

Office Correspondence

FEDERAL RESERVE
BOARDDate May 3, 1935.To Mr. ClaytonSubject: Mr. Giannini's suggestionsFrom Mr. Wyatt, General Counsel.regarding Banking Act of 1935.

••• 16-852

This refers to your memorandum of May 2, 1935 on the above subject. Each of Mr. Giannini's points will be commented upon in the order stated in your memorandum.

1. I am sending you a separate memorandum prepared by Mr. Vest after consultation with Mr. Smead regarding reserve requirements as to branches and I agree in general with the views expressed by Mr. Vest. However, I feel that I should point out that the Banking Act of 1935 does not purport to correct all inequalities or imperfections in existing law and this problem is not one which we undertook to deal with in the bill. I agree with Mr. Vest that to attempt to deal with it by amendment might provoke controversy and jeopardize the chances of the bill becoming a law; because branch banking is so controversial that a mere mention of the subject precipitates long debates in Congress.

2. The provisions of Section 21 of the Banking Act of 1933 against the receipt of deposits by any individual, firm, corporation, etc., which is engaged in the business of underwriting securities was not intended so much to exclude banks from the underwriting business as it was to prohibit security dealers from accepting deposits. However, the amendment contained in the Banking Act of 1935 does not permit banks to engage in this business generally but only to the extent that national banks are permitted to do so under the provisions of section 5136 of the Revised Statutes, as amended by the Banking Act of 1933. National banks can only underwrite issues of obligations of the

United States or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, or issued by the Federal Home Loan Banks or the Home Owners Loan Corporation; and I see no reason why State banks and private bankers should not be permitted to underwrite such securities.

3. If double liability of stockholders of national banks is abolished, I think that eventually the provisions of section 5144 of Revised Statutes requiring holding companies to build up portfolios of assets other than bank stocks equal to 25 percent of their bank stocks should be modified; but I do not believe that it should be attempted in this bill. As a matter of fact, I think the provisions of law regarding holding companies and voting permits should be revised completely; but we purposely refrained from undertaking such a revision in this bill, because the subject is so highly controversial (especially in view of the pending legislation regarding public utility holding companies) that we thought it unwise to deal with this subject at all in the Banking Act of 1935, except in certain minor particulars which obviously are not controversial.

4. The repeal of the provisions of the Liberty Bond Acts which exempted Government deposits secured by Government bonds from the reserve requirements was recommended only after very careful study and after obtaining the concurrence of the Treasury Department, and it is scientifically sound. The pledge of collateral does not serve the same purpose

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as reserves and is no justification for exempting tremendous volumes of Government deposits from the reserve requirements. The principal functions of reserves are three fold: (1) to provide an available balance which the member bank may draw against in meeting withdrawals of deposits, (2) to furnish a brake on credit expansion, and (3) to serve as a member bank's contribution to the central reservoir of credit to be used in going to the assistance of any member bank which is in difficulties. The pledging of Government bonds to secure deposits of public funds serves none of these purposes. Moreover, Government deposits are frequently withdrawn in very large sums and it is more important to protect them by reserves than ordinary demand deposits. In this connection see the marked portions of the attached copy of the report of the Federal Reserve System's Committee on Reserves.

I have not attempted to give you any elaborate discussion of these questions; but the above represents a concise statement of my off-hand views.

Very truly yours,



Walter Wyatt,
General Counsel.

Paper attached.