise the

powers of the chairman of the board when necessary. In case of the absence or disability or a vacancy in the office of both the chairman and the deputy chairman, the third Class C director shall exercise the powers of the chairman.

"The Board of Governors of the Federal Reserve System shall appoint a Federal Reserve Agent to serve at each Federal Reserve bank, who may or may not be the chairman of the board of directors or other director of the Federal Reserve bank. The Federal Reserve Agent shall be a person of tested banking experience and shall be required to maintain, under regulations to be established by the Board of Governors of the Federal Reserve System, a local office of said Board of Governors on the premises of the Federal Reserve bank. He shall receive an annual compensation to be fixed by the said Board of Governors and paid monthly by the Federal Reserve bank to which he is designated. He shall make regular reports to the said Board of Governors and shall act as its official representative for the performance of the functions conferred upon it by this Act, provided that the duties prescribed by this sentence may in the discretion of the said Board of

Governors be performed by the chairman of the said board of directors, by the Federal Reserve Agent, or by the Federal Reserve bank."

(b) Section 4 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 306), is amended by striking out the following sentence:

"Such assistants, who shall be persons of tested banking experience, shall assist the Federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability."

and by inserting in lieu thereof the following sentence:

"Such assistants shall assist the Federal Reserve Agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability or, subject to the directions of the Board of Governors, during a vacancy in his office."

5. NOMINATION AND APPROVAL OF PRESIDENT AND FIRST VICE PRESIDENT

Specifications

5. The board of directors of each Federal Reserve bank to nominate to the Board of Governors for a term of three years a President and a First Vice President whose nomination as well as salary shall be subject to the Board's approval.

Tentative Draft of Amendment

Sec. 5. The paragraph of section 4 of the Federal Reserve Act, as amended, which commences with the word "Fifth" is amended by striking out the second sentence thereof beginning with the words "The president" and the third sentence thereof, and by inserting in lieu of said sentences the following:

"The president shall be appointed by the board of directors for a term of three years, but a reasonable time before making such appointment the board of directors shall nominate to the Board of Governors of the Federal Reserve System the person it desires to appoint, and no person shall be appointed president unless his nomination has been approved by the Board of Governors within a period of forty days prior to such appointment. The president shall be the chief executive officer of the bank and all other executive officers and all employees

of the bank shall be directly responsible to him.

The first vice president of the bank shall be nominated and appointed in the same manner, subject to the same conditions, and for the same term as the president, and shall, in the absence or disability of the president or during a vacancy in the office of president, serve as chief executive officer of the bank."

6. FEDERAL ADVISORY COUNCIL

Specifications

Provide that the Presidents of the Federal Reserve banks shall constitute the membership of the Federal Advisory Council and that the First Vice Presidents shall be their alternates.

Tentative Draft of Amendment

Sec. 6. Section 12 of the Federal Reserve Act is amended to read as follows:

"Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of the presidents of all Federal Reserve banks. During the absence or disability or during a vacancy in the office of the president of any Federal Reserve bank, the first vice president of such bank may serve as an alternate. The meetings of said Advisory Council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Board of Governors of the Federal Reserve System. The Council may in addition to the meetings above provided for hold

such other meetings in Washington as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business.

"The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Board of Governors of the Federal Reserve System on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to the operations and general affairs of the Federal Reserve banks and the Federal Reserve System and conditions in the various districts."

7. OPEN MARKET OPERATIONS

Specifications

Transfer to the Board of Governors all functions of the Federal Open Market Committee.

Tentative Draft of Amendment

Sec. 7. Section 12A of the Federal Reserve Act, as amended, is amended to read as follows:

"Sec. 12A. The Board of Governors of the Federal Reserve System shall from time to time formulate and prescribe the open-market policy of the Federal Reserve System and shall direct the Federal Reserve banks to take such actions as may be necessary to carry out such policy. The Board of Governors shall also promulgate and transmit to the Federal Reserve banks regulations governing open-market operations of such banks.

"No Federal Reserve bank shall purchase, sell, or exchange bankers' acceptances, bills of exchange, obligations of the United States, or other obligations of the kinds and maturities made eligible for purchase or sale under the provisions of section 14 of this Act, all of which are hereinafter referred to as 'open-market

obligations', except in accordance with the regulations and directions of the Board of Governors, and each Federal Reserve bank shall purchase, sell, or exchange open-market obligations in accordance with such regulations and directions and shall in all respects comply with such regulations and directions.

"In order to facilitate the open-market operations of the Federal Reserve System, the Board of Governors may require all open-market obligations acquired or held

by or on behalf of any or all of the Federal Reserve banks to be held in one or more System Open Market Accounts with participations in such account or accounts allocated to the respective Federal Reserve banks.

The Board from time to time may allocate and reallocate among the respective Federal Reserve banks, upon such fair and equitable basis as it may determine, the obligations or participations therein held in the System Open Market Account or purchased, sold, or exchanged for the System Open Market Account, and all income, expenses, profits, and losses arising out of transactions in such account, and may prescribe a reasonable method of determining the price at which securities in such account shall be transferred from one Federal Reserve bank to another in order to effectuate such

allocations and reallocations upon a fair and equitable basis.

"The Board of Governors may designate one or more Federal Reserve banks as an agent or agents to act on behalf of all Federal Reserve banks in making purchases, sales, and exchanges of open-market obligations, in holding custody of such obligations, in managing the operation of the System Open Market Account, and in performing any other detailed services which the Board may deem necessary or advisable in connection with the conduct of open-market operations or the System Open Market Account, in accordance with the regulations of the Board."

8, 9, 10. CHANGES IN MEMBERSHIP OF BOARD OF GOVERNORS, ETC.

Specifications

8. Provide that the Chairman of the Federal Deposit Insurance Corporation shall be a member *ex officio* of the Board of Governors (with provision for representation by another director of the Federal Deposit Insurance Corporation designated by the Chairman of the Corporation as his alternate for the purpose) and that the Chairman of the Board of Governors (with similar provision as to alternate representation) shall be a member *ex officio* of the Board of Directors of the Federal Deposit Insurance Corporation. Provide for assignment of space by Board of Governors in its building or annex to be constructed for personnel of Federal Deposit Insurance Corporation, with reimbursement for proportionate share of cost of such space.

9. Provide that the Chairman of the Board of Governors may be appointed from any part of the country, making his term of office end at the same time as that of the President of the United States by whom he is appointed, except that he may continue to serve until his successor is appointed, and provide that upon the termination of his membership he will not be subject to restrictions as to subsequent employment.

10. Change the terms of the remaining five members as hereafter appointed to ten years, one term to expire each two years, without restriction upon reappointment, but service in any event to terminate not later than the age of 70, and permit members of the Board to be members of the Federal Reserve Retirement System.

Tentative Draft of Amendments

Sec. 8. The first two paragraphs of section 10 of the Federal Reserve Act, as amended, are stricken out and the following is substituted in lieu thereof:

"Sec. 10. The Board of Governors of the Federal Reserve System shall consist of seven members, including a Chairman appointed by the President by and with the advice and consent of the Senate for a term ending at the same time as the term of the President by whom he was appointed, the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation as a member *ex officio*, and five other members, hereinafter referred to as 'appointive members', who shall be appointed by the President by and with the advice and consent of the Senate for terms of ten years, except as hereinafter provided. The Chairman and the appointive members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of \$15,000, payable monthly, together with actual necessary traveling expenses.

"In selecting the appointive members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. They shall be

ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. The chairman and each appointive member in office on the date of the enactment of this Act shall continue to serve as such for the term for which he was appointed and until his respective successor is appointed and has qualified, and thereafter each appointive member shall hold office for a term of ten years from the expiration of the term of his predecessor and until his successor is appointed and has qualified, unless sooner removed by the President for misfeasance or malfeasance in office. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

"The Chairman of the Board of Directors of the Federal Deposit Insurance Corporation shall receive from the Board of Governors of the Federal Reserve System a salary of \$5,000 per annum, payable monthly, for his services as an ex officio member, in addition to the salary which he receives from the Federal Deposit Insurance Corporation. The other appointive member of

the Board of Directors of the Federal Deposit Insurance Corporation shall be the alternate of the Chairman of such Board of Directors on the Board of Governors of the Federal Reserve System and shall be entitled to attend and vote at meetings of the said Board of Governors in place of the Chairman of the Federal Deposit Insurance Corporation during the absence, disability, or vacancy in the office of the Chairman of the Federal Deposit Insurance Corporation. The said Board of Governors may provide space for the Federal Deposit Insurance Corporation in the building of the former or in an annex or additional building constructed, furnished, equipped and maintained, and on a site acquired, under the same terms and conditions as those provided in this section of this Act with respect to the existing building and site of the said Board of Governors. In such event, the Federal Deposit Insurance Corporation shall periodically reimburse the said Board of Governors for the pro rata cost of the space so provided. In determining the amount of such rental for the property of the said Board of Governors, consideration shall be given to the amount of its original investment therein as well as the cost of maintenance.

"The Chairman of the Board, subject to its supervision, shall be its active executive officer. The President shall designate one of the appointive members of the Board as Vice Chairman and he shall discharge the duties of the Chairman during a vacancy in the office of Chairman, during the absence of the Chairman, and during any inability of the Chairman to serve for whatever cause. The Vice Chairman shall be designated as such for a term coterminous with that of the Chairman and, upon the expiration of such designation, he shall continue to serve as Vice Chairman until redesignated or until a successor Vice Chairman has been designated: Provided: That the designation or redesignation of a member as Vice Chairman or the expiration of his term as such shall not affect his term as a member of the Board."

Sec. 9. Section 10 of the Federal Reserve Act, as amended, is amended by striking out the last sentence of the fourth paragraph thereof and by inserting in lieu thereof the following:

"Any member of the Board may at his option become a member of the Retirement System of the Federal Reserve Banks on the same terms and conditions as employees of the Board except that any member of the Board may serve

as such during his term of office until he reaches the age of seventy years. Thereafter he shall not serve as a member of the Board whether or not he is a member of the Retirement System, and his office shall be vacant. Whenever a vacancy shall occur, other than by expiration of term, among the appointive members of the Board, a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of his predecessor. Whenever a vacancy shall occur in the office of Chairman a successor shall be appointed by the President, by and with the advice and consent of the Senate for a term ending at the same time as the term of the President by whom he was appointed."

Sec. 10. Subsection (b) of section 12B of the Federal Reserve Act, as amended, is amended to read as follows:

"(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Chairman of the Board of Governors of the Federal Reserve System, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members

shall be designated chairman of the board of directors of the Corporation and not more than two of the members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years and shall receive compensation at the rate of \$10,000 per annum, payable monthly out of the funds of the Corporation, but the Chairman of the Board of Governors of the Federal Reserve System shall not receive additional compensation for his services as such member. In the event of a vacancy in the office of the Chairman of the Board of Governors of the Federal Reserve System, and pending the appointment of his successor, or during his absence or inability to attend meetings of the Board of Directors, the Vice Chairman of the Board of Governors of the Federal Reserve System shall be a member of the board of directors in the place and stead of the Chairman of the Board of Governors of the Federal Reserve System. In the event of a vacancy in the office of the chairman of the board of directors, and pending the appointment of his successor, the Chairman of the Board of Governors of the Federal Reserve System shall act as chairman. The appointive members of the board of directors

shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any insured bank, except that this restriction shall not apply to any appointive member who has served the full term for which he was appointed. No member of the board of directors shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the board of directors he shall certify under oath that he has complied with this requirement and such certification shall be filed with the secretary of the board of directors. No member of the board of directors serving on the board of directors on the effective date shall be subject to any of the provisions of the two preceding sentences until the expiration of his present term of office."

11. COMPTROLLER OF THE CURRENCY

Specifications

11. Abolish the office of the Comptroller of the Currency, transferring all currency functions to the Treasurer of the United States and all other functions to the Board of Governors of the Federal Reserve System.

Tentative Draft of Amendment

Section 11. Section 17 of the Federal Reserve Act, as amended, is amended by inserting at the end thereof the following additional paragraph:

"The Bureau of the Comptroller of the Currency and the offices of the Comptroller of the Currency and of the Deputy Comptrollers of the Currency are hereby abolished. All powers, functions, and duties of the Bureau, of the Comptroller of the Currency, and of the Deputy Comptrollers of the Currency which relate to the printing, engraving, custody, issue, retirement, redemption, and destruction of national bank notes, Federal Reserve notes, Federal Reserve bank notes, United States notes and other forms of currency, and all personnel and books, records, office equipment, and all other property of the Bureau of the Comptroller of the Currency pertaining to or now

being employed or used in connection with the performance of such powers, functions, and duties are hereby transferred to the Treasurer of the United States.

"All other powers, functions, and duties of the Comptroller of the Currency and all of the other personnel and other books, records, office equipment, and all other property of the Bureau of the Comptroller of the Currency are hereby transferred to the Board of Governors of the Federal Reserve System. The provisions of law applicable to other employees of the said Board shall in all respects govern the personnel so transferred to the said Board. Unexpended balances of appropriations available for use by the Bureau of the Comptroller of the Currency in connection with the performance of the powers, functions, and duties of the Bureau relating to currency are hereby made available for the same purposes to the Treasurer of the United States."

12. BRANCHES OF NATIONAL BANKS

Specifications

12. Draft provision for permitting national banks to establish branches anywhere within territory of Federal Reserve branch or head office in which national bank is located as well as anywhere within same State, if such State extends over territory of two or more branches or head offices. (For further limitations, see proposal formulated for consideration in connection with Banking Act of 1935.)

Tentative Draft of Amendment

Section 12. Section 5155 of the Revised Statutes of the United States, as amended, is amended in the following respects:

(1) By striking out the words "Comptroller of the Currency" wherever they occur in such section and inserting in lieu thereof the words "Federal Reserve bank of its district"; and

(2) By adding at the end thereof a new subsection to read as follows:

"(i) A national banking association may, with the approval of the Federal Reserve bank of the district in which its head office is located, establish and operate one or more new branches at any point or points within the State in which the head office of the association is located or at any point or points within the territory in which the head office of such association

is located and which is assigned to a Federal Reserve branch bank or the territory in which the head office of such association is located and which is assigned to the head office of a Federal Reserve bank, as the case may be: Provided, That no such branch shall be established pursuant to the provisions of this subsection except (a) within the limits of a city, town, or village having a population of more than fifty thousand inhabitants, or (b) within the limits of a city, town or village, in which there is no unit bank or head office of any bank, or (c) with the consent of all banks existing on the date of such establishment within the limits of the city, town, or village in which such branch may be established, or (d) in lieu of a bank existing on the date of such establishment, or of a then existing branch thereof, a substantial portion of whose assets and liabilities are acquired by such association through consolidation, merger, purchase, or otherwise, including a bank which shall have been placed in the hands of a conservator or receiver or may otherwise be in process of liquidation but whose assets and liabilities shall not have been fully liquidated, but not including any bank organized after the date of the enactment of this subsection until five years after the date upon which it shall have been authorized to commence business.

The authority of a national banking association to establish a branch or branches pursuant to the provisions of this subsection shall not be subject to the provisions of subsection (c) and subsection (d) of this section. The authority contained in this subsection, however, shall be in addition to the authority contained in existing law for the establishment and operation of branches by national banking associations and nothing in this subsection contained shall be construed as limiting, restricting, or affecting the right of such an association to retain, establish, or operate branches in accordance with the provisions of existing law."

13. BANK HOLDING COMPANIES

Specifications

13. Draft program as to bank holding companies.

Tentative Draft of Amendment

Sec. 13. (a) The Federal Reserve Act, as amended, is amended by inserting therein between section 4 and section 6 thereof a new section reading as follows:

"Sec. 5. For the purposes of this section --

"The terms 'Board', 'bank', and 'member bank' shall have the meanings assigned to them in section 1.

"The term 'insured bank' shall have the meaning assigned to it in section 12B.

"The term 'company' shall mean any corporation, business trust, association, or other similar organization, not wholly owned by the United States.

"The term 'subsidiary' of a specified company shall mean --

"(1) Any company 20 per cent or more of whose outstanding voting shares (excluding shares owned solely by an organization wholly owned by the United States) are owned by the specified company; or

"(2) Any company the management or policies of which, after notice and a reasonable opportunity for hearing, the Board determines to be subject to a controlling influence by the specified company.

"Shares of a company shall be deemed to be owned by a specified company --

"(1) If they are owned by any subsidiary of the specified company;

"(2) If they are held by trustees for the benefit of the specified company or its shareholders; or

"(3) If their transfer is conditioned upon the transfer of voting shares of the specified company.

"Shares of a company shall not be deemed to be owned by a specified company if they are held by the latter in trust and neither it nor its shareholders have a beneficial interest therein.

"The term 'voting share' shall mean a share which entitles the holder thereof to vote for the election of directors, trustees, or other persons exercising similar functions.

"The term 'dividend' shall mean any distribution of assets other than bank shares by a company to its shareholders.

"The term 'bank holding company' shall mean any

company of which two or more banks are subsidiaries, provided that one of such banks is an insured bank.

"It shall be unlawful for a company which is not a bank holding company on the date of enactment of this section to become a bank holding company except as the result of a determination or determinations by the Board pursuant to this section.

"It shall be unlawful for any bank holding company to become the owner of voting shares of any bank:

Provided, however, That a bank holding company may become the owner of shares of a bank which is a subsidiary of the bank holding company and was a subsidiary thereof on January 1, 1938, if it first obtains the Board's permission. Such permission shall be granted by the Board in its discretion as the public interest may require.

"If any bank becomes a subsidiary of a bank holding company as the result of a determination by the Board pursuant to this section, the bank holding company shall take the action necessary to bring about the termination of such relationship within one year after the date of such determination unless the Board at the time of such determination finds that the management or policies of the bank were subject to a controlling influence by the bank holding company on January 1, 1938.

"It shall be unlawful for any bank which is a subsidiary of a bank holding company to establish or operate any branch which was not being operated by it on the date of enactment of this section or the date the bank becomes a subsidiary, whichever is later.

"Any bank which is a subsidiary of a bank holding company shall become a member bank within six months after the date of enactment of this section or the date the bank becomes a subsidiary, whichever is later. In order to facilitate the admission to membership of any such bank, the Board may waive in whole or in part the requirements of section 9 of this Act relating to the admission of such bank to membership.

"After two years after the date of enactment of this section, no bank holding company and no subsidiary of a bank holding company shall engage principally in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities, or, directly or indirectly, have any interest in, or participate in the management or direction of, any company which is so engaged.

"Within three months after the date of enactment of this section or after it becomes a bank holding

company, whichever is later, each bank holding company shall file with the Board a notification of registration which shall be in the form prescribed by the Board and shall set forth the name, address, and nature of business of each subsidiary of the bank holding company, the number of shares of each subsidiary owned by the bank holding company, and the manner in which such shares are owned.

"Each bank holding company and each subsidiary thereof shall be subject to such examinations by examiners appointed or approved by the Board, and shall furnish to the Board such reports and information, as shall be necessary to enable the Board to inform itself concerning the condition of the subsidiary banks, the effect of the relationships between such companies upon the affairs of the subsidiary banks, and any failure to comply with the provisions of this section. The expenses of any such examination may be assessed by the Board against the bank holding company and when so assessed shall be paid by it.

"Each bank holding company shall take such action within its power as may be necessary to cause each of its subsidiary banks to pursue safe and sound banking practices and maintain a sound financial condition and

to cause the net capital and surplus funds of each such subsidiary bank to be adequate in relation to the character and condition of its assets and to the deposit liabilities or other corporate responsibilities of such subsidiary.

"After December 31, 1939, each bank holding company shall use, to the extent necessary, its net earnings over and above 6 per centum of the book value of its own shares to create and maintain a fund of cash or readily marketable assets, other than bank shares, in an amount equal to (1) 25 per centum of the aggregate par value of bank shares owned by it as to which statutory liability is imposed upon the holders of such bank shares, plus (2) 12 per centum of the aggregate par value of all other bank shares owned by it. A bank holding company shall allocate additional amounts to such fund as it shall see fit or as shall be necessary in order to comply with other provisions of this section. Except as hereinafter provided, after December 31, 1939, such fund shall contain assets in an amount not less than 12 per centum of the aggregate par value of all bank shares owned by the bank holding company as to which statutory liability is imposed upon the holders of such bank shares, and such amount shall be increased by not

less than 2 per centum per annum of such aggregate par value until it is equal to 25 per centum thereof. Assets comprising such fund described shall be so identified in an appropriate manner and shall be kept separate and apart from other assets of the bank holding company. Such assets shall be free and clear of any lien, pledge, or hypothecation of any kind or nature. Such assets may be used by the bank holding company to replace capital of its subsidiary banks and to eliminate losses and depreciation from the assets of such banks but shall not be used for any other purpose. Any amounts so used shall be made up within such period as the Board shall by regulation prescribe.

"For the purposes of this section, bank shares shall not be deemed to be owned by a bank holding company if they are also owned by a subsidiary of such bank holding company which is also a bank holding company.

"If, after granting him a reasonable opportunity to be heard, the Board finds that any director or officer of a bank holding company has participated in or assented to the violation by such bank holding company of any provisions of this Act or of any rules, regulations,

or orders of the Board pursuant thereto, the Board may order that such director or officer be removed from office. A copy of such order shall be served upon such director or officer. A copy of such order shall also be served upon the bank holding company of which he is an officer or director, whereupon such officer or director shall cease to be an officer or director of such bank holding company. Any such officer or director removed from office as herein provided who thereafter participates in any manner in the management of such bank holding company shall be fined not more than \$5,000 or imprisoned for not more than five years, or both, in the discretion of the court.

"If, after notifying it and granting it a reasonable opportunity to be heard, the Board finds that a bank holding company or any of its subsidiaries has violated any of the provisions of this Act, or rules, regulations, or orders of the Board pursuant thereto, the Board may issue an order that, during such period as is fixed by the order or pending further order by the Board,--

"(1) The bank holding company shall not pay dividends to its shareholders;

"(2) No insured bank of which the bank holding company owns any shares shall pay dividends on such shares or pay or become liable to

pay to the bank holding company or any of its subsidiaries any compensation for supervision or other services; or

"(3) Shares of insured banks owned by the bank holding company shall not be voted and the bank holding company shall not in any manner participate, directly or indirectly, in the management of any insured bank.

"Such an order may contain any one or more of the foregoing numbered provisions.

"In the event of the failure to comply with any such order, the Board may direct the Federal Deposit Insurance Corporation to terminate the insurance of the deposits of any or all banks of which shares are owned by the bank holding company against which the order is entered, and, upon being so directed, the Federal Deposit Insurance Corporation shall promptly terminate such insurance.

"No bank shall (1) make any loan or extension of credit to, or purchase securities under repurchase agreement from, any bank holding company of which it is a subsidiary or any company which is a subsidiary of a bank holding company of which such bank is a subsidiary or any company which is an affiliate of such bank within the meaning of section 2(b) of the Banking Act of 1933;

or (2) invest any of its funds in the capital stock, bonds, debentures, or other such obligations of any such company; or (3) accept the capital stock, bonds, debentures or other such obligations of any such company as collateral security for advances made to any person, partnership, association or corporation: Provided, however, that the foregoing provisions shall not apply in any case in which the company (1) is engaged solely in conducting a safe deposit business; or (2) is organized under section 25(a) of this Act.

"The Board shall have the authority to make, issue, amend and rescind such rules, regulations, and orders as it may deem necessary or appropriate to carry out the provisions of this section."

(b) Subsection (c) of section 2 of the Banking Act of 1933, as amended, is repealed.

(c) Section 9 of the Federal Reserve Act, as amended, is amended by striking out the paragraph commencing with the words "Each State member bank affiliated with a holding company affiliate."

(d) Section 5144 of the Revised Statutes, as amended, is amended to read as follows:

"Sec. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and

give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except that (1) this shall not be construed as limiting the voting rights of holders of preferred stock under the terms and provisions of articles of association, or amendments thereto, adopted pursuant to the provisions of section 302(a) of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, (2) in the election of directors, shares of its own stock held by a national bank as sole trustee, whether registered in its own name as such trustee or in the name of its nominee, shall not be voted by the registered owner unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted, and (3) shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or

persons, as trustees, in the same manner as if he or they were the sole trustee. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote. Whenever shares of stock cannot be voted by reason of being held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares."

(e) Section 5211 of the Revised Statutes, as amended, is amended by striking out the following sentence: "For the purpose of this section the term 'affiliate' shall include holding company affiliates as well as other affiliates."

(f) Section 9 of the Federal Reserve Act, as amended, is amended by striking out the following sentence: "For the purposes of this paragraph and the two preceding paragraphs of this section, the term 'affiliate' shall include holding company affiliates as well as other affiliates."

(g) The first sentence of the third paragraph of section 23A of the Federal Reserve Act, as amended, is amended by striking out the words "For the purpose of this section, the term 'affiliate' shall include holding-company affiliates as well as other affiliates, and", so that such sentence will commence with the words "The provisions of this section".

(h) Subsection (d) of section 26 of the Revenue Act of 1936, as amended, is amended to read as follows:

"(d) Bank Holding Companies. - In the case of a bank holding company (as defined in section 5 of the Federal Reserve Act), the amount of the earnings or profits which the Board of Governors of the Federal Reserve System certifies to the Commissioner has been devoted by such company during the taxable year to the acquisition of cash or readily marketable assets, other than bank stock, in compliance with section 5 of the Federal Reserve Act. The aggregate of the credits allowable under this subsection for all taxable years shall not exceed the amount required to be devoted under such section 5 to such purposes."

(i) Subdivision (1)(C) of subsection (a) of section 14 of the Revenue Act of 1936, as amended, is amended to read as follows:

"(C) In the case of a bank holding company (as defined in section 5 of the Federal Reserve Act), the amount allowed as a credit under section 26(d)."

(j) Subdivision (1)(D) of subsection (c) of section 102 of the Revenue Act of 1936, as amended, is amended to read as follows:

"(D) In the case of a bank holding company (as defined in section 5 of the Federal Reserve Act), the amount allowed as a credit under section 26(d)."

14. ASSIGNMENT OF DUTIES

Specifications

14. Authorize Board of Governors to assign performance of specific duties and functions, other than determination of national or system policies and power to make regulations, to individual members, to members of its staff, and the Federal Reserve banks.

Tentative Draft of Amendment

Section 14. Section 11 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following new subsection:

"(o) The Board of Governors of the Federal Reserve System may assign to one or more of its members, to one or more officers or representatives of the Board, or to the respective Federal Reserve banks, under rules and regulations prescribed by the Board, the performance of any of its duties, functions, or services; but no such assignment shall include the determination of any national or System policy or any power to make rules and regulations or any power which under the terms of this Act is required to be exercised by a specified number of members of the Board."

15. DECENTRALIZATION OF ADMINISTRATIVE MATTERS

Specifications

15. Decentralize administrative matters, other than determination of national or system policy or the adoption of regulations, by authorizing Federal Reserve banks in each district to issue charters, permit the exercise of trust powers, approve the establishment of branches, carry on section 30 proceedings, admit banks to membership, and handle other matters of a local character affecting banks in their district, within such restrictions as the Board of Governors may prescribe and subject to appeal to, or review by, the Board of Governors under regulations made by it.

Tentative Draft of Amendment

Section 15. (a) Section 11 of the Federal Reserve Act, as amended, is amended by adding at the end thereof a new subsection reading as follows:

"(p). The Board of Governors of the Federal Reserve System, under regulations and general instructions issued by it, may authorize or require the Federal Reserve banks to exercise and administer, with respect to national banks having their head offices in the respective districts of the Federal Reserve banks, any or all of the powers, duties, and functions heretofore exercised by the Comptroller of the Currency and the Deputy Comptrollers of the Currency with respect to the organization, reorganization, consolidation, receivership, conservatorship, liquidation, and supervision

of national banking associations, the establishment of branches by such associations, the examination of and receipt of condition reports from such associations, and other similar matters affecting individual banks. Under similar regulations and general instructions issued by it, the Board may authorize or require the Federal Reserve banks to exercise and administer, with respect to individual member banks having their head offices in the respective districts of the Federal Reserve banks, any or all of the powers, duties, and functions of the Board with respect to the following: the admission of banks to membership in the System, the withdrawal or expulsion from membership, and the restoration of membership; the prescribing of conditions of membership; the waiver of requirements for admission to membership of any State bank which is required to become a member bank in order to become or continue to be an insured bank; the requirement that such State banks admitted to membership with inadequate capital and surplus increase their capital and surplus; the certification of member banks to the Federal Deposit Insurance Corporation pursuant to section 12B(e)(2) of the Federal Reserve Act; the examination of and receipt of condition reports from member banks and their affiliates; the administration and enforcement of the provi-

sions of this Act relating to bank holding companies; the suspension of member banks from the use of the credit facilities of the System for making undue use of bank credit for speculative purposes or for any purpose inconsistent with the maintenance of sound credit conditions; authority to direct a member bank to refrain from further increase of its loans secured by stock or bond collateral; the granting and surrender of permits for national banks to act in fiduciary capacities; limitations on the amount of acceptances made by member banks; the establishment of domestic or foreign branches by member banks; the granting and revocation of permission to member banks to invest in the stock of banks or corporations engaged in international or foreign banking; the examination of and receipt of information and condition reports from member banks regarding their foreign branches and the banks or corporations engaged in international or foreign banking in which such member banks have invested; the supervision of, examination of, and receipt of condition reports from, banks and corporations operating under the provisions of section 25 or section 25(a) of the Federal Reserve Act and the appointment of receivers of such corporations operating under section 25(a); and all other similar powers, duties and functions

conferred by law upon the Board now or hereafter, whether or not expressly mentioned or fully described herein, relating to the organization, reorganization, consolidation, merger, receivership, liquidation, membership, and supervision of individual banks, corporations, and persons.

"It is the purpose of this subsection to permit the exercise and administration by Federal Reserve banks of the powers, duties, and functions enumerated herein in respect to their application to individual banks, corporations, and other persons in particular cases, with a view to decentralizing in so far as practicable the administration of local matters, but not to authorize Federal Reserve banks to prescribe or formulate national or System policies or to exercise any power of the Board pertaining to the promulgation of general rules or regulations; and the regulations and instructions of the Board authorized by this subsection shall be formulated with a view to effectuating this purpose. Such regulations and instructions shall, among other things, provide a reasonable opportunity for appeal by interested parties to the Board of Governors, or review by the Board of Governors upon its own motion, in any and all cases in which a Federal Reserve bank exercises authority pursuant to this subsection."

(b) Section 30 of the Banking Act of 1933 is amended to read as follows:

"Sec. 30. Whenever, in the opinion of the President or a Vice President of a Federal Reserve bank, any director or officer of a member bank located in the district of such Federal Reserve bank shall have continued to violate any law relating to such member bank or shall have continued unsafe or unsound practices in conducting the business of such bank, after having been warned by the President or a Vice President of such Reserve bank to discontinue such violations of law or such unsafe or unsound practices, such President or Vice President may certify the facts to the Board of Directors of such Federal Reserve bank. In any such case, the Board of Directors of the Federal Reserve bank may cause notice to be served upon such director or officer to appear before such Board of Directors to show cause why he should not be removed from office. A copy of such order shall be sent to each director of the member bank affected, by registered mail. If, after granting the accused director or officer a reasonable opportunity to be heard, the Board of Directors of the Federal Reserve bank finds that he has continued to violate any law relating to such member bank or has

continued unsafe or unsound practices in conducting the business of such bank after having been warned by the President or a Vice President of the Federal Reserve bank to discontinue such violation of law or such unsafe or unsound practices, the Board of Directors of the Federal Reserve bank, in its discretion, may order that such director or officer be removed from office. A copy of such order shall be served upon such director or officer. A copy shall also be served upon the bank of which he is a director or officer, whereupon such director or officer shall cease to be a director or officer of such bank.

"Any director or officer of a member bank who has been removed from office by the Board of Directors of a Federal Reserve bank pursuant to the provisions of this section may, within ninety days after the date upon which notice of such removal was served upon such bank, appeal to the Board of Governors of the Federal Reserve System for a review of the proceedings and a reconsideration of the decision of the Board of Directors of the Federal Reserve bank. Such appeal and review shall be upon the basis of the written record of the proceedings before the Federal Reserve bank and the procedure therefor shall be prescribed by regulations of the Board of Governors of the Federal Reserve

System and shall afford the appellant a reasonable opportunity to appear before such Board in person or by counsel and to present oral or written arguments. After reviewing the transcript of the written record of the proceedings and after granting the appellant a reasonable opportunity to be heard, the Board of Governors may issue an order affirming, reversing, or modifying the findings and order of the Federal Reserve bank or may remand the case to the Federal Reserve banks for further proceedings.

"In any proceedings conducted pursuant to this section, Federal Reserve banks or the Board of Governors of the Federal Reserve System may appoint and use trial examiners; and any member of the Board of Governors and any trial examiner or officer of such Board or of a Federal Reserve bank duly designated for such purpose shall have power to require by subpoena the attendance and testimony of witnesses and the production of documentary evidence, to administer oaths and affirmations, to examine witnesses, and to receive evidence. In case of disobedience to a subpoena, or failure or refusal to testify or to produce evidence, the Federal Reserve banks or the Board of Governors may invoke the aid of any court of the United States in requiring the attendance and testimony of witnesses and the production of documentary evidence. No person

shall be excused from attending and testifying or from producing documentary evidence on the ground that the testimony or evidence, documentary or otherwise, required of him may tend to incriminate him or subject him to a penalty or forfeiture; but no person shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he is compelled, after having claimed his privilege against self-incrimination, to testify or produce evidence, documentary or otherwise, except that he shall not be exempt from prosecution and punishment for perjury committed in so testifying.

"All proceedings under this section shall be conducted in accordance with regulations issued by the Board of Governors, which regulations shall make adequate provision for the maintenance of written records of all such proceedings to be preserved by the Federal Reserve bank. Neither the written records, the order, the findings of fact, nor any other matter relating to the proceedings conducted pursuant to this section shall be disclosed to anyone except the director or officer involved and the directors of the bank involved, otherwise than in connection with proceedings for a violation of this section or as herein provided.

"Any such director or officer removed from office as herein provided who thereafter participates in any manner in the management of such bank, unless and until the order issued by the Federal Reserve bank removing him from office has been finally reversed by the Board of Governors of the Federal Reserve System or by the Federal Reserve bank in the event the case is remanded to the Federal Reserve bank, shall be fined not more than \$5,000 or imprisoned for not more than five years, or both, in the discretion of the court."

For the purposes of this section only, the term "member bank" shall be deemed to include every bank or trust company doing business in the District of Columbia.

16. COMPULSORY MEMBERSHIP OF INSURED BANKS

Specifications

16. Move up to 1939 the provision of existing law requiring banks having deposits of \$1,000,000 or more to become members of the Federal Reserve System.

Tentative Draft of Amendment

Section 16. Paragraph (1) of subsection (y) of section 12B of the Federal Reserve Act, as amended, is amended by striking out "1941" and substituting in lieu thereof "1939".

17. EXCHANGE CHARGES

Specifications

17. Permit only banks having deposits of less than \$1,000,000, whether members of the Federal Reserve System or nonmember insured banks, to absorb exchange and collection charges for other banks.

Tentative Draft of Amendment

Sec. 17. Section 19 of the Federal Reserve Act, as amended, is amended by adding thereto a new paragraph reading as follows:

"Notwithstanding any other provision of law, any bank having deposits of \$1,000,000 or less may make charges, commonly known as "exchange charges", for or in connection with the payment of checks or other instruments drawn upon it, whether or not presented by or through any Federal Reserve bank; and any such charge made by such a bank need not be passed back, but may be absorbed, by any other bank which has handled such check. Within the meaning of this paragraph the term "deposits" shall include deposits of all kinds and the amount thereof shall be determined by the average amount of such deposits shown in the reports of condition of such bank made pursuant to Federal law during the preceding calendar year."

18. DISCOUNTS AND ADVANCES BY FEDERAL RESERVE BANKS

Specifications

18. Strike out all present provisions of sections 13 and 13a of the Federal Reserve Act relating to eligibility of paper for discount and substitute provisions of section 10(b) without the requirement as to a penalty rate.

Tentative Draft of Amendment

Section 18. (a) Section 10(a) and section 10(b) of the Federal Reserve Act, as amended, are hereby repealed.

(b) The second paragraph of section 13 of the Federal Reserve Act, as amended, is amended to read as follows:

"Subject to such regulations as to maturities and other matters as the Board of Governors of the Federal Reserve System may prescribe, any Federal Reserve bank may make advances to any member bank on its promissory notes secured to the satisfaction of such Federal Reserve bank."

(c) The third paragraph of section 13 of the Federal Reserve Act, as amended, is amended to read as follows:

"In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System may authorize any Federal Reserve bank, during such periods as the said Board may determine, to make advances to any

individual, partnership, or corporation on its or his promissory notes secured to the satisfaction of such Federal Reserve bank: Provided, That before making such an advance the Federal Reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such advances to individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe."

(d) The fifth and sixth paragraphs of said section 13 of the Federal Reserve Act, as amended, and the ninth paragraph of said section 13 (which provides that Section 5202 of the Revised Statutes of the United States is amended to read as there set forth) are hereby repealed, but this shall not be construed as repealing or affecting in any way the provisions of Section 5202 of the Revised Statutes, as amended and existing on the date of enactment of this Act.

(e) The eighth paragraph of said section 13 of the Federal Reserve Act, as amended, is amended to read as follows:

"All advances under this section shall be made at rates to be established by such Federal Reserve banks, such rates to be subject to the review and de-

termination of the Board of Governors of the Federal Reserve System. If any member bank to which any advance under this section has been made shall, during the life or continuance of such advance, and despite an official warning of the Reserve bank of the district or of the Board of Governors to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the Reserve bank of the district under the provisions of this section for such period as the Board of Governors shall determine: Provided, That no temporary carrying or clearance loans made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph."

(f) The tenth paragraph of section 13 of the Federal Reserve Act, as amended, is amended to read as follows:

"All advances, discounts, purchases, and sales by any Federal Reserve bank under the provisions of this Act shall be subject to such restrictions, limitations, and regulations as may be imposed by the Board of Governors of the Federal Reserve System."

(g) Section 13a of the Federal Reserve Act, as amended, is amended to read as follows:

"Sec. 13a. Subject to such regulations as to maturities and other matters as the Board of Governors of the Federal Reserve System may prescribe, any Federal Reserve bank may make advances to any Federal Intermediate Credit Bank on its promissory notes secured to the satisfaction of such Federal Reserve bank.

"Any Federal Reserve bank may also buy and sell debentures and other such obligations issued by a Federal Intermediate Credit Bank or by a National Agricultural Credit Corporation, but only to the same extent as and subject to the same limitations as those upon which it may buy and sell bonds issued under Title I of the Federal Farm Loan Act."

(h) The first paragraph of section 14 of the Federal Reserve Act, as amended, is amended by striking out the words "cable transfers and bankers' acceptances and bills of exchange

of the kinds and maturities by this Act made eligible for rediscount," and by inserting in lieu thereof the words "cable transfers, bankers' acceptances, and bills of exchange of such kinds and maturities as may be prescribed by the Board of Governors of the Federal Reserve System."

(i) The paragraph of section 9 of the Federal Reserve Act, as amended, which commences with the words "Banks becoming members of the Federal Reserve System" is amended by changing the colon before the words "Provided, however" to a period and by striking out all of the remainder of said paragraph.