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EXHIBIT G

Supplement to statement on  
EVOLUTION OF BANKING LEGISLATION  
By Walter Wyatt  
October 26, 1939.

*Walter Wyatt*

AMENDMENTS TO THE FEDERAL RESERVE ACT AND CLOSELY RELATED LAWS

This Exhibit contains, in chronological order, nontechnical summaries of the amendments to the Federal Reserve Act and closely related laws through October 26, 1939. Unless otherwise indicated, section numbers refer to sections of the Federal Reserve Act.

For a more complete picture of national bank legislation since December 23, 1913, this Exhibit should be read in combination with the appropriate portions of Exhibit C, Amendments to the National Bank Act and Closely Related Laws.

The exact textual changes made in the Federal Reserve Act by amendments enacted prior to October 1, 1937, are shown on pages 315-551 of a volume entitled "Digest of Rulings of the Board of Governors of the Federal Reserve System", copies of which may be obtained from the Board.

✓ ACT OF AUGUST 4, 1914

Issuance of emergency currency. - Section 27 was amended so as to add a proviso authorizing the Secretary of the Treasury to suspend the limitations imposed by sections 1, 3 and 5 of the Aldrich-Vreeland Act on the issue of additional national bank notes secured otherwise than by bonds of the United States, and to extend the privileges of the Aldrich-Vreeland Act to all qualified State banks and trust companies which had joined the Federal Reserve System or which might contract to do so within a limited time. (38 Stat. 682, Ch. 225.)

✓ ACT OF AUGUST 15, 1914

Reserves. - Section 19 was amended to permit State member banks, during the three-year transition period provided in the original Federal Reserve Act for changing reserve requirements, to count as reserves held with a national bank in a reserve or central reserve city, any amounts which the State law permitted them to keep with other State or national banks. Previously such deposits could be so counted only when they were in other State banks and were required by the State law to be kept in this manner, rather than merely permitted. (38 Stat. 691.)

*See 2-469-Contents filed 11/18/4*

FOR FILES  
Sarah Murphy

✓ ACT OF OCTOBER 15, 1914  
(Clayton Act)

Interlocking directorates. - This Act prohibited any person from being, at the same time, a director, officer or employee of more than one bank either of which had capital funds of \$5,000,000 and when either, or both, was organized under Federal law. Also, banks organized under Federal law and located in cities of over 200,000 people were forbidden from having as a director, officer, or employee any person employed in a similar capacity with any other bank in the city, except where the two institutions were owned by the same stockholders. A class A director of a Federal Reserve bank was permitted to be, at the same time, an officer or director of one member bank. The Federal Reserve Board, after hearing, was empowered to issue cease and desist orders in the case of violations; and provisions for court relief and enforcement were provided. (38 Stat. 732-733, 734-736, secs. 8 and 11.)

✓ ACT OF MARCH 3, 1915

Acceptances. - Section 13 (paragraphs 3, 4, and 5) was amended so as to authorize the Federal Reserve Board, in its discretion, to increase the amount of acceptances based on the importation or exportation of goods which a member bank of the System might make and which a Federal Reserve bank might discount. (38 Stat. 958, Ch. 93.)

✓ ACT OF MAY 15, 1916

Interlocking directorates; Board's permission to serve. - Section 8 of the Act of October 15, 1914, (Clayton Act) was amended by adding a proviso which authorized the Federal Reserve Board to permit interlocking directorates in any case between not more than three banks coming within the provisions of the Clayton Act, provided such banks were not in "substantial competition". (39 Stat. 121, Ch. 120.)

✓ ACT OF JULY 17, 1916  
(Federal Farm Loan Act)

Purchase of Federal Farm Loan obligations. - Member banks were authorized to buy farm loan bonds issued under this Act; and such bonds were made eligible for purchase by the Federal Reserve banks when they have a maturity not exceeding six months from date of purchase. (39 Stat. 380, sec. 27.)

ACT OF SEPTEMBER 7, 1916

Reserves. - Section 11 was amended by the addition of a new subsection (m) which authorized the Federal Reserve Board, upon an affirmative vote of not less than five of its members, to permit member banks to carry in the Federal Reserve banks any portion of their reserves then required to be held in their own vaults. (39 Stat. 752.)

Deposits with Federal Reserve banks. - Section 13 was amended so as to authorize Federal Reserve banks to receive on deposit from member banks all checks and drafts payable on presentation, and also, for collection, maturing bills. Prior to this amendment the Federal Reserve banks were authorized to receive on deposit only those checks and drafts which were drawn upon solvent member banks and other Federal Reserve banks. The amendment also authorized any Federal Reserve bank to receive from other Federal Reserve banks, solely for purposes of exchange or collection, checks and drafts payable upon presentation within its district and maturing bills payable within its district. (39 Stat. 752.)

Rediscounts. - Section 13 was further amended so as to provide that the indorsement by a member bank of notes, drafts, and bills of exchange discounted with its Federal Reserve bank should be deemed to constitute a waiver of demand, notice and protest by the member bank, as to its own indorsement exclusively. Prior to the amendment member banks were required to execute waivers of demand, notice and protest. Section 13 was further amended so as specifically to provide that certain notes, drafts, and bills of exchange having a maturity of 90 days, exclusive of days of grace, might be admitted to discount. Prior to this amendment the statute was silent on the question as to whether the maturity included days of grace. Section 13 was further amended so as to provide that the discount of notes, drafts, and bills of exchange drawn for agricultural purposes or based on livestock and having a maturity not exceeding six months should be limited to a certain percentage of the total assets of the Federal Reserve bank. Prior to this amendment, the discount of such paper was limited to a certain percentage of the capital of a Federal Reserve bank instead of its total assets. By another amendment to section 13, the aggregate of notes, drafts, and bills bearing the signature of any one borrower (other than bills of exchange drawn against actually existing values) discounted for a member bank, was limited to 10 per cent of the unimpaired capital and surplus of the member bank. Prior to this amendment, Federal Reserve banks were not permitted to discount notes or bills bearing the signature or indorsement of any one person, company, firm, or corporation to an amount in excess of 10 per cent of the capital and

surplus of the member bank, whether such person, firm or corporation was the borrower or not. (39 Stat. 752.)

Acceptances. - Section 13 was amended so as to broaden greatly the powers of member banks with regard to acceptances. Prior to this amendment, member banks were permitted to accept only such drafts or bills of exchange as grew out of transactions involving the importation or exportation of goods. Under section 13, as so amended, member banks were permitted to accept drafts or bills of exchange (1) arising from transactions which involved the importation or exportation of goods, and the domestic shipment of goods, provided shipping documents conveying or securing title were attached at the time of acceptance, (2) secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples, and (3) drawn (under regulations of the Federal Reserve Board) by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. (39 Stat. 752, 753.)

(In enacting this amendment Congress inadvertently omitted from section 13 that provision which permitted national banks with the approval of the Federal Reserve Board to accept up to 100 per cent of their capital and surplus in transactions involving imports or exports. This provision, however, was restored by the Act of June 21, 1917.)

Advances to member banks. - Section 13 was amended so as to authorize Federal Reserve banks to make advances to member banks on their promissory notes for a period not exceeding 15 days, such notes being secured by notes, drafts, bills of exchange, or bankers' acceptances eligible for rediscount or for purchase by Federal Reserve banks, or by bonds or notes of the United States. (39 Stat. 753.)

Member banks as insurance agents and real estate brokers. - Section 13 was further amended so as to permit national banks located and doing business in places not exceeding 5,000 people to act as agents for fire, life, or other insurance companies, and also to act as brokers or agents for others in making or procuring loans on real estate located within 100 miles of any such bank's location. (39 Stat. 753.)

Banking accounts for foreign correspondents. - Section 14, subsection (e), was amended so as to permit Federal Reserve banks,

with the consent of the Federal Reserve Board, to open and maintain banking accounts for foreign correspondents or agencies. (39 Stat. 754.)

Security for Federal Reserve notes. - Section 16 was amended so as to permit Federal Reserve notes to be secured also by drafts, bills of exchange, or acceptances rediscounted under the provisions of section 13, or bills of exchange indorsed by member banks of any Federal Reserve district and purchased under the provisions of section 14. Prior to this amendment, Federal Reserve notes could be secured only by notes and bills of exchange accepted for rediscount under section 13. (39 Stat. 754.)

Loans on real estate. - Section 24, relative to loans on farm lands, was amended so as to permit banks lying contiguous to the lines of a Federal Reserve district to make loans on farm lands within a radius of 100 miles, regardless of district lines, and to make loans on other improved and unincumbered real estate within the same area, but not for a period exceeding one year. (39 Stat. 754.)

Foreign banking business. - Section 25 was amended so as to permit national banks, with the approval of the Federal Reserve Board, either to establish branches in foreign countries or dependencies or insular possessions of the United States or to invest an amount not exceeding 10 per cent of their paid-in capital stock and surplus in one or more corporations incorporated under the laws of the United States or of any State, and principally engaged in international or foreign banking. Prior to this amendment national banks were only authorized to establish foreign branches. (39 Stat. 755.)

ACT OF APRIL 24, 1917  
("First Liberty Bond Act")

Reserves against Government deposits. - Reserve requirements of member banks were made inapplicable to deposits of Government funds. (40 Stat. 37, sec. 7.) This was reenacted by the Acts of September 24, 1917 (40 Stat. 291-292, sec. 8) and April 4, 1918 (40 Stat. 504, sec. 5).

ACT OF JUNE 21, 1917

Branches of Federal Reserve banks. - Section 3 was amended so as to authorize the Federal Reserve Board to permit or require any Federal Reserve bank to establish branch banks within its district.

As so amended, the section provided that the number of directors of such branches should be, at the option of the Board, not more than seven nor less than three. (40 Stat. 232, sec. 1.)

Assistants to Federal Reserve agents. - Section 4 was amended so as to provide for the appointment of assistants to the Federal Reserve agents, with power to act in the agent's name and stead during his absence or disability. The office of the deputy Reserve agent, formerly held by one of the class C directors, was abolished. (40 Stat. 232, sec. 2.)

Membership of State banks and trust companies. - Section 9, relating to the admission of State banks and trust companies into the Federal Reserve System, was amended so as to provide that, subject to the provisions of the Federal Reserve Act and to the regulations of the Federal Reserve Board made pursuant thereto, any State bank or trust company becoming a member of the Federal Reserve System should retain its full charter and statutory rights and might continue to exercise all corporate powers granted to it by the State in which it was created and be entitled to all the privileges of member banks. However, Federal Reserve banks were prohibited from discounting for any such State member bank any note, draft, or bill of exchange of any one borrower liable to the member bank for more than 10 per cent of its capital and surplus, excluding bills of exchange drawn against actually existing value and commercial or business paper actually owned.

The amendment took away from the Comptroller of the Currency the power granted by section 21 to examine State member banks and trust companies, but provided that such banks should be subject to examinations by direction of the Federal Reserve Board or of the Federal Reserve bank by examiners selected or approved by the Federal Reserve Board. Examinations by State authorities, when approved by the directors of the Federal Reserve bank, could be accepted in lieu of examinations by examiners approved by the Federal Reserve Board. Reports of condition and of dividend payments were required to be made to the Federal Reserve bank instead of the Comptroller of the Currency. State member banks and trust companies were authorized to withdraw from the Federal Reserve System after six months' written notice. (40 Stat. 232-234, sec. 3.)

Clearing and collection for nonmember banks. - Section 13 was amended so as to authorize Federal Reserve banks, solely for the purposes of collection or exchange, to receive deposits of currency, checks, drafts, and maturing notes or bills from any nonmember bank or trust company maintaining with the Federal Reserve bank a balance

sufficient to offset the items in transit held for its account by the Federal Reserve bank. Section 13, as amended, also authorized any member bank to make reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, for the collection or payment of checks and drafts and remission therefor by exchange or otherwise. It was provided, however, that no such charges should be made against the Federal Reserve banks. (40 Stat. 234-235, sec. 4.)

Acceptances by member banks. - Section 13 was further amended so as to restore that provision authorizing the Federal Reserve Board to permit member banks to accept drafts and bills of exchange drawn against foreign and domestic shipments of goods or against warehouse receipts covering readily marketable staples up to 100 per cent of the capital and surplus of the accepting bank. (40 Stat. 235, sec. 4.) (This provision had been inadvertently omitted from section 13 by the amendment of September 7, 1916.)

Foreign agencies of Federal Reserve banks. - Section 14, subsection (e), was amended so as to authorize the Federal Reserve Board to permit or require Federal Reserve banks to open and maintain accounts in foreign countries, etc., and also to provide for participation accounts by other Federal Reserve banks. (40 Stat. 235, sec. 6.)

Issue of Federal Reserve notes against gold. - Section 16 was amended so as to authorize the issue of Federal Reserve notes upon the security of gold or gold certificates and so as to provide that gold or gold certificates held by Federal Reserve agents as collateral security should be counted as part of the gold reserve required of Federal Reserve banks against these circulating notes. As so amended, this section also authorized the issue of Federal Reserve notes upon the security of 15-day notes of member banks secured by eligible commercial paper or by bonds or notes of the United States. (40 Stat. 236-238, sec. 7.)

Deposits of gold for settlement fund. - Section 16 was further amended so as to authorize the Treasurer of the United States or any Assistant to receive deposits of gold or gold certificates when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board, thus facilitating the establishment of a settlement fund by which balances between different parts of the country may be settled by bookkeeping entries without the physical shipment of funds. (40 Stat. 238, sec. 8.)

Deposits of Government bonds with the Treasurer. - Section 17 was amended so as to repeal any provision of law requiring any national bank to maintain a minimum deposit of bonds with the Treasurer of the United States. (40 Stat. 239, sec. 9.)

Reserves. - Section 19 was amended so as to provide for an immediate transfer of all reserves of member banks to Federal Reserve banks. Under this section the total amount of reserves (set forth below) to be maintained by a member bank were required to be deposited with the Federal Reserve bank of its district.

	Demand deposits Per cent.	Time deposits Per cent.
Country banks .....	7	3
Reserve city banks .....	10	3
Central Reserve city banks .....	13	3

Member banks were no longer required to maintain any reserves in their own vaults. (40 Stat. 239, sec. 10.)

Balances with nonmember banks. - Section 19 formerly provided that no member bank should keep on deposit with "any nonmember bank" any sum in excess of 10 per cent of its own capital and surplus. That restriction necessarily applied to balances with foreign banks as well as to balances with nonmember State banks and trust companies. Such provision was amended so as to apply only to deposits with "any State bank or trust company" not a member bank. (40 Stat. 239, sec. 10.)

Membership of banks beyond the United States. - Section 19 was amended to repeal the prohibition against national banks located in the Philippine Islands becoming member banks, and also to permit banks organized under local law in any of the dependencies or possessions to become member banks. (40 Stat. 240, sec. 10.)

Salaries or fees of directors, officers, or employees. - Section 22, relating to the salaries or fees paid to directors, officers, or employees of member banks, was amended by the addition of provisos to the effect that directors, officers, employees, or attorneys should not be prohibited from receiving the same rates of interest paid to other depositors of the bank, and that notes, drafts, bills, or other evidences of debt executed or indorsed by directors or attorneys of the bank might be discounted with such bank on the same terms and conditions as other notes, drafts, bills or other evidences of debt upon the affirmative vote or written assent of a majority of the members of the board of directors of such member bank. (40 Stat. 240, sec. 11.)



✓ ACT OF APRIL 5, 1918  
(War Finance Corporation Act)

War Finance Corporation. - This Act set up the War Finance Corporation which, inter alia, was empowered to make advances, under certain conditions, to banks and trust companies which facilitated the prosecution of the war. The Federal Reserve banks were authorized to discount obligations of member banks secured by the Corporation's bonds and to rediscount eligible paper so secured and endorsed by member banks; and the Federal Reserve banks, pursuant to the approval of the Federal Reserve Board, were authorized to use any obligation or paper so acquired for any purpose for which they had authority to use obligations or paper secured by obligations of the United States not bearing the circulation privilege. (40 Stat. 506, 508, 510, secs. 1, 7, and 13.)

Exception to limitation on indebtedness of a national bank. - Section 5202 of the Revised Statutes, which was made a part of section 13 of the Federal Reserve Act and which limits the total indebtedness of a national bank, was amended to provide that liabilities incurred under the provisions of the War Finance Corporation Act should be exempt from such limitation. (40 Stat. 512, sec. 20.)

ACT OF SEPTEMBER 26, 1918

Election of Federal Reserve bank officers. - Section 4 was amended so as to leave to the discretion of the Federal Reserve Board the grouping of the member banks in each district into three general groups or divisions, without the former requirement that each group should contain, as nearly as possible, one-third of the aggregate number of the banks in the district. Section 4 was further amended so as to permit each member bank, by a resolution of its board of directors or by an amendment to its by-laws, to authorize its president, cashier, or some other officer to cast its vote in elections of Federal Reserve bank directors in place of the former method of electing by ballot a district Reserve elector at a regularly called meeting of the board of directors of each member bank in the district to cast its vote at a particular time. A provision was added to prevent any officer or director of a member bank from serving as a class A director unless nominated and elected by member banks of the same group as his member bank, and to prevent any director or officer or more than one member bank from being eligible for nomination as a class A director except by banks in the same group as his largest bank. (40 Stat. 967, Ch. 177, sec. 1.)

Fiduciary powers of national banks. - Section 11(k) was amended and reenacted so as to authorize the Federal Reserve Board

to permit national banks to act as guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations competing with national banks might be permitted to act under the laws of the State of location, in addition to the right formerly granted to act as trustee, executor, administrator, and registrar of stocks and bonds. The amendment also provided that it should not be deemed to be "in contravention of State or local law" to permit the exercise of such powers by national banks where the State law authorized the exercise of such powers by State banks, trust companies, or other corporations in competition with national banks. The amendment also required (1) all assets held in any fiduciary capacity to be segregated from the general assets of the bank; (2) a separate set of records to be kept which should be open to the inspection of the State authorities; (3) national banks to refrain from receiving in their trust departments deposits of current funds subject to check, or deposits of checks, drafts, or similar instruments; (4) trust funds deposited with the general assets of a bank to be properly secured (and the owners of such funds were given a lien on the securities set apart to protect these funds); (5) that national banks acting as fiduciaries comply with the State requirements as to the deposit of securities with the State authorities; (6) national banks to be exempt from bond requirements if State corporations under similar circumstances should be exempt therefrom; and (7) national banks to refrain from lending trust funds to any bank officer, director, or employee. In passing upon applications the Federal Reserve Board was authorized to take into consideration the amount of capital and surplus of the applying bank and other material facts; and it was forbidden to grant such permits to national banks having a capital and surplus less than that required of State banking institutions under State law. (40 Stat. 968-969, sec. 2.)

Issuance of \$500, \$1,000, \$5,000, and \$10,000 Federal Reserve notes. - Section 18 was amended so as to permit the issuance of Federal Reserve notes in denominations of \$500, \$1,000, \$5,000, and \$10,000, in addition to the denominations formerly permitted. (40 Stat. 969-970, sec. 3.)

Reserves of member banks in outlying districts. - Section 19 was amended so as to authorize the Federal Reserve Board, upon the affirmative vote of five members, to permit member banks located in outlying districts of a reserve city or in territory added to such city by the extension of its corporate charter, to maintain only such reserves as required of country banks; and to permit member banks

similarly located in central Reserve cities, or in territory similarly added to such cities, to maintain only such reserves as required of country banks or banks in Reserve cities. (40 Stat. 970, sec. 4.)

Amendments to section 22. - Section 22 was amended so as to clarify and modify the existing provisions and was subdivided into subsections (a), (b), (c), (d), (e), and (f), providing as follows:

Loans and gratuities to bank examiners. - Section 22(a) as amended prohibited loans and gratuities to bank examiners and provided penalties for violations. (40 Stat. 970, sec. 5.)

Disclosures of confidential information. - Section 22(b) prohibited national bank examiners from performing any other service for compensation for any bank, or officer, director, or employee thereof. The disclosures of confidential information by examiners, public or private, was also prohibited, and penalties for violations were provided. (40 Stat. 970, sec. 5.)

Commissions for obtaining loans. - Section 22(c) prohibited any officer, director, employee, or attorney of a member bank from receiving a commission or other thing of value for procuring loans or purchases or discounts of any commercial paper or similar obligations. (40 Stat. 971, sec. 5.)

Purchases from, and sales to, directors. - Section 22(d) prescribed the conditions under which a member bank may contract for, or purchase or sell, securities or other property where a director of such bank is the other party in interest in the transaction. (40 Stat. 971, sec. 5.)

Interest on deposits of officers, directors, or employees. - Section 22(e) prohibited the payment of a greater rate of interest to any officer, director, employee, or attorney than that paid to any other depositor. (40 Stat. 971, sec. 5.)

Liability for violating provisions. - Section 22(f) provided that directors and officers of member banks knowingly violating or permitting violations of section 22 shall be liable in their personal and individual capacity for all damages which the member bank, its shareholders, or any other persons might sustain in consequence thereof. (40 Stat. 971, sec. 5.)

Overcertification of checks, embezzlements, etc. - Sections 5208 and 5209 of the Revised Statutes, relating to penalties,

etc. for the overcertification of checks, embezzlements, abstractions, or willful misapplication of moneys, funds, or credit of national banks by officers, directors, agents, or employees thereof and the falsification of entries in books, reports, or statements of national banks with intent to injure or defraud, on the part of any officer, director, agent, or employee of a national bank, were made applicable to such acts committed by officers, directors, agents, or employees of Federal Reserve and member banks, any reference to national banks, as such, being omitted. (40 Stat. 971-973, sec. 7.)

✓ ACT OF MARCH 3, 1919

Earnings of Federal Reserve banks. - Section 7 was amended so as to permit Federal Reserve banks to accumulate a surplus of 100 per cent of their subscribed capital, instead of 40 per cent of their paid-in capital as previously provided, before paying the excess of such net earnings to the United States as a franchise tax. (40 Stat. 1314, Ch. 101, sec. 1.)

Eligibility of ex-board members to serve member banks. - Section 10 was amended so as to permit appointive members of the Federal Reserve Board to serve member banks after having served the full term for which they were appointed. (40 Stat. 1315, sec. 2.)

Rediscount of loans in excess of 10 per cent secured by Government bonds or notes. - Section 11(m), which formerly authorized the Federal Reserve Board to permit member banks to carry with Federal Reserve banks any portion of their reserves required by section 19 to be held in their own vaults, and which had been rendered obsolete by the Act of June 21, 1917, was stricken out; and there was substituted therefor a new section 11(m) which authorized the Federal Reserve banks to discount for member banks paper bearing the signature or indorsement of any one borrower in excess of 10 per cent, but in no case to exceed 20 per cent, of the member bank's capital and surplus, provided that all such paper was secured by a like face amount of bonds or notes of the United States issued since April 24, 1917. In effect, the amendment amended sections 9 and 13; but it was to lapse after December 31, 1920. (40 Stat. 1315, sec. 3.)

✓ ACT OF SEPTEMBER 17, 1919

Investments by national banks in foreign banking corporations. - Section 25 was amended so as to authorize any national bank, until January 1, 1921, subject to the approval of the Federal Reserve Board but without regard to the amount of its capital and surplus, to invest not exceeding 5 per cent of its capital and surplus in the stock of

one or more corporations chartered under Federal or State law and principally engaged in phases of international or foreign financial operations necessary to facilitate exports from the United States. (41 Stat. 285, Ch. 60.)

✓ ACT OF OCTOBER 22, 1919

Exception to limitation on indebtedness of a national bank. - Section 5202 of the Revised Statutes, made a part of section 13 of the Federal Reserve Act, and limiting the total indebtedness of a national bank, was amended so as to exempt from such limitation liabilities created by the indorsement of accepted bills of exchange payable abroad actually owned by the indorsing bank and discounted at home or abroad. (41 Stat. 297, Ch. 79, sec. 2.)

✓ ACT OF DECEMBER 24, 1919

"Edge corporations". - Section 25(a) was added, providing for the Federal incorporation of institutions to engage in international or foreign banking or other financial operations. (41 Stat. 378, Ch. 18.)

✓ ACT OF APRIL 13, 1920  
("Phelan Act")

Graduated discount rates. - Section 14 was amended so as to authorize Federal Reserve banks, subject to the approval, review, and determination of the Federal Reserve Board, to establish discount rates graduated or progressed on the basis of the amount of the advances and discount accommodations extended by the Federal Reserve bank to the borrowing bank. (41 Stat. 550, Ch. 128.)

✓ ACT OF MAY 26, 1920

Interlocking directorates. - Section 8 of the Act of October 15, 1914 (Clayton Act) was amended to add private bankers to the classes of persons to whom the Federal Reserve Board was authorized to grant permits, in certain circumstances, permitting them to serve a limited number of banks within the prohibitions of the section. (41 Stat. 626, Ch. 206)

✓ ACT OF MAY 29, 1920

Performance of subtreaury functions by Reserve banks. - The laws authorizing the establishment or maintenance of offices of assistant treasurers or of subtreasuries of the United States were repealed and the Secretary of the Treasury was authorized to transfer

their duties and functions to the Treasurer of the United States or the United States mints, or to utilize the Federal Reserve banks for this purpose. With respect to deposits of certain Treasury trust funds or special funds, the Reserve banks were required to segregate such deposits from their assets and to hold them in joint custody with the Federal Reserve agent. The Secretary was authorized to assign rooms, vaults, etc. in the buildings used by the subtreasuries to any Federal Reserve bank acting as fiscal agent of the United States. (41 Stat. 654, 655.)

✓ ACTS OF FEBRUARY 27, 1921

Edge corporations. - Section 25(a) was amended by adding to the first paragraph thereof a proviso to the effect that nothing in said section should be construed to deny the right of the Secretary of the Treasury to use any corporation organized thereunder as a depository in the Panama Canal Zone, the Philippine Islands, and other insular possessions and dependencies of the United States. (41 Stat. 1145, Ch. 73.)

Rediscount for member banks of paper of any one borrower secured by United States bonds. - This Act reenacted, with a slight modification, the provisions of section 11(m), which had expired by limitation on December 31, 1920, and extended them to October 31, 1921. These provisions authorized the Federal Reserve Board to permit Federal Reserve banks to discount for any member bank the paper of a single borrower up to 20 per cent of the member bank's capital and surplus, provided that all such paper in excess of 10 per cent was secured by Liberty bonds, Victory notes, or United States certificates of indebtedness. This amendment further required that security consisting of Liberty bonds and Victory notes should be offered by the original subscriber thereto in order to permit rediscounts in excess of 10 per cent. (41 Stat. 1146, Ch. 75.)

✓ ACT OF MAY 27, 1921

Values for conversion of foreign money. - This Act provided that should it be necessary to convert foreign currency into United States currency in the assessment and collection of duties on imports, such conversion, in the absence of a declaration of value by the Secretary of the Treasury or if the value so declared should vary over 5 per cent from the New York market value, should be made at the "buying rate" for cable transfers as determined by the Federal Reserve Bank of New York. (42 Stat. 17, sec. 403.)

✓ ACT OF JUNE 14, 1921

Edge corporations. - Section 25(a) was further amended so as to provide that a corporation organized thereunder with an

authorized capital in excess of \$2,000,000 and with paid-in capital of \$2,000,000 may, with the consent of the Federal Reserve Board, have its unpaid capital paid in on call of the corporation's board of directors; but in all events 25 per cent of the total authorized capital was required to be paid in before the corporation commenced business. (42 Stat. 28, Ch. 22.)

✓ ACT OF JUNE 3, 1922

Personnel of Federal Reserve Board. - Section 10 was amended by increasing the number of appointive members of the Federal Reserve Board from five to six and providing that, in their selection, the President "shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests, and geographical divisions of the country", instead of considering merely "a fair representation of the different commercial, industrial and geographical divisions of the country", as this section formerly provided. The amendment also eliminated the requirement that at least two of the appointive members had to be persons experienced in banking or finance. (42 Stat. 620, Ch. 205.)

Federal Reserve bank buildings. - Section 10 was further amended so as to provide that no Federal Reserve bank could in the future erect any building to cost in excess of \$250,000 without the express consent of Congress. (42 Stat. 622, Ch. 205.)

✓ ACT OF JULY 1, 1922

Rediscounts for State member banks of paper of any one borrower. - Section 9 was amended so as to prohibit Federal Reserve banks from discounting for a State member bank the paper of any one borrower who had borrowed from such bank an amount greater than could be lawfully borrowed therefrom under the provisions of section 5200 of the Revised Statutes if it were a national bank, thus relaxing somewhat the previous restriction of this nature and putting State member banks upon a basis of substantial equality with national banks in this regard. (42 Stat. 821, Ch. 274.)

✓ ACT OF FEBRUARY 6, 1923

Federal Reserve branch bank buildings. - Section 10 was amended so as to make the limitation of \$250,000 upon the amount which a Federal Reserve bank might expend in the construction of a building apply only to branch bank buildings and cover only the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures. It was further provided that the limitation should not apply to any such buildings under construction prior to June 3, 1922. (42 Stat. 1223, Ch. 60.)

ACT OF MARCH 4, 1923  
(Agricultural Credits Act of 1923)

Purchase of stock by member banks of agricultural credit corporations. - This Act, in addition to providing for the establishment of agricultural credit corporations under the jurisdiction of the Office of the Comptroller of the Currency and providing other credit facilities to agriculture, also provided that member banks, with the approval of the Comptroller of the Currency, may invest not to exceed 10% of their "paid-in capital stock and surplus" in the stock of any such corporations. (42 Stat. 1454, 1466-1469.)

Capital requirements of member banks. - Section 9 was amended so as to permit banks to become member banks with a capital of 60 per cent of the amount previously required, with the proviso that such banks should increase their capital to the full amount previously required for membership within the time and under conditions prescribed by the Federal Reserve Board, but in all cases such banks should set aside annually at least 20 per cent of their net income for the preceding year as a fund to be devoted exclusively to such increase of capital. (42 Stat. 1478, sec. 401.)

Discount of factors' paper. - Section 13 was amended to make notes, drafts, and bills of exchange of factors, issued for the purpose of making advances exclusively to producers of staple agricultural products in their raw state, eligible for discount by Federal Reserve banks. (42 Stat. 1478, sec. 402.)

Sight and demand bills of exchange. - Section 13 was further amended to provide for the discount and purchase by Federal Reserve banks of sight and demand bills of exchange drawn to finance the domestic shipment of nonperishable, readily marketable staple agricultural products, and secured by satisfactory shipping documents. The amendment required that such bills be forwarded promptly for collection and forbade a Federal Reserve bank in any event to hold such bills for a period in excess of 90 days. (42 Stat. 1478, sec. 402.)

Maturity of acceptances. - Section 13 was further amended so that the maturity of acceptances eligible for discount, formerly described as "three months' sight", was changed to read "90 days' sight". (42 Stat. 1479, sec. 403.)

Six months' agricultural acceptances. - Section 13 was also amended so as to broaden further the power of Federal Reserve banks to discount acceptances by authorizing the discount of acceptances with maturities up to six months when drawn for an agricultural purpose and secured at the time of acceptance by documents of title covering readily marketable staples. (42 Stat. 1479, sec. 403.)



Nine months' agricultural paper. - Section 13a which was added, extended the maturity of agricultural paper eligible for discount from six to nine months. It provided further, however, that such paper having maturities in excess of six months would not be eligible as a basis for the issuance of Federal Reserve notes unless secured by negotiable warehouse receipts or similar documents covering readily marketable staple agricultural products or by chattel mortgage upon livestock being fattened for market. This provision in effect, therefore, amended that portion of section 16, relating to collateral security for Federal Reserve notes. (42 Stat. 1479, sec. 404.)

Discounts for Federal intermediate credit banks. - Section 13a also authorized Federal Reserve banks to discount eligible agricultural paper for Federal intermediate credit banks, which latter corporations were one class of the credit institutions established by other provisions of the Act. However, the Reserve banks were not authorized to discount such paper which bears the indorsement of a nonmember bank which is eligible for membership. (42 Stat. 1480, sec. 404.)

Purchase and sale of debentures issued by Federal intermediate credit banks and national agricultural credit corporations. - Section 13a further authorized the Federal Reserve banks to buy and sell debentures and other similar obligations issued by Federal intermediate credit banks and national agricultural credit corporations, such transactions, however, to be subject to the same limitations as those upon the purchase and sale of farm loan bonds, and State, county, and municipal bonds and warrants. (42 Stat. 1480, sec. 404.)

Paper of cooperative marketing associations. - Section 13a prescribed when paper of cooperative marketing associations could be deemed to be issued or drawn for an agricultural purpose. Such paper would thus be classified as agricultural paper when (a) the proceeds thereof were advanced by the association to its members for an agricultural purpose, (b) the proceeds were used by the association in making payments to members for agricultural products delivered by the members, or (c) such proceeds were used by the association to pay for grading, processing, packing, or marketing any agricultural products handled by the association for its members. This section also contained a proviso that the express enumeration of certain classes of paper of cooperative marketing associations as eligible for discount, should not be construed as rendering ineligible any other class of such paper which was otherwise eligible for discount. (42 Stat. 1480, sec. 404.)

Limitation of amount of paper which Federal Reserve banks may discount. - Section 13a also authorized the Federal Reserve Board

to limit to a percentage of the assets of a Federal Reserve bank the amount of six months' paper and the amount of nine months' paper which such bank may discount. (42 Stat. 1480, sec. 404.)

Open-market dealings in acceptances of Federal intermediate credit banks and national agricultural credit corporations. - Section 14 was amended by adding a new subsection (f) which authorized Federal Reserve banks to purchase and sell in the open market acceptances of Federal intermediate credit banks and national agricultural credit corporations, whenever the Federal Reserve Board declares that the public interest so requires. (42 Stat. 1480, sec. 405.)

Federal Reserve banks as depositories and fiscal agents. - Section 15 was amended by adding a new paragraph which authorized Federal Reserve banks to act as depositories for, and fiscal agents of, any national agricultural credit corporation or Federal intermediate credit bank. (42 Stat. 1480, sec. 406.)

Repeal of progressive discount rate. - Section 14(d) was in effect amended by the repeal of the "Phelan Act", approved April 13, 1920, which provided for progressive discount rates. (42 Stat. 1480, sec. 407.)

Debt limitation. - This Act amended "section 502 of the Revised Statutes, as amended" (incorporated as a part of section 16) so as to add another exception to the limitation on the indebtedness of national banks, i.e., liabilities incurred under the provisions of the Federal Farm Loan Act, approved July 17, 1916. (Instead of "section 502 of the Revised Statutes", the Act obviously meant section 5202 of such Statutes, for only section 5202 contains the matters intended to be amended.) (42 Stat. 1481, sec. 504.)

Joint committee to investigate membership, etc. - The Act also provided for the appointment of a joint committee, to be composed of three members of the Banking and Currency Committee of the Senate and five members of the Banking and Currency Committee of the House, authorized to inquire into (1) the effect of the limited Federal Reserve membership of State banks upon financial conditions in agricultural localities, (2) the deterrents to such membership, (3) administrative measures adopted to increase such membership, and (4) whether changes which would operate to increase such membership in agricultural localities should be made. (42 Stat. 1481-1482, sec. 506.)

✓ JOINT RESOLUTION OF MARCH 25, 1926

Buffalo branch of Federal Reserve Bank of New York. - The Federal Reserve Bank of New York was authorized to invest a sum not

to exceed \$600,000, from its capital funds, for the purchase of a building for its branch at Buffalo, New York. (44 Stat. 223, Ch. 87.)

✓ ACT OF MAY 24, 1926

Improper use of words "Federal", "United States", or "Reserve". - This Act made unlawful, with certain specified exceptions, the use of the words "Federal", "United States", or "Reserve", or a combination of such words, as a portion of the corporate title or trade name of any person, firm, or corporation engaged in the banking, loan, building and loan, brokerage, factorage, insurance, indemnity, or trust business; and also made unlawful any advertisement or representation by a nonmember bank that it is a member of the Federal Reserve System. (44 Stat. 628-629.)

ACT OF FEBRUARY 25, 1927  
("McFadden Act")

Discontinuance of Federal Reserve branch banks. - Section 3 was amended so as to authorize the Federal Reserve Board to require any Federal Reserve bank at any time to discontinue any of its branches. (44 Stat. 1234, sec. 19.)

Indeterminate charters of Federal reserve banks. - Section 4 was amended so as to provide for indeterminate charters of Federal Reserve banks. (44 Stat. 1234, sec. 18.)

Conditions of membership for State banks. - Section 9 was amended so as to require that the conditions imposed by the Federal Reserve Board upon State banks admitted to membership in the Federal Reserve System shall be pursuant to the Federal Reserve Act. (44 Stat. 1229, sec. 9.)

Branches of State member banks. - Section 9 was further amended so as to provide that no State bank could become a member of the Federal Reserve System or remain a member of the Federal Reserve System except upon relinquishing any branch or branches established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank was located. On the other hand, this section also provided that any State bank which on February 25, 1927, had established and was operating a branch or branches in conformity with the State law could retain and operate such branch or branches while remaining, or upon becoming, a member of the Federal Reserve System. (44 Stat. 1229, sec. 9.)

Limitation on total liabilities of national banks. - Section 5202 of the Revised Statutes made a part of section 13, and

limiting the total indebtedness of a national bank, was amended by this Act to provide that liabilities incurred under the provisions of section 202 of Title II of the Farm Loan Act, as amended by the Agricultural Credits Act of 1923, were to be exempt from such limitation. National banks could thus rediscount with, or sell to, Federal intermediate credit banks without limitation the classes of agricultural or livestock paper covered in the section referred to. (44 Stat. 1231, sec. 11.) (This amendment was contained in the Agricultural Credits Act of 1923 but was erroneously cited; and this section of the Act of February 25, 1927, was merely intended to correct that mistake.)

Thefts by national bank examiners. - Section 22, making it a criminal offense for bank examiners to accept loans or gratuities from banks examined by them, was amended so as to make it cover assistant examiners as well, and also, so as to make it a criminal offense for any examiner or any assistant examiner to steal or unlawfully take or conceal any property of value in the possession of any member bank or from any safe deposit box in or adjacent to the premises of such bank. (44 Stat. 1232, sec. 15.)

Real estate loans by national banks; interest on time deposits. - Section 24 relative to loans by national banks upon the security of real estate and farm lands was materially changed. The more important of these changes were as follows: National banks in central Reserve cities were authorized to make real estate loans; loans on city real estate were placed upon the same basis as to time and territorial limits as loans on farm lands; a loan on real estate was defined so as to require that the entire amount of the obligation be made or sold to the national bank; and the permissible aggregate of real estate loans was changed from 25 per cent of the bank's capital and surplus or one-third of its "time deposits" to 25 per cent of capital and surplus or one-half of "savings deposits". National banks were authorized to continue to receive time and savings deposits, but were forbidden to pay interest on such deposits at a greater rate than that permitted by law for State banks in the same State. (44 Stat. 1232, sec. 16.)

Unlawful certification of checks. - Section 5208 of the Revised Statutes, relating to the unlawful certification of checks by officers, etc., of Federal Reserve and member banks, was amended in certain technical respects. (44 Stat. 1231, sec. 12.)

✓ ACT OF MARCH 9, 1928

Interlocking directorates. - The last proviso of section 8 of the Act of October 15, 1914 (Clayton Act), was amended so that

the Federal Reserve Board was authorized to grant permits for interlocking directorates when the permitted relationships are "not incompatible with the public interest", rather than when the banks affected are "not in substantial competition". The Board also was authorized to grant permits covering certain interlocking directorates (such as those between a joint-stock land bank and a nonmember State bank), which were subject to the Act but which had been excluded from the Board's power to issue permits due to the peculiar wording of the proviso. (45 Stat. 253, Ch. 165.)

✓ ACT OF MAY 7, 1928

State member banks as depositaries of public money. - Section 9 was amended by adding a new paragraph providing that State banks and trust companies which are members of the Federal Reserve System may be depositaries of public money, when designated for that purpose by the Secretary of the Treasury, and may be employed as financial agents of the Government. Satisfactory security must be required of such banks and trust companies for the proper performance of their duties in these respects. (45 Stat. 492, Ch. 507.)

✓ ACT OF MAY 29, 1928

Purchase or discount of sight or demand bills. - The provision of section 13 authorizing Federal Reserve banks to discount or purchase bills of exchange payable at sight or on demand, was materially broadened. Under the statute as it previously existed a Federal Reserve bank was authorized, subject to certain prescribed conditions, to discount or purchase sight or demand bills drawn to finance the domestic shipment of nonperishable, readily marketable staple agricultural products when secured by bills of lading or other shipping documents conveying or securing title. Under the law as amended a Federal Reserve bank was authorized to purchase or discount sight or demand bills which grow out of the exportation, as well as the domestic shipment, of nonperishable, readily marketable staples, whether or not such staples are of an agricultural character. (45 Stat. 975, Ch. 884.)

✓ ACT OF MARCH 2, 1929

Interlocking directorates. - The first proviso to section 8 of the Act of October 15, 1914 (Clayton Act), exempting mutual savings banks from the prohibition against interlocking directorates, was amended to exempt also joint stock land banks and other banks doing noncommercial business. (45 Stat. 1536, Ch. 581.)

✓ ACT OF JUNE 17, 1929

Treasury bills and certificates of indebtedness. - The Secretary of the Treasury was authorized to issue a new form of Treasury obligation to be known as "Treasury bills", and the Act provided that wherever the words "bonds and notes of the United States" or certain similar phrases were used in the Federal Reserve Act they "shall be held to include" such Treasury bills and also certificates of indebtedness. This, in effect, amended sections 13 and 14, and authorized Federal Reserve banks to rediscount notes secured by Treasury bills or certificates of indebtedness; to make short-term advances to member banks on their promissory notes so secured; and to purchase in the open market Treasury bills and certificates of indebtedness. Prior to this enactment, certificates of indebtedness of the United States were considered eligible for the purposes stated and in this respect the new law was merely a specific statutory confirmation of the existing practice. (46 Stat. 19, Ch. 26.)

✓ ACT OF APRIL 12, 1930

Limitations upon rediscounts for one borrower. - Section 13 was amended so as to make the limitations therein on the amount of eligible paper of any one borrower which could be rediscounted by a Federal Reserve bank for a member bank conform to the limitations of section 5200 of the Revised Statutes, as amended, with regard to the amount which a national bank could lend to a single borrower. (46 Stat. 162, Ch. 140.)

✓ ACT OF APRIL 17, 1930

Waiver of notice of withdrawal. - Section 9 was amended so as to authorize the Federal Reserve Board, in its discretion and subject to such conditions as it might prescribe in individual cases, to waive the six months' notice prescribed for State member banks withdrawing from the Federal Reserve System and to permit any such bank to withdraw from membership prior to the expiration of six months from the date of such notice. (46 Stat. 170, Ch. 175.)

✓ ACT OF APRIL 23, 1930

Banks which have discontinued operations. - Section 6 was amended so as to authorize the Comptroller of the Currency to appoint a receiver for a national bank which has discontinued its banking operations for 60 days without having gone into liquidation or having a receiver appointed for other lawful cause; and it was further provided that the stock held by the national bank in the Federal Reserve bank should thereupon be canceled and proper refund made. (46 Stat. 250, Ch. 207, sec. 1.) Section 9 was amended so as to authorize the

Federal Reserve Board, after hearing, to forfeit the membership of a State member bank of the Federal Reserve System which has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor. (46 Stat. 251, Ch. 207, sec. 2.)

✓ ACT OF JUNE 17, 1930

Values for conversion of foreign money. - Section 522 of this Act made certain technical changes in the Act of May 27, 1921, relating to the authority of the Federal Reserve Bank of New York to determine the "buying rate" in connection with the conversion of foreign currency in the matter of import duties. (46 Stat. 739-740.)

✓ ACTS OF JUNE 26, 1930

Costs of examination of member banks. - Section 9 of the Federal Reserve Act and section 5240 of the Revised Statutes, as contained in section 21 of the Federal Reserve Act, were amended so as to enable the Federal Reserve Board, in its discretion, to decide whether the costs of examinations of member banks of the Federal Reserve System made by the Federal Reserve Board or by the Federal Reserve banks should be assessed against the banks examined. Previously the law had required that the costs of all such examinations be assessed against the banks examined. It was also provided, under the law as amended, that copies of reports of examinations of State member banks could, in the discretion of the Federal Reserve Board, be furnished to the State banking authorities. (46 Stat. 814, Ch. 611.)

Voluntary surrender of trust powers. - Section 11(k) was amended so as to provide a procedure whereby a national bank which had been authorized to exercise fiduciary powers could surrender those powers if it so desired, in order to relieve itself from the necessity for a further compliance with the requirements of that section or to have returned to it any securities which it might have deposited with the State authorities for the protection of private or court trusts or for any other purpose. This amendment also authorized the Board to issue regulations governing the exercise of trust powers by national banks. (46 Stat. 814, Ch. 612.)

Election of Federal Reserve bank directors. - That part of section 4 providing the method of counting ballots in elections of class A and class B directors of Federal Reserve banks was amended so as to clarify it with respect to certain technical questions. (46 Stat. 815, Ch. 614.)

✓ ACT OF JANUARY 22, 1932  
(Reconstruction Finance Corporation Act)

Loans to banks, etc. - This Act created the Reconstruction Finance Corporation, the management of which was vested in a board of directors consisting, among others, of the Governor of the Federal Reserve Board. The Corporation was authorized during a limited period which later was several times extended, to make loans, in accordance with specified conditions, to any bank, building and loan association, etc., to aid the financing of agriculture, commerce, industry, etc.; but not more than \$200,000,000 could be used for the relief of closed or liquidating banks. (47 Stat. 5-8.)

Exceptions to limitation on indebtedness of a national bank. - Section 5202 of the Revised Statutes, made a part of section 13, provided that no national bank should be indebted or liable in an amount exceeding its capital stock, with certain exceptions, one of which was liabilities incurred under the provisions of the War Finance Corporation Act. This Act struck this exception from the law and in lieu thereof made an exception in favor of liabilities incurred under the provisions of the Reconstruction Finance Corporation Act. (47 Stat. 8, sec. 6.)

✓ ACT OF FEBRUARY 27, 1932  
("Glass-Steagall Act")

Advances to member banks on ineligible paper. - Sections 10(a) and 10(b) were added, under the provisions of which, in unusual circumstances, member banks that were without adequate amounts of eligible and acceptable assets to enable them to obtain sufficient credit accommodations from the Federal Reserve banks, through rediscounting or other methods provided by the Federal Reserve Act, could receive assistance under certain conditions on the basis of other security satisfactory to the Federal Reserve banks. Under section 10(a), which was permanent legislation, a Federal Reserve bank could make advances upon such security to a group of its member banks for distribution to such bank or banks within the group as were in need of assistance, and under section 10(b) the Federal Reserve banks were authorized, until March 3, 1933, to make advances upon such security to individual member banks having a capital stock of not more than \$5,000,000. (47 Stat. 56.)

United States obligations as collateral for Federal Reserve notes. - Section 16 was amended so as to authorize the Federal Reserve Board until March 3, 1933, to permit the use of United States Government obligations as specific collateral for Federal Reserve notes. (47 Stat. 57, sec. 3.)



✓ ACT OF MAY 19, 1932

Security for 15-day advances to member banks. - Section 13 was amended so as to enlarge the classes of security which could be used as collateral for advances to member banks for periods not exceeding 15 days, to include debentures or other such obligations of Federal intermediate credit banks which were eligible for purchase by Federal Reserve banks. (47 Stat. 160, Ch. 191, sec. 6.)

Discount for Federal intermediate credit banks. - Section 15a was amended so as to authorize Federal Reserve banks to discount notes payable to and bearing the indorsement of any Federal intermediate credit bank, covering loans or advances made by such bank direct to any national or State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, cooperative bank or cooperative credit or marketing association of agricultural producers, or to any other Federal intermediate credit bank, when such notes had maturities at the time of discount of not more than 9 months and were secured by paper eligible for re-discount by Federal Reserve banks. (47 Stat. 160, Ch. 191, sec. 5.)

✓ ACT OF JULY 2, 1932

Cost of examination of trust departments of national banks. - Section 5240 of the Revised Statutes, contained in section 21 of the Federal Reserve Act, was amended so as to authorize the Comptroller of the Currency to assess the costs of examining the trust departments of national banks against each bank examined in proportion to the amount of its trust business. (47 Stat. 568, Ch. 392.)

✓ ACT OF JULY 21, 1932  
(Emergency Relief and Construction Act)

Loans to individuals, partnerships, and corporations. - Section 13 was amended so that the Federal Reserve Board, in unusual and exigent circumstances and by the affirmative vote of not less than five members, could authorize any Federal Reserve bank, during such periods as the Board might prescribe, to discount for any individual, partnership, or corporation, which was unable to secure adequate credit accommodations from other banking institutions, notes, drafts, and bills of exchange of the kinds and maturities eligible for discount for member banks, when such paper was indorsed and otherwise secured to the satisfaction of the Reserve banks. (47 Stat. 715, sec. 210.)

✓ ACT OF FEBRUARY 3, 1933

Advances to member banks on ineligible paper. - Section 10(b) was amended so as to extend until March 3, 1934, the time

within which Federal Reserve banks might make advances to individual member banks having a capital not exceeding \$5,000,000 which lacked sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations from the Federal Reserve banks by the customary methods. (47 Stat. 794, Ch. 34.)

United States obligations as collateral for Federal Reserve notes. - Section 16 was amended so as to extend until March 3, 1934, the authority of the Federal Reserve Board to permit the use of direct obligations of the United States as collateral security for Federal Reserve notes. (47 Stat. 794, Ch. 34.)

ACT OF MARCH 9, 1933  
("Emergency Banking Act of 1933")

Recapture of gold. - This Act, which confirmed the President's "bank holiday" proclamation under the "Trading with the Enemy Act" of October 6, 1917 (40 Stat. 415, sec. 5(b)), and which further amended such Act so as to give the President more complete powers relating to the regulation and/or prohibition of financial transactions, hoarding and exporting gold, etc., also amended section 11 by adding at the end thereof subsection (n) which authorized the Secretary of the Treasury when, in his discretion, such action was necessary to protect the currency system of the United States, to require all individuals, partnerships, associations, and corporations to deliver to the Treasurer of the United States all gold coin, gold bullion, and gold certificates owned by them. The Secretary of the Treasury was required to pay therefor an equivalent amount of other forms of coin or currency, together with all costs of transportation. Failure to comply with this provision was made subject to a penalty of twice the value of the gold or gold certificates in respect to which such failure occurred. (48 Stat. 1-2, secs. 1-3.)

Transaction of banking business in emergencies. - This Act prohibited a member bank, during such emergency period as the President of the United States might prescribe, from transacting any banking business except in accordance with regulations, limitations, and restrictions prescribed by the Secretary of the Treasury with the approval of the President, and penalties were provided for violations of this prohibition. (48 Stat. 2, sec. 4.)

Issuance of Federal Reserve bank notes. - Section 18 was amended so as to authorize the issuance, under certain prescribed conditions, of circulating notes to Federal Reserve banks, usually known as Federal Reserve bank notes, upon the security of direct obligations of the United States in amounts equal to the face value of such obligations, or upon the security of any notes, drafts, bills

of exchange, or bankers' acceptances acquired by Federal Reserve banks under the Federal Reserve Act in amounts equal to not more than 90 per cent of the estimated value of such collateral security. Prior to the passage of the Act of March 9, 1933, it had been possible under the law to issue Federal Reserve bank notes only against the security of United States bonds which were eligible as security for national bank notes; and it was provided that no Federal Reserve bank notes could be issued after the President declared that the emergency recognized by him in his proclamation of March 6, 1933, had terminated, unless they were secured by bonds of the United States bearing the circulation privilege. (48 Stat. 6, sec. 401.)

Advances to member banks in exceptional circumstances. -- Section 10(b), which authorized advances by Federal Reserve banks in exceptional and exigent circumstances to individual member banks without sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations from the Federal Reserve banks through other methods provided by the law, was further amended by this Act by the elimination of the requirement for action by the Federal Reserve Board with respect to such advances and the limitation of \$5,000,000 upon the capital of member banks receiving such advances and also by providing that no such advances could be made after March 3, 1934, or after the expiration of such additional period, not exceeding 1 year, as the President might prescribe. (48 Stat. 7, sec. 402.)

Advances to individuals, partnerships, or corporations on the security of obligations of the United States. -- Section 13 was amended so as to add thereto a new paragraph authorizing a Federal Reserve bank, under such regulations as the Federal Reserve Board might prescribe, to make advances for periods not exceeding 90 days to any individual, partnership, or corporation on promissory notes secured by direct obligations of the United States. (48 Stat. 7, sec. 403.)

✓ ACT OF MARCH 24, 1933

Loans to nonmember banks. -- The Act of March 9, 1933, was amended by adding thereto a new section which authorized Federal Reserve banks under certain conditions to make loans to any State bank or trust company not a member of the Federal Reserve System upon security approved by such Federal Reserve bank and after a thorough examination of the borrowing institution. During the time that such borrowing bank or trust company was indebted to a Federal Reserve bank it was required to comply in all respects with the provisions of the Federal Reserve Act applicable to State member banks

and the regulations of the Federal Reserve Board issued thereunder, including the maintenance of the reserve balance required under section 19, but was not required to subscribe to stock in the Federal Reserve bank. Notes representing such loans were eligible as security for Federal Reserve bank notes issued to Federal Reserve banks under the conditions prescribed in section 18. Loans could be made under this section during the existing emergency in banking or until the section was declared no longer operative by proclamation of the President, but in no event after March 24, 1934. (48 Stat. 20, Ch. 8.)

ACT OF MAY 12, 1935

Purchase of obligations of the United States by the Federal Reserve banks. - Title III of this Act, known as the Thomas amendment, which contained a number of important provisions relating to the devaluation of the gold dollar and the silver dollar and the issuance of "greenbacks", contained certain provisions which by their terms directly affect the Federal Reserve System. It authorized the President in his discretion, whenever he found that any one of certain stated conditions existed, to direct the Secretary of the Treasury to enter into agreements with the Federal Reserve banks and the Federal Reserve Board under which such banks were to agree to conduct open market operations, pursuant to existing law, in obligations of the United States or of corporations in which the United States was the majority stockholder and to purchase and hold for an agreed period of time Treasury bills or other obligations of the United States in an aggregate sum of \$3,000,000,000 in addition to those held on May 12, 1933. It was also provided that no suspension of reserve requirements of the Federal Reserve banks necessitated by reason of operations in accordance with such authority was to require the imposition of a graduated tax upon deficiencies in such reserves nor an automatic increase in rates of interest or discount charged by any Federal Reserve bank, which were provided for in section 11(c). (48 Stat. 51, sec. 43.)

Prevention of undue credit expansion. - The Act provided that "The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal Reserve banks to take such action as may be necessary, in the judgment of the Board and of the Secretary of the Treasury, to prevent undue credit expansion". (48 Stat. 52, sec. 43(a).)

Security for advances to member banks. - Section 13 was amended so as to authorize the use of farm loan bonds, issued by Federal land banks for certain purposes under section 21 of the Farm Loan Act, as security for advances by Federal Reserve banks to member banks for periods not exceeding 15 days. (48 Stat. 46, sec. 48.)

Change in Reserve requirements. - Section 19 was amended so as to authorize the Federal Reserve Board, upon the affirmative vote of not less than five of its members and with the approval of the President, to declare that an emergency exists by reason of credit expansion and during such emergency to increase or decrease the reserve balances required to be maintained against demand or time deposits by member banks. (48 Stat. 54, sec. 46.)

✓ ACT OF MAY 20, 1933

Exceptions to limitation on indebtedness of a national bank. - Section 5202 of the Revised Statutes, made a part of section 13 of the Federal Reserve Act and limiting, with certain exceptions, the total indebtedness of a national bank, was amended to exempt from such limitation all liabilities incurred on account of loans made to banks or agents in charge of their properties with the express approval of the Comptroller of the Currency under paragraph (9) of section 5200 of the Revised Statutes. (48 Stat. 73, Ch. 35, sec. 2.)

✓ ACT OF JUNE 13, 1933

Redemption of bank notes. - This Act provided for the redemption by the United States Treasurer, and destruction by the Comptroller of the Currency, of any national bank notes, Federal Reserve bank notes, or Federal Reserve notes presented to the Treasurer for redemption and incapable of identification as to the bank of issue or through which issued. Provision was made for charging such redeemed national bank and Federal Reserve bank notes against redemption deposits, and charging such redeemed Federal Reserve notes against the twelve Federal Reserve banks in certain proportions and ultimately against the gold-redemption fund of such Federal Reserve banks. (48 Stat. 127-128, Ch. 62.)

ACT OF JUNE 16, 1933  
(Banking Act of 1933)

Insurance of deposits. - This Act added to the Federal Reserve Act a new section, section 12B, which provided for the insurance of bank deposits. For this purpose it established a new agency, the Federal Deposit Insurance Corporation, with three directors. The Comptroller of the Currency was made an ex-officio director; and the section provided for two other directors appointed by the President, and confirmed by the Senate, for six-year terms. The section provided that "one of the appointive members shall be chairman of the board of directors".

The Secretary of the Treasury was directed to subscribe for \$150,000,000 of stock in the corporation and the Reserve banks

were required to purchase stock in the corporation in an amount equal to one-half their surplus, such stock purchase by the Reserve banks amounting to about \$139,000,000. The Treasury stock was to bear 6 per cent dividends, but the Reserve bank stock was given no voting rights and excluded from all dividends.

The section provided for a Temporary Insurance Fund which would operate from January 1, 1934 until July 1, 1934, and a permanent plan of deposit insurance that was to operate on and after July 1, 1934.

The Temporary Fund required each insured bank to pay to the Federal Deposit Insurance Corporation an amount equal to one-half of 1 per cent of its total deposits, and the bank was liable for an additional call of the same amount if required by the Fund, but it had no further liability. Any surplus remaining in the Fund was to be returned to the insured banks upon the liquidation of the Temporary Fund. Insurance of the deposits of any one depositor was limited to \$2,500 under the Temporary Fund. Under the permanent plan specified in the section each insured bank was to subscribe for stock in the Federal Deposit Insurance Corporation to an amount equal to one-half of 1 per cent of its deposits. This stock was to bear 6 per cent dividends, but the insured banks were subject to assessment on the stock whenever the permanent insurance fund was impaired by a certain amount. The insurance of any one depositor under the permanent plan was to be 100 per cent up to not exceeding \$10,000, 75 per cent for amounts exceeding \$10,000 but not exceeding \$50,000, and 50 per cent for amounts exceeding \$50,000.

All member banks were required to have their deposits insured under both the Temporary and the permanent plans. Nonmember banks were to be admitted to the Temporary Fund if approved by the Federal Deposit Insurance Corporation and to the permanent plan until July 1, 1936 if so approved, but after that date no nonmember bank could have its deposits insured. (48 Stat. 168-180.)

Control of Federal Reserve bank credit by Federal Reserve Board. - Section 4 which provided that the board of directors of each Federal Reserve bank "shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks" was amended by changing "shall extend" to "may extend" and adding the words "the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture." The amendment further provided that each Federal Reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether

undue use is being made of bank credit for any purpose inconsistent with sound credit conditions, and is to give consideration to such information in determining whether to make advances to such member banks. Undue use of bank credit must be reported to the Federal Reserve Board by the chairman of the Federal Reserve bank, and the Board may suspend a member bank from the use of the credit facilities of the System if, in its judgment, the bank is making such undue use of bank credit. (48 Stat. 163, sec. 3(a).)

Voting by groups or chains in elections of Federal Reserve bank directors. - Section 4 was amended to provide that when two or more member banks are affiliated with the same holding company affiliate only one of such banks, which may be designated by such affiliate, may participate in the nomination or election of Federal Reserve bank directors. (48 Stat. 163, sec. 3(b).)

Distribution of earnings of Federal Reserve banks. - Section 7 was amended to provide that all net earnings of a Federal Reserve bank, after payment of expenses and dividend claims, shall be paid into the surplus fund of the bank. Prior to this Act the Federal Reserve banks were required to pay all their net earnings above dividend requirements into surplus until such surplus amounted to 100 per cent of the subscribed capital, and thereafter 10 per cent of the earnings would go to surplus and the remaining 90 per cent would be paid to the Government as a franchise tax. As a matter of practical operation the repeal of the franchise tax provision made little difference in the disposition of the banks' earnings, in view of the fact that the investment of \$139,000,000 of their surplus in the stock of the Federal Deposit Insurance Corporation, as required by this Act, reduced the surplus to a point where it would have taken a considerable number of years to bring that surplus up to 100 per cent of the subscribed capital. During that period the Federal Reserve banks would not in any case have to pay franchise tax. The law provides that in case of liquidation, the surplus of the Reserve banks, after the payment of all debts, dividends, and the par value of the stock shall become the property of the United States. (48 Stat. 163-4, sec. 4.)

Membership of Morris Plan banks. - Section 9 was amended to make eligible for membership in the Federal Reserve System Morris Plan banks and other incorporated banking institutions engaged in similar business. (48 Stat. 164, sec. 5(a).)

Branches of State member banks. - Section 9 was amended so as to provide that nothing therein contained shall prevent State member banks from establishing branches either in the United States or elsewhere upon the same terms and conditions as those applicable to the establishment of branches by national banks. (48 Stat. 164, sec. 5(b).)

Membership of mutual savings banks and other banking institutions without capital stock. - Section 9 was amended so as to make eligible for membership in the Federal Reserve System mutual savings banks having no capital stock and other banking institutions the capital of which consists of time deposits which are segregated from other deposits and regarded as capital stock for purposes of taxation and dividends. A mutual savings bank may be admitted to membership when it has surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place. It must subscribe for Federal Reserve bank stock (or in certain circumstances make a deposit in lieu of such subscription) in an amount equal to six-tenths of 1 per cent of its total deposit liabilities, such subscription to be adjusted semiannually on the same basis. (48 Stat. 164, sec. 5(c).)

Reports of affiliates of State member banks. - Section 9 was amended so as to provide that a State member bank must obtain from each of its affiliates, other than member banks, and furnish to the Federal Reserve bank and the Federal Reserve Board, not less than three reports of condition each year on dates identical with the reports of the affiliated member bank and such additional reports as the Reserve bank or the Board may deem necessary. The provision requiring such reports to be made is mandatory; but they are required to contain only such information as, in the judgment of the Federal Reserve Board, is necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of affiliates must be published by the bank under the same conditions as govern its own condition reports. A penalty was prescribed for failure to obtain and furnish any such report. (48 Stat. 165, sec. 5(c).)

Dealings in stocks and investment securities by State member banks. - Section 9 was amended so as to provide that State member banks shall be subject to the same limitations and conditions as national banks with respect to the purchase, sale, underwriting, and holding of investment securities and stock. This makes State member banks subject to the regulations of the Comptroller of the Currency on this subject. (48 Stat. 165, sec. 5(c).)

Divorce of stock of State member bank from stock of other corporations. - Section 9 was amended so as to provide that, after 1 year from the passage of the Banking Act of 1933, no certificate of stock of a State member bank shall represent the stock of any other corporation, except a member bank or a corporation existing when the provision took effect engaged solely in holding the bank premises of such State member bank; nor shall the ownership or transfer of the



stock certificate of such a bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation except a member bank. (48 Stat. 165, sec. 5(c).)

Right of an affiliate of a State member bank to vote stock held by it in such bank. - Section 9 was amended so as to require that each State member bank affiliated with a holding company affiliate obtain from such affiliate, within a period prescribed by the Federal Reserve Board, an agreement that the affiliate shall be subject to the same conditions and limitations with respect to voting stock in the bank, obtaining a voting permit from the Board, etc., as are applicable in the case of holding company affiliates of national banks; and the penalty for failure so to do was made forfeiture of the membership of the State bank in the Federal Reserve System. If the Board revokes the voting permit of any holding company affiliate, the membership of any State member bank affiliated with it may be forfeited. (48 Stat. 165, sec. 5(c).)

Examination of the affiliates of State member banks. - Section 9 was amended so as to require such examinations of affiliates of State member banks to be made in connection with the examination of such banks as may be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations. The expenses of such examinations may, in the discretion of the Federal Reserve Board, be assessed against the bank examined; and, in the event of the refusal of the affiliate to give information or to permit an examination, or in the event of the failure of the bank to pay the cost thereof, the membership of the bank may be forfeited. (48 Stat. 166, sec. 5(c).)

Capital requirements of State member banks. - Section 9 was amended so as to eliminate the provision of law under which a State bank was permitted to become a member of the Federal Reserve System with a capital equal to only 60 per cent of the amount required for the organization of a national bank in the place in which it is situated. The capital of State member banks thereafter admitted to the System, therefore, is required in all cases to be equal to that required of national banks located in places of like size, except that the Act contained a proviso which permitted a State bank, organized when that proviso became effective, with a capital of not less than \$25,000 and located in a place of not more than 3,000 inhabitants, to become a member of the System, and which also permitted a State bank, which was located in such a place and increased its capital to \$25,000 while entitled to the insurance benefits of the Act, to become a member. (48 Stat. 185, sec. 17(b).)

Terms of Federal Reserve Board members. - Section 10 was amended so that, upon the expiration of the term of any appointive

member of the Federal Reserve Board in office on June 16, 1933, the term of his successor was to be fixed by the President at not more than 12 years in such manner as to provide for the expiration of the term of not more than one appointive member in any 2-year period, and thereafter each appointive member was to hold office for a term of 12 years from the expiration of the term of his predecessor. The express provision of section 10 that the Secretary of the Treasury might assign offices in the Treasury Department for the use of the Board was omitted. (48 Stat. 166, sec. 6(a).)

Other provisions regarding the Federal Reserve Board. -

Section 10 was also amended so as to provide expressly that the principal offices of the Federal Reserve Board would be in the District of Columbia. At meetings of the Board, the Secretary of the Treasury was to preside as chairman; in his absence, the Governor was to preside; in the absence of both, the Vice Governor, and in the absence of all three, the Board was to elect a member to act as chairman pro tempore. Provision was also included to make clear the right of the Federal Reserve Board to leave its funds on deposit with the Federal Reserve banks and the Board's powers with respect to the funds derived from the assessments levied on the Federal Reserve banks for the purpose of defraying its expenses. It was also provided that the certification of a Board member that he was not an officer, director, or stockholder of any bank shall be filed with the Secretary of the Board instead of with the Secretary of the Treasury. (48 Stat. 167, sec. 6(b).)

Loans by member banks on stock or bond collateral. - Section 11(m) was amended to provide that, upon the affirmative vote of six members, the Federal Reserve Board may fix the percentage of individual bank capital and surplus in each Federal Reserve district which may be represented by loans secured by stock or bond collateral made by member banks in such district. No such loan could be made by a member bank to any person in an amount in excess of 10 per cent of its unimpaired capital and surplus. Such percentages, which may be changed from time to time upon 10 days' notice, are to be fixed with a view to preventing the undue use of bank loans for the speculative carrying of securities. The Board may direct any member bank to refrain from increasing such loans, for one year or less, under penalty of suspension of rediscount privileges. (48 Stat. 167, sec. 7.)

Federal Open Market Committee. - Section 12A was added, creating a Federal Open Market Committee consisting of 12 members, one being appointed by each Federal Reserve bank. Their meetings, held at least four times a year, could be attended by the members of the Federal Reserve Board. No Federal Reserve bank could engage

in open market operations except in accordance with regulations of the Federal Reserve Board, which would be transmitted to the Committee and to the Federal Reserve banks. Open market operations were required to be governed with a view to accommodating commerce and business and with regard to their bearing on the general credit situation. If a Federal Reserve bank decided not to participate in open market operations recommended and approved as provided in this section, it was to notify the Committee and the Board. (48 Stat. 168, sec. 8.)

Loans on member banks' collateral notes. - Section 13 was amended so as to increase the maximum maturity of advances to member banks on their promissory notes secured by paper eligible for rediscount or for purchase by Federal Reserve banks from 15 to 90 days. The maximum maturity of 15 days on advances on member banks' notes secured by Government bonds or obligations of Federal intermediate credit banks was not changed. If a member bank, while indebted to a Federal Reserve bank on such a 15-day or 90-day collateral note and despite a warning of the Federal Reserve bank or the Federal Reserve Board, increases its outstanding collateral loans or loans to securities dealers for the purpose of purchasing or carrying stocks or investment securities (except obligations of the United States), its note will become immediately due and payable and the member bank will become ineligible to borrow on such a 15-day or 90-day note for a period determined by the Board. (48 Stat. 180, sec. 9.)

Farm loan bonds as security for member banks' promissory notes. - Section 13 was further amended by the omission of the authority contained in the Act of May 12, 1933, permitting the use of farm loan bonds, issued by Federal land banks for certain purposes under section 21 of the Farm Loan Act, as security for advances by Federal Reserve banks to member banks. (48 Stat. 180, sec. 9.)

Foreign transactions of Federal Reserve banks. - Section 14 was amended to provide that all relationships and transactions by Federal Reserve banks with foreign bankers shall be subject to special supervision and regulation by the Federal Reserve Board; that negotiations with foreign bankers may not be conducted without the permission of the Board; that the Board may be represented in any such negotiations; and that a full report of all such negotiations must be made to the Board in writing. (48 Stat. 181, sec. 10.)

Member banks as mediums in making loans on collateral. - Section 19 was amended so as to forbid a member bank to act as the medium or agent of any nonbanking corporation, partnership, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in such securities, and a fine was provided for violation. (48 Stat. 181, sec. 11(a).)

Interest on deposits of member banks. - Section 19 was amended so as to provide that no member bank shall pay interest on any demand deposit, except in accordance with then existing contracts; but this prohibition was not applied to a deposit which is payable only at an office of the bank located in a foreign country. Exceptions also were made for deposits made by mutual savings banks and deposits of public funds made by any State, county, municipality, or school district or other subdivision, with respect to which payment of interest is required under State law. The Federal Reserve Board was directed to limit the rate of interest to be paid by member banks on time deposits. No member bank may pay any time deposit before its maturity, or waive a requirement of notice before payment of a savings deposit except when such requirement is waived as to all savings deposits subject thereto. (48 Stat. 181, sec. 11(b).)

Examinations of affiliates of national banks. - Section 5240 of the Revised Statutes, contained in section 21 of the Federal Reserve Act, was amended so as to require examiners, in making an examination of any national bank, to conduct an examination into the affairs of all of its affiliates so as to disclose fully the relations between the bank and its affiliates and the effect thereof, and to authorize the forfeiture of the franchise of the bank in the event of the refusal of the affiliate to give information or to permit such an examination. (48 Stat. 192, sec. 28.)

Loans by member banks to executive officers. - Section 22 was amended by adding subsection (g) forbidding a member bank to loan to its executive officers and forbidding them to borrow from the bank; but loans of this kind theretofore made could be renewed or extended not more than 2 years from June 16, 1933. An executive officer of a bank who borrows from any other bank is also required to make a written report thereof to the chairman of the board of directors of his bank. Violation of this provision was made a misdemeanor, subject to fine or imprisonment. (48 Stat. 182, sec. 12.)

Loans to or investments in stock of affiliates. - Section 23A was added, providing that no member bank could make any loan or extension of credit to, or purchase securities under repurchase agreements from, any of its affiliates, or invest in the stock or obligations of such affiliates, or accept such stock or obligations as security for advances, if the aggregate amount thereof, in the case of any one affiliate, exceeds 10 per cent of the capital stock and surplus of the member bank, or if, in the case of all such affiliates, the aggregate amount thereof exceeds 20 per cent of the capital stock and surplus of such member bank. Each loan or extension of credit to an affiliate must be secured by collateral, in the

form of stocks, bonds, debentures, or other such obligations, having a market value of at least 20 per cent more than the amount of the loan or extension of credit or at least 10 per cent more than the amount thereof if secured by State or municipal obligations. Loans or extensions of credit secured by obligations of the United States, Federal intermediate credit banks, Federal land banks, Federal home loan banks, the Home Owners' Loan Corporation, or paper eligible for rediscount by Federal Reserve banks were excepted from the requirement as to marginal collateral. The provisions of this section do not apply to certain limited classes of affiliates. (48 Stat. 183, sec. 13.)

Limitation on investment in bank premises. - Section 24A was added, providing that no national bank, without the approval of the Comptroller of the Currency, and no State member bank, without the approval of the Federal Reserve Board, may invest in bank premises, or in stock or obligations of, or make loans to or upon the security of the stock of, any corporation holding its bank premises, in an aggregate sum exceeding the amount of the bank's capital stock. (48 Stat. 184, sec. 14.)

Jurisdiction of Federal courts over cases involving foreign banking transactions. - Section 25(b) was added conferring upon District Courts of the United States jurisdiction over any case to which a corporation organized under the laws of the United States is a party and which arises out of transactions involving international or foreign banking, either directly or through the agency, ownership, or control of branches or of local institutions in foreign countries. (48 Stat. 184, sec. 15.)

Jurisdiction of suits by or against Federal Reserve banks. - Section 25(b) also restored to the District Courts of the United States jurisdiction of all suits to which a Federal Reserve bank is a party and provided that Federal Reserve banks shall not be subject to attachment or garnishment proceedings before final judgment in any case. (48 Stat. 184, sec. 15.)

Relationships between member banks and securities dealers. - Section 20 of this Act provided that, after one year from the date of enactment, no member bank shall be affiliated with a securities corporation in the manner described in the Act. Violations subject member banks to a penalty of \$1,000 a day, in the discretion of the Federal Reserve Board, and if the violations are continued for 6 months after warning from the Board, the banks' franchises may be forfeited, if national banks, or their membership in the Federal Reserve System may be forfeited, if State banks. (48 Stat. 188, sec. 20.)

Removal of bank directors or officers from office. - Section 30 of this Act provided a procedure for the removal of a director or officer of a member bank who continues to violate the law or continues unsafe or unsound practices in conducting the business of the bank with which he is connected, after being warned by the Comptroller of the Currency (as to a national bank) or the Federal Reserve agent of his district (as to a State member bank) to discontinue such violations or such practices. (48 Stat. 193, sec. 30.)

Board of directors of national and State member banks. - Section 31 of this Act provided that, after June 16, 1934, the board of directors of every national bank and State member bank shall consist of not less than 5 and not more than 25 members, and that after that date each director shall own stock having a par value of not less than \$2,500, except that it provided lower stock ownership requirements of \$1,500 par value in the case of banks with capital not exceeding \$50,000, and \$1,000 par value in the case of banks with capital not exceeding \$25,000. The Comptroller of the Currency may appoint a receiver or conservator for a national bank which continues to violate this provision after 30 days' notice from the Comptroller, and the Federal Reserve Board may forfeit the membership of a State member bank which continues to violate the provision after 30 days' notice from the Board. (48 Stat. 194, sec. 31.)

Relations of member banks with securities companies. - Section 32 of this Act provided that, after January 1, 1934, no officer or director of a member bank may be an officer, director, or manager of an organization engaged primarily in the securities business and correspondent relationships between member banks and securities organizations were prohibited, except when authorized by a permit therefor issued by the Federal Reserve Board. The Board could issue such a permit if not incompatible with the public interest, and could revoke such permit if the public interest required. (48 Stat. 194, sec. 32.)

Interlocking directorates. - The Clayton Act was amended by adding section 8A, to provide that after January 1, 1934, no officer, director, or employee of any bank organized or operating under the laws of the United States may be an officer, director, or employee of a corporation (other than a mutual savings bank) or member of a partnership which made loans on stocks or bonds except to its own subsidiaries. The provision was subject to the general authority of the Federal Reserve Board to issue permits permitting a limited number of interlocking relations under the Clayton Act. (48 Stat. 194, sec. 33.)

✓ ACT OF JANUARY 30, 1934  
(Gold Reserve Act of 1934)

Transfer of gold of Federal Reserve banks to the United States. - The Act which, among other things, prohibited the circulation of gold, made changes in the provisions regarding dollar devaluation, and established the stabilization fund, also vested in the United States all right, title, and interest and every claim of the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents to all gold coin and bullion. In payment for this gold the Act established credits in the Treasury in equivalent amounts in dollars, these credits being payable in gold certificates. Gold in the possession of the Federal Reserve Board, the Federal Reserve banks, and Federal Reserve agents was required to be held in custody for the United States and delivered upon order of the Secretary of the Treasury. (48 Stat. 337, Ch. 6, sec. 2(a).)

Amendments relating to Federal Reserve notes. - Section 16 was amended so as to make Federal Reserve notes redeemable only in lawful money; to eliminate the authority for the use of gold (but not gold certificates) as collateral for Federal Reserve notes; to require that reserves against Federal Reserve notes be maintained in gold certificates instead of in gold and that reserves against deposits of Federal Reserve banks be maintained in gold certificates or lawful money instead of in gold or lawful money; to require the redemption fund of each Federal Reserve bank maintained on deposit at the Treasury of the United States to be in gold certificates instead of in gold; to make deposits of Federal Reserve banks and Federal Reserve agents with the Treasurer of the United States repayable in gold certificates only and not in gold coin; and to make other corresponding amendments in other provisions of section 16. (48 Stat. 337-340, sec. 2(b).)

✓ ACT OF JANUARY 31, 1934  
(Federal Farm Mortgage Corporation Act)

Security for 15-day advances by Federal Reserve banks. - Section 13 was amended so as to authorize Federal Farm Mortgage Corporation bonds issued under this Act to be used as security for advances by Federal Reserve banks to their member banks for periods not exceeding 15 days. (48 Stat. 348, sec. 16(a).)

Obligations eligible for purchase by Federal Reserve banks. - Section 14 was amended so as to authorize Federal Reserve banks to buy and sell bonds of the Federal Farm Mortgage Corporation having maturities from date of purchase of not exceeding 6 months. (48 Stat. 348, sec. 16(b).)

✓ ACT OF MARCH 6, 1934

United States obligations as security for Federal Reserve notes. - Under section 13 the authority of the Federal Reserve Board to permit the use of direct obligations of the United States as collateral security for Federal Reserve notes, which would otherwise have expired on March 3, 1934, was extended until March 3, 1935, or until the expiration of such additional period not exceeding 2 years as the President might prescribe. (48 Stat. 398, Ch. 47.)

✓ ACT OF APRIL 27, 1934

Security for 15-day advances by Federal Reserve banks. - Section 13 was amended so as to authorize bonds issued under the provisions of section 4(c) of the Home Owners Loan Act of 1933 to be used as security for advances by Federal Reserve banks to their member banks for periods not exceeding 15 days. (48 Stat. 646, sec. 7(a).)

Obligations eligible for purchase by Federal Reserve banks. - Section 14 was amended so as to authorize Federal Reserve banks to buy and sell bonds issued under the provisions of section 4(c) of the Home Owners Loan Act of 1933 having maturities from date of purchase of not exceeding 6 months. (48 Stat. 646, sec. 7(b).)

✓ ACT OF MAY 18, 1934

Robbery of member bank. - This Act provided a penalty of fine or imprisonment, or both, for taking, by force and violence or by putting in fear, the property of a member bank or any bank organized under the laws of the United States and provided more severe penalties for assaults in connection with such an offense. It also provided that whoever, in committing such an offense or in endeavoring to escape from arrest for such an offense, kills any person or forces any person to accompany him unwillingly, shall be punished by imprisonment for not less than 10 years, or by death if the jury so directs. (48 Stat. 783, Ch. 304.)

✓ ACT OF JUNE 6, 1934  
(Securities Exchange Act of 1934)

Margin requirements. - This Act, in addition to providing for the regulation of national securities exchanges, placed certain regulatory powers in the Federal Reserve Board. Section 7 of such Act directed the Federal Reserve Board, for the purpose of preventing



the excessive use of credit for the purchase or carrying of securities, to regulate the amount of credit extended or maintained by brokers, dealers, and members of national securities exchanges, on any security (other than an "exempted security") registered on a national securities exchange. Members, brokers, and dealers were forbidden by the law to extend or maintain credit without collateral or on collateral other than registered or exempted securities except in accordance with the rules or regulations which the Board might prescribe to permit such extension or maintenance of credit in certain cases. The Act also authorized the Board to regulate the extension or maintenance of credit for the purpose of purchasing or carrying registered securities by persons other than members, brokers or dealers. (48 Stat. 886, sec. 7.)

Brokers' borrowings. - Members, brokers and dealers were forbidden to borrow on registered, nonexempted securities in the ordinary course of business except (1) from a member bank, (2) from a nonmember bank having filed with the Federal Reserve Board a specified agreement, or (3) in accordance with such rules or regulations as the Board may prescribe to permit loans between members, brokers, and dealers, or to meet emergencies. The agreement specified for nonmember banks from which members, brokers, or dealers might borrow, must be an undertaking to comply with all provisions of the Securities Exchange Act of 1934, the Federal Reserve Act, and the Banking Act of 1933, which are applicable to member banks and which relate to the use of credit to finance transactions in securities, and with rules or regulations prescribed pursuant to such provisions. (48 Stat. 888, sec. 8(a).)

✓ ACT OF JUNE 16, 1934

Capital requirements for membership in the Federal Reserve System. - Section 9 was amended so as to provide that, for the purposes of membership of a State bank applying for membership in the Federal Reserve System, the terms "capital" and "capital stock" shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation. (48 Stat. 971, sec. 2.)

Insurance of bank deposits. - Section 12B was amended so as to extend for a period of 1 year after June 30, 1934, the temporary plan for insurance of bank deposits and so as to increase from \$2,500 to \$5,000 the amount of the deposits of any depositor in one bank which were insured under the temporary plan (except deposits of mutual savings banks in certain circumstances). The section also was amended to extend for an additional year, i.e. from July 1, 1935 to

July 1, 1937, the period during which nonmember banks were permitted to have their deposits insured. The Act contained certain other miscellaneous amendments to section 12B with regard to the insurance of bank deposits. (48 Stat. 969, sec. 1.)

Stock ownership by directors of member banks. - This Act repealed the provisions of section 31 of the Banking Act of 1933 relating to stock ownership by directors, trustees' or members of similar governing bodies of member banks of the Federal Reserve System. The law on this subject with respect to member banks, therefore, became the same as existed prior to the enactment of the Banking Act of 1933. (48 Stat. 971, sec. 4.)

ACT OF JUNE 19, 1934

Building for Federal Reserve Board. - Section 10 was amended so as to authorize the Federal Reserve Board to acquire a building, by means of the assessments on the Federal Reserve banks, or by that means, to acquire a site and construct a building thereon, for the purpose of providing suitable and adequate quarters in the District of Columbia for the performance of its functions. (48 Stat. 1108, sec. 4.)

Industrial advances by Federal Reserve banks. - Section 13b was added under which, in exceptional circumstances and pursuant to authority granted by the Federal Reserve Board, a Federal Reserve bank may, on a reasonable and sound basis, make loans to or purchase obligations of an established industrial or commercial business unable to obtain requisite financial assistance from the usual sources, for the purpose of providing such business with working capital, and may make commitments with respect to such loans or purchases, subject to a limitation of 5 years upon the maturity of any such obligation or commitment. Federal Reserve banks were also authorized by this Act to acquire such working capital obligations of such businesses from banks or financing institutions by discount or purchase, to make loans on the security of such obligations, and to make commitments with respect to such discounts, purchases, or loans. Under the law each such financing institution was required to obligate itself to the Federal Reserve bank for at least 20 per cent of any loss sustained upon any such obligation or, in lieu thereof, furnish at least 20 per cent of the working capital advanced to such established industrial or commercial business.

The law established in each Federal Reserve district an industrial advisory committee consisting of not less than 3 nor more than 5 members actively engaged in some industrial pursuit and appointed by the Federal Reserve bank subject to the approval of the

Federal Reserve Board; and each application for a loan, advance, purchase, discount, or commitment under authority of section 13b must be submitted to the appropriate committee which, after consideration of the application, transmits it to the Federal Reserve bank with its recommendation.

In order to enable the Federal Reserve banks to make the industrial advances described, the Secretary of the Treasury was authorized by the law to pay to each Federal Reserve bank a sum equal to an amount not in excess of the par value of its holdings of stock in the Federal Deposit Insurance Corporation, upon agreement by the Federal Reserve bank to hold such stock unencumbered and to pay to the United States all proceeds thereof. In addition, each Federal Reserve bank was required to agree that if the proceeds of such stock in any calendar year does not aggregate 2 per cent of the total payment made to it by the Secretary, it will pay to the United States such further amount, if any, up to 2 per cent of such total payment as should be covered by the net earnings of the bank for the year, derived from the use of the sum so paid by the Secretary.

The aggregate amount of discounts, purchases, loans, advances, and commitments of the Federal Reserve banks outstanding under the authority of section 13b at any one time may not exceed the surplus of the banks as of July 1, 1934, plus all amounts paid to the banks by the Secretary of the Treasury as above described. (48 Stat. 1105, sec. 1.)

Exceptions to limitation on indebtedness of a national bank. - Section 5202 of the Revised Statutes, made a part of section 13 and limiting, with certain exceptions, the total indebtedness of a national bank, was amended by providing that liabilities incurred under the provisions of section 13b should be exempt from such limitation. (48 Stat. 1107, sec. 2.)

Criminal provisions. - Section 22 was amended by the addition of subsections (h), (i), (j) and (k) which provided criminal penalties for material false statements or overvaluation of security in connection with the grant of credit accommodations by Federal Reserve banks, for embezzlement or misapplication of funds of a Federal Reserve bank or false entries or issuance of obligations without authority by any person connected with a Federal Reserve bank, and for giving or receiving of undisclosed fees, commissions, bonuses, or things of value for procuring or endeavoring to procure from a Federal Reserve bank any credit accommodation either directly from such Federal Reserve bank or indirectly through any financing institution. Provisions of certain sections of the Criminal Code of the United States with reference to activities of members of

Congress and officers of the United States in connection with contracts with the Government of the United States were extended, in so far as applicable, to contracts or agreements with any Federal Reserve bank. (48 Stat. 1107, sec. 3.)

✓ ACT OF JUNE 27, 1934  
(National Housing Act)

Applicability of restrictions on real estate loans to loans under the Housing Act. - Section 24 was amended so as to provide that a loan made by a national bank secured by real estate and insured under the provisions of title II of the National Housing Act shall not be subject to the restriction of that section as to the amount of the loan in relation to the actual value of the real estate or to the limitation of 5 years upon the term of a real estate loan. It also provided that loans made to finance the construction of residential or farm buildings with maturities of not more than 6 months, whether or not secured by a lien on real estate, shall not be considered loans secured by real estate within the meaning of section 24, but that no national bank shall invest in or be liable on any such loans in excess of 50 per cent of its paid-in and unimpaired capital. (48 Stat. 1263, sec. 505.)

Eligibility for rediscount of construction loans. - Section 24 was also amended so as to make notes representing loans to finance the construction of residential or farm buildings eligible for rediscount at Federal Reserve banks for member banks within the terms of the applicable provisions of the Federal Reserve Act relating to rediscounts, if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building, entered into by a person acceptable to the discounting Federal Reserve bank. (48 Stat. 1263, sec. 505.)

✓ JOINT RESOLUTION OF JUNE 14, 1935

Loans by member banks to executive officers. - Section 22(g) was amended to provide that loans made to executive officers prior to June 16, 1933, may be renewed or extended for not more than 5 years from such last-mentioned date where the board of directors of the member bank shall have satisfied themselves that it is in the best interest of the bank and that the officers indebted have made reasonable efforts to reduce their obligations, these findings to be evidenced by resolutions of the board of directors. (49 Stat. 375, Ch. 245.)

✓ JOINT RESOLUTION OF JUNE 28, 1935

Extension of time for temporary insurance of bank deposits. - Section 12B was amended so as to provide for the extension from July 1, 1935, to August 31, 1935, of the insurance of bank deposits under the Temporary Federal Deposit Insurance Fund. (49 Stat. 435.)

ACT OF AUGUST 23, 1935  
(Banking Act of 1935)

Federal deposit insurance. - Section 12B relating to insurance of bank deposits by the Federal Deposit Insurance Corporation was completely revised. At the time this act was passed, bank deposits were insured under the provisions of a temporary plan of insurance and, although the law had contained provisions for a permanent plan of insurance, this had not come into effect. This Act set up a new permanent plan of insurance, effective immediately, superseding the existing temporary plan. The supervisory powers of the Federal Deposit Insurance Corporation were increased. Only a few of the most important provisions of this section as revised are noted here. (49 Stat. 684-703.)

Maximum insurance. - In lieu of the previous provisions of the permanent plan of deposit insurance, under which there would have been insured 100 per cent of deposits up to \$10,000, 75 per cent of deposits between \$10,000 and \$50,000, and 50 per cent of deposits above \$50,000, the Act provided that \$5,000 shall be the maximum amount insured for one depositor, conforming in this respect to the amount of deposits insured under the temporary plan of insurance which existed at the time this Act was passed. (49 Stat. 694, subsection (1).) Under the amended law deposits of trust funds were insured to the extent of \$5,000 for each trust estate in addition to the insurance of other deposits owed the trust beneficiary. (49 Stat. 690, subsection (h)(9).)

Assessments. - In lieu of the assessments aggregating not more than 1 per cent of insured deposits to which banks insured under the temporary insurance plan were subject, and of the requirement that banks which were to be insured under the permanent plan purchase stock in the Federal Deposit Insurance Corporation and then be liable for unlimited assessments, insured banks under the plan set up in the Act were subjected to an annual assessment of one-twelfth of 1 per cent of their deposits payable semiannually. (49 Stat. 688, subsection (h)(1).) It was provided that a separate insurance fund for mutual savings banks might be established by the Corporation and for

such separate fund a lower rate of assessment might be provided. (49 Stat. 688 and 694, subsections (h)(1) and (l)(1).)

Payment of interest on deposits, etc. - The Federal Deposit Insurance Corporation was directed to prohibit by regulation the "payment of interest on demand deposits in insured nonmember banks." For that purpose the directors were authorized to define the term "demand deposits"; but such exceptions had to be made to the prohibition as had been made for member banks. The Corporation directors also were required to "limit by regulation the rates of interest or dividends which" might be paid "by insured nonmember banks on time and savings deposits." The directors were required to define "time and savings deposits in an insured nonmember bank" and "prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts." The regulations must prohibit the payment of any time deposit before maturity, except upon conditions prescribed by the directors, and prohibit the waiving of any requirement of notice before payment of a savings deposit except as to all savings deposits having the same requirement. A penalty of \$100, recoverable by the Corporation, was provided for any violation. (49 Stat. 702, subsection (v)(8).)

Insurance of nonmember banks. - Any nonmember bank of the Federal Reserve System was authorized, under certain conditions, to become an insured bank. (49 Stat. 687, subsection (f)(2).) The insured status of a member bank terminates when it ceases to be a member bank; but for 2 years thereafter the bank remains liable for assessments and retains the insurance on insured deposits held by it when it ceased to be a member bank, less subsequent withdrawals. (49 Stat. 691, subsection (i)(1).) In lieu of the former provisions which would have terminated the insurance of all nonmember banks on July 1, 1937, it was provided that no State bank which during the calendar year 1941 or any succeeding calendar year had average deposits of \$1,000,000 or more should be an insured bank or have any part of its deposits insured after July 1 following the calendar year in which it had such deposits, unless such bank was a member of the Federal Reserve System; but the restriction was made inapplicable to a savings bank, mutual savings bank, Morris Plan bank, or trust company doing no commercial banking business, or to a bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands. (49 Stat. 703, subsection (y)(1).)

President and vice presidents of Federal Reserve banks. - Paragraph "Fifth" of section 4 was amended, effective March 1, 1936,

to provide specifically for a "president" and "vice presidents" at each Federal Reserve bank. Under the amended law, the president is the chief executive officer of the bank and is appointed by the board of directors, with the approval of the Board of Governors of the Federal Reserve System, for a 5-year term; and all other executive officers and all employees of the bank are directly responsible to him. The first vice president is appointed in the same manner and for the same term as the president, and serves as chief executive officer of the bank in the absence or disability of the president or during a vacancy in that office. Vacancies in the office of president or first vice president are filled in the same manner as original appointments, and for the remainder of the term of the predecessors. (49 Stat. 703, sec. 201.)

Reduction in Federal Reserve bank stock to conform to reduction in member bank's surplus. - Section 5 was amended to require member banks to reduce their holdings of Federal Reserve bank stock upon a reduction in their surplus, just as they were already required to do upon a reduction in their capital. (49 Stat. 713, sec. 319(a).)

Certification to Comptroller of the Currency upon change in capital stock of Federal Reserve bank. - The provisions of section 5 requiring the directors of a Federal Reserve bank to execute a certificate to the Comptroller of the Currency upon an increase in the capital stock of such bank, and the provisions of section 6 requiring a similar certification upon a reduction in such capital stock, were repealed. (49 Stat. 713, sec. 319(a) and (b).)

Retention of ineligible assets by converting banks. - Section 5154 of the Revised Statutes, contained in section 8 of the Federal Reserve Act, was amended to authorize the Comptroller of the Currency to permit State banks converting into national banks to retain and carry at a value determined by the Comptroller assets not permitted to be acquired and held by national banks. (49 Stat. 711, sec. 312.)

Requirements for admission to Federal Reserve System. - A new paragraph was added to section 9 so that, in order to facilitate the admission to membership of any State bank which was required to become a member bank in order to be an insured bank, the Board of Governors of the Federal Reserve System might waive in whole or in part the requirements of section 9 relating to the admission of such bank to membership. If such a bank were admitted with capital less than that required for the organization of a national bank in the same place and its capital and surplus were not, in the Board's judgment, adequate in relation to the bank's liabilities to depositors

and other creditors, the Board might require such bank to increase its capital and surplus to such amount as the Board might deem necessary within such period as the Board might deem reasonable; but no such bank should be required to increase its capital beyond that required for the organization of a national bank in the same place. (49 Stat. 704, sec. 202.)

Publication of condition reports of State member banks. - Section 9 was amended to authorize the Board of Governors of the Federal Reserve System to prescribe the information to be contained in, and form of, condition reports of State member banks, and to require publication of such reports under regulations of the Board. (49 Stat. 713, sec. 320.)

Branches of State member banks. - Section 9 was amended to require the approval of the Board of Governors of the Federal Reserve System instead of the Comptroller of the Currency, for State member banks to establish or maintain out-of-town branches. (49 Stat. 721, sec. 338.)

Separation of State member bank stock certificates from those of other corporations. - The requirement of section 9 that stock certificates of State member banks might not "represent the stock" of any other corporation, except a member bank or a corporation existing on the date the requirement became effective "engaged solely in holding the bank premises", was changed so that such certificates merely may not "bear any statement purporting to represent the stocks" of any other corporation, and the transfer of such a certificate may not be conditioned upon the transfer of stock of any corporation, except a member bank or a corporation "engaged on June 16, 1934, in holding the bank premises." A provision also was added to the effect that the section shall not operate to prevent the transfer of stock of another corporation being conditioned upon the transfer of a member bank stock certificate. (49 Stat. 710, sec. 310 (b).)

Names of Board, governor, and vice governor. - Section 203(a) of this Act provided that thereafter the Federal Reserve Board shall be known as the "Board of Governors of the Federal Reserve System" and an amendment to section 10 of the Federal Reserve Act provided that the governor and vice governor shall be known as the "chairman" and "vice chairman", respectively, and shall be designated from among the members of the Board by the President for a term of 4 years. (49 Stat. 704, sec. 203(a).)

Organization of Board. - Section 10 was amended to provide that the Board of Governors of the Federal Reserve System shall be



composed of seven members appointed by the President with the advice and consent of the Senate. Under the amendment, it was provided that the Secretary of the Treasury, the Comptroller of the Currency, and the six appointive members in office on the date of the enactment of the Banking Act of 1935 should continue to serve as members of the Board until February 1, 1936; and the term of each successor was fixed by the President at not more than 14 years, so that not more than one term would expire in any 2-year period. Thereafter, instead of serving a 12-year term, each member shall hold office for a term of 14 years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. A member appointed to fill a vacancy serves for the unexpired term of his predecessor. (49 Stat. 704, sec. 203(b).)

Salaries and reappointment of Board members. - Section 10 was amended so as to increase Board members' salaries from \$12,000 a year to \$15,000; and a new provision was added that a person appointed after enactment of the Act shall not be eligible for reappointment after he has served a full term of 14 years. (49 Stat. 704, sec. 203(b).)

Record of action by Board and Open Market Committee. - Section 10 was amended so as to require the Board to keep a complete record of action taken by it and by the Federal Open Market Committee, and the reasons underlying such action, on all questions of open market operations and all other questions of policy, and to include in its annual report a full account of all such action together with a copy of the record required to be kept. (49 Stat. 705, sec. 203(d).)

Advances to member banks. - Section 10(b) which, prior to its expiration on March 5, 1935, authorized any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, to make advances to any member bank on its time or demand notes secured to the satisfaction of such Federal Reserve bank, was reenacted as permanent law and amended in certain respects. The requirements that such advances be made only "in exceptional and exigent circumstances" and when the member bank could not obtain adequate credit accommodations under other provisions of the Federal Reserve Act were eliminated; and the requirement that such note must bear interest at a rate not less than 1 per cent per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note was changed to a requirement that the rate of interest must be not less than one-half per cent per

annum higher. A provision was added which requires the notes of the member bank to have maturities of not more than 4 months. (49 Stat. 705, sec. 204.)

Access of State banking authorities to examination reports of national bank trust departments. - Section 11(k) was amended to give State banking authorities access to reports of examination of national bank trust departments made by the Comptroller of the Currency in lieu of access to the books and records of such departments. (49 Stat. 722, sec. 342.)

Limitation on loans by member banks on Government obligations. - Section 11(m) was amended to place State member banks on a parity with national banks in lending on the security of bonds or notes of the United States issued since April 24, 1917, certificates of indebtedness of the United States, Treasury bills of the United States, or obligations guaranteed as to principal and interest by the United States, by changing the limitation on loans to one individual on such security, from 10 per cent of the bank's unimpaired capital and surplus to 25 per cent thereof, as provided for national banks in section 5200 of the Revised Statutes. (49 Stat. 713, sec. 321.)

Open market operations. - Section 12A was amended, effective March 1, 1936, so that instead of the Federal Open Market Committee consisting of one member from each Federal Reserve district, it consists of the seven members of the Board of Governors of the Federal Reserve System and five annually-elected representatives of the Federal Reserve banks. One of the five Reserve bank representatives is elected by the directors of the Federal Reserve Banks of Boston and New York; one by the directors of the Federal Reserve Banks of Philadelphia and Cleveland; one by the directors of the Federal Reserve Banks of Chicago and St. Louis; one by the directors of the Federal Reserve Banks of Richmond, Atlanta, and Dallas; and one by the directors of the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco. An alternate for each representative is elected in the same manner as the representative. The Committee is required to "consider, adopt, and transmit to the several Federal Reserve banks, regulations relating to the open-market transactions of such banks." Not only were Federal Reserve banks forbidden to engage in open market operations except in accordance with such regulations, but they also were forbidden to "decline to engage" in such operations except in accordance with the direction of and regulations adopted by the Committee. (49 Stat. 705, sec. 205.)

Indorsement or other security sufficient for Reserve bank discounts for individuals. - The third paragraph of section 13 was

amended to require either indorsement or other security, rather than both, for paper discounted by Federal Reserve banks for individuals or corporations unable to secure adequate credit accommodations from other banks. (49 Stat. 714, sec. 322.)

Changes in wording of section 13b. - Certain changes in the language of section 13b were made in order to make it conform to the amendment in Title I of this Act whereby stock of the Federal Deposit Insurance Corporation subscribed for by the Federal Reserve banks was changed to no par value. These changes were in form only and did not alter the effect of the existing law. (49 Stat. 714, sec. 323.)

Purchase and sale of Government obligations and Government guaranteed obligations. - Section 14(b) was amended to provide that obligations of the United States and those fully guaranteed as to principal and interest by the United States may be bought and sold without regard to maturities, but only in the open market. (49 Stat. 706, sec. 206(a).)

Discount rates of Reserve banks. - Section 14(d) which provided that Federal Reserve banks may from time to time establish discount rates, subject to review and determination of the Board of Governors of the Federal Reserve System, was amended to require that each such bank must "establish such rates every 14 days, or oftener if deemed necessary by the Board." (49 Stat. 706, sec. 206(b).)

Reserve requirements of member banks. - Section 19 was amended to permit the Board of Governors of the Federal Reserve System to change the reserve requirements of member banks "in order to prevent injurious credit expansion or contraction"; and to eliminate the necessity for first having a declaration, upon the affirmative vote of five Board members and the approval of the President, that "an emergency exists by reason of credit expansion." Reserve requirements may be changed for member banks located in Reserve and central Reserve cities, for member banks not in Reserve or central Reserve cities, or for all member banks; but the affirmative vote of not less than four Board members is required for such a change, and the reserves required of a member bank as a result of such a change may not be less than the requirements on the date of enactment of this Act nor more than twice such requirements. (49 Stat. 706, sec. 207.)

Definition by Board of various classes of deposits. - The definitions of "demand deposits" and "time deposits" were stricken from section 19 and the Board of Governors of the Federal Reserve System was authorized to define for the purposes of the section the

terms, "demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits", and "trust funds", to determine what is to be deemed a payment of interest and to prescribe regulations to effectuate the purposes of the section; but the term "time deposits" continues to include "savings deposits" for the purposes of the provisions regarding member bank reserve requirements. (49 Stat. 714, sec. 324(a).)

Deduction of "amounts due from banks" in computing reserve requirements. - Section 19 was amended so that, for purposes of computing member bank reserves, amounts due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States may be deducted from gross demand deposits rather than merely from amounts due to other banks. (49 Stat. 714, sec. 324(b).)

Payment of deposits and interest thereon by member banks. - Section 19 was amended to add to the exemptions from the prohibition against the payment of interest by member banks on demand deposits: (1) contracts existing when a bank joins the System, and (2) deposits payable outside the States of the United States and the District of Columbia (rather than merely those payable in foreign countries). The exemption of deposits made on behalf of any State or subdivision thereof as to which interest was required by State law and of deposits made by mutual savings banks, was terminated under the amended law, 2 years after the date of the enactment of this Act; and during this 2-year period there were added to those exemptions deposits made by savings banks and deposits of trust funds on which interest was required by State law. So much of existing law as required the payment of interest on funds deposited by the United States or any territory or possession thereof as was inconsistent with the provisions of section 19 was repealed. The provision authorizing the Board, in limiting the rate of interest which might be paid by member banks on time and savings deposits, to prescribe different rates in different circumstances, was changed to a provision that the Board "shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts." The absolute prohibition against the payment of time deposits before maturity was relaxed to permit such payments under conditions prescribed by the Board; and deposits payable only at offices of member banks located outside the States of the United States and the District of Columbia were exempted from all restrictions on payment before maturity and all restrictions on interest rates. (49 Stat. 714, sec. 324(c).)

Reserves required against Government deposits. - At the end of section 19 a new paragraph was added requiring member banks to keep the same reserves against deposits of the United States as against other deposits, thus repealing the contrary provisions of the Liberty Bond Acts. (49 Stat. 715, sec. 324(d).)

Waiver of reports of examinations of affiliates. - A new paragraph was added to section 21 permitting the Board of Governors of the Federal Reserve System or the Comptroller of the Currency, as the case may be, to waive examination of, or reports from, affiliates of a member bank, when they are "not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank." (49 Stat. 715, sec. 325.)

Retirement annuities of employees in office of Comptroller of Currency. - Section 5240 of the Revised Statutes, which is contained in section 21 of the Federal Reserve Act, was amended by changing those provisions which related to the payment of compensation of employees in the office of the Comptroller of the Currency by means of assessments on banks, to include the payment of retirement annuities for such employees; and also to provide that salaries of bank examiners shall be fixed by the Comptroller of the Currency, rather than by the Board of Governors of the Federal Reserve System upon the recommendation of the Comptroller of the Currency. (49 Stat. 722, sec. 343.)

Criminal provisions clarified, extended to insured banks. - Section 22(a) was amended to make it clear that the prohibitions against loans or gratuities to bank examiners from member banks, and their officers and employees, applies only to banks subject to examination by such examiners; and also to make it clear that the prohibitions and penalties set forth in section 22(a) apply to State examiners examining member banks as well as to Federal examiners, but not to private examiners. The prohibitions were extended to cover insured banks. (49 Stat. 715, sec. 326(a).)

Federal Deposit Insurance Corporation examiners subjected to criminal provisions. - The prohibition in section 22(b) against a national bank examiner receiving compensation from any bank, or officer or employee thereof, was extended to Federal Deposit Insurance Corporation examiners; and the restrictions against examiners revealing the borrowers or collateral of member banks was extended to cover insured banks. (49 Stat. 716, sec. 326(b).)

Borrowings by executive officers of member banks; elimination of criminal penalty. - Section 22(g) forbidding executive officers

of member banks to borrow from their banks was amended by adding a provision giving the Board of Governors of the Federal Reserve System power to remove such officers for violations, in lieu of the provision subjecting such officers to fine or imprisonment. The \$10,000 fine on the bank was eliminated. Such loans as were outstanding on June 16, 1933, might, under the amended law, be extended or renewed until June 16, 1938, if a finding by the bank directors that such renewal was in the bank's interest and that the officer had made reasonable effort to reduce his obligation was spread on the bank's minute book. With the prior approval of a majority of the bank's directors, loans not exceeding \$2,500 from a member bank to an executive officer were permitted. Borrowing by a partnership in which one or more executive officers have individually or collectively a majority interest were specifically included within the prohibition. It was made clear that executive officers may, for the protection of the bank, indorse paper previously taken by it in good faith or may incur indebtedness to the bank for the purpose of protecting the bank against loss or giving financial assistance to it. The Board was given power to define terms used in the section and prescribe regulations to effect its purposes. (49 Stat. 716, sec. 326(c).)

Restrictions on loans to affiliates relaxed. - The exemptions from the limitations of section 23A on member banks' loans to affiliates and loans on and investments in the securities of affiliates were broadened so as to include among such exemptions (1) affiliates "engaged on June 16, 1934", in holding the bank premises (the old law required them to be "solely" so engaged) or in maintaining and operating properties acquired for banking purposes prior to that date; (2) wholly owned subsidiaries of foreign banking corporations organized under the Federal Reserve Act; (3) wholly owned subsidiaries of similar corporations in which national banks were authorized to invest under section 25 of the Federal Reserve Act; (4) affiliates engaged solely in holding obligations of, or fully guaranteed as to principal and interest by, the United States (the previous exemption applied only to affiliates holding such direct obligations); (5) affiliates which became such through a bona fide previous debt; and (6) affiliates which are such because their shares are held by the bank as fiduciary (except when the beneficiaries are a majority of the bank's stockholders). The section also was made inapplicable to affiliate indebtedness arising from the unpaid balance due on assets purchased from the bank, and to loans secured by, or extensions of credit against obligations of, or fully guaranteed as to principal and interest by, the United States. (49 Stat. 717, sec. 327.)

Real estate loans by national banks. - Section 24 relating to real estate loans by national banks, was amended to eliminate the requirement that the real estate upon which such loans are made must be located in the bank's Federal Reserve district or within 100 miles of the place in which the bank is located. The requirement that the bank take the entire amount of an obligation secured by real estate was retained as to such an obligation purchased by the bank. The limitation to 50 per cent of the actual value of the property was changed to 50 per cent of the appraised value; and in addition to retaining the exemption of mortgages insured under title II of the National Housing Act from the 5-year limitation on maturities and 50 per cent limitation on appraised values, the amendment permits amortized loans to be made in amounts not exceeding 60 per cent of the appraised value of the real estate and for terms not longer than 10 years if installment payments are sufficient to amortize at least 40 per cent of the principal within 10 years. The permissible aggregate of real estate loans of a national bank was changed from 25 per cent of the bank's paid-in and unimpaired capital and surplus or 50 per cent of its savings deposits, whichever is greater, to 100 per cent of its paid-in and unimpaired capital and surplus or 60 per cent of its time and savings deposits, whichever is greater. (49 Stat. 706, sec. 208.)

Industrial loans relieved of real estate restrictions. - Section 24 was amended to exempt from the restrictions of that section on real estate loans, all "working capital" loans to industry in which the Reconstruction Finance Corporation or a Federal Reserve bank participates or makes a commitment, or which it has discounted, loaned upon, or purchased. (49 Stat. 717, sec. 328.)

Interlocking directorates. - Certain provisions of sections 25 and 25(b) regarding interlocking relations between member banks and foreign banking corporations organized under the Federal Reserve Act or in which national banks were authorized to invest under section 25, were repealed. (49 Stat. 717, sec. 329.)

Reduction in stock of national bank. - Section 5143 of the Revised Statutes, which is contained in section 28 of the Federal Reserve Act, was amended to eliminate the necessity for a national bank obtaining the approval of the Board of Governors of the Federal Reserve System in addition to the approval of the Comptroller of the Currency, before reducing its capital stock. (49 Stat. 720, sec. 334.)

"Accidental" holding company affiliates eliminated. - Section 2(c) of the Banking Act of 1933 was amended to eliminate from all the provisions regarding "holding company affiliates" (except

section 23A of the Federal Reserve Act, which deals with a member bank's loans to such affiliates and investments in and loans on the securities of such affiliates), any corporation all the stock of which is owned by the United States or any organization which is "determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies." (49 Stat. 707, sec. 301.)

Affiliation with securities companies; exception. - Section 20 of the Banking Act of 1933, prohibiting the affiliation of member banks with securities companies, was amended so as to except from such prohibition institutions in process of formal liquidation. (49 Stat. 707, sec. 302.)

Interlocking relationships between member banks and securities companies. - Section 32 of the Banking Act of 1933 was rewritten, effective January 1, 1936, to make the prohibitions against interlocking relationships between member banks and securities companies extend to the employees of both such organizations in addition to their officers and directors; and individuals engaged in the securities business were subjected to the same prohibitions as officers, directors, and employees of companies and members of partnerships so engaged. Permission of the Board of Governors of the Federal Reserve System for such interlocking relationships may be given "in limited classes of cases" and by "general regulations" rather than by individual permit. Such relationships may be permitted when they "would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments", rather than when they would be "not incompatible with the public interest." The description of the securities businesses in question was changed from those "engaged primarily in the business of purchasing, selling, or negotiating securities" to those "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities." The prohibition against correspondent relationships between member banks and securities companies was eliminated. (49 Stat. 709, sec. 307.)

Interlocking bank directorates. - Section 8 of the Clayton Act relating to interlocking bank directorates were rewritten to provide that "no private banker or director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time a director, officer, or employee of any other bank, banking association, savings bank, or trust company organized under the National Bank Act or organized under laws of any



State or of the District of Columbia, or any branch thereof, except that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof." The authority of the Board to issue permits for interlocking directorates in individual cases was repealed.

However, the prohibition was made inapplicable in the case of (1) a bank of which more than 90 per cent of the stock is owned by the United States or by any corporation of which the United States owns more than 90 per cent of the stock; (2) a bank formally in liquidation or receivership; (3) a corporation principally engaged in foreign banking which has entered into an agreement with the Board pursuant to section 25 of the Federal Reserve Act; (4) a bank of which more than 50 per cent of the common stock is owned by persons who own more than 50 per cent of the common stock of the member banks; (5) a bank not located and having no branch in the same place where the member bank or branch thereof is located, or in a place contiguous or adjacent thereto; (6) a bank not engaged in a class or classes of business in which the member bank is engaged; and (7) a mutual savings bank having no capital stock. Until February 1, 1939, the amended section was not to affect the service of any director, officer, or employee of any member bank or branch thereof who was lawfully serving on the date the amendment was enacted.

Section 8A of the Clayton Act, which had been added by the Banking Act of 1933 and which restricted interlocking relationships between banks organized or operating under Federal law and institutions which "make loans secured by stock or bond collateral", was repealed. (49 Stat. 718, sec. 329.)

Preferred stock and capital notes and debentures. - It was provided by section 345 of this Act that in a case in which a national bank, State member bank, or bank applying for membership in the Federal Reserve System has outstanding preferred stock, the determination of whether or not its capital is impaired and the amount of such impairment shall be based upon the par value of its stock, even though the amount which the holders of the preferred stock are entitled to receive in the event of retirement of the stock or liquidation of the bank shall be greater than the par value of such stock. Capital notes and debentures of the type which the Reconstruction Finance Corporation might purchase, and obligations expressly subordinated thereto, may be excluded from the total liabilities of such a bank in determining whether its capital is impaired. (49 Stat. 722, sec. 345.)

Embezzlements. - Section 5209 of the Revised Statutes, providing punishment for embezzlements, etc., by officers, employees, etc.

of Federal Reserve and member banks, was amended so as to specifically cover such acts of officers, employees, etc., of national banks and "any insured bank". (49 Stat. 712, sec. 316.)

✓ JOINT RESOLUTION OF APRIL 21, 1936

Loans by Federal Deposit Insurance Corporation upon assets of insured banks. - Section 12B was amended to extend until July 1, 1938, the period in which the Federal Deposit Insurance Corporation might make loans, under certain conditions, upon the assets of an open or closed insured bank, purchase such assets, or guarantee any other insured bank against loss by reason of its assuming the liabilities and purchasing the assets of an insured bank. Such action might be taken if in the judgment of the Corporation it would reduce the risk or avert a threatened loss to the Corporation and would facilitate a merger or consolidation of an insured bank with another insured bank, or would facilitate the sale of the assets of an insured bank to and assumption of its liabilities by another insured bank. (49 Stat. 1237, Ch. 244.)

✓ ACT OF MARCH 1, 1937

United States obligations as security for Federal Reserve notes. - Under section 16 the authority of the Board of Governors of the Federal Reserve System to permit the use of direct obligations of the United States as collateral security for Federal Reserve notes, which would have expired on March 3, 1937, was extended until June 30, 1939. (50 Stat. 23, Ch. 20.)

✓ ACT OF AUGUST 24, 1937

Crimes against member banks. - The Act of May 18, 1934, which penalized robbery of a member bank of the Federal Reserve System or a bank organized or operating under the laws of the United States or a bank insured by the Federal Deposit Insurance Corporation, was extended so as to include also larceny and burglary of such banks. (50 Stat. 749, Ch. 747.)

✓ ACT OF APRIL 25, 1938

Loans to executive officers. - Section 22(g) was amended by striking out the word "five" in the first sentence thereof and inserting the word "six" in its place. Under this amendment, loans made to an executive officer of a member bank prior to June 16, 1933, might be renewed or extended for periods expiring not later than June 16, 1939, subject to the other conditions stated in the law. (52 Stat. 223, Ch. 173.)

✓ ACT OF MAY 25, 1938

Waiver of double liability of stockholders by Federal Deposit Insurance Corporation. - Section 12B was amended so as to provide for the waiver by the Federal Deposit Insurance Corporation, in connection with the liquidation of closed insured banks, of the so-called double liability of stockholders in States in which such double liability had not already been abolished by statute. (52 Stat. 442, Ch. 276.)

✓ JOINT RESOLUTION OF JUNE 16, 1938

Loans and purchases by Federal Deposit Insurance Corporation. - Section 12B was amended so as to make permanent the authority of the Federal Deposit Insurance Corporation to make loans to, or purchase assets from insured banks in order to facilitate mergers or consolidations and reduce or avert threatened losses to the Corporation. (52 Stat. 767, Ch. 489.)

✓ ACT OF JUNE 20, 1939

Membership in Federal Reserve System of insured banks. - Section 12B(y)(1) was repealed. The effect of this amendment was to remove the requirement that all State banks having average deposits of \$1,000,000 or more during the calendar year 1941 or any succeeding calendar year must be members of the Federal Reserve System in order to have their deposits insured by the Federal Deposit Insurance Corporation. (53 Stat. \_\_\_\_\_)

Loans to executive officers. - Section 22(g) was amended by extending for five years from June 16, 1939, the period within which loans made to executive officers of member banks prior to June 16, 1933, may be renewed or extended subject to the other conditions named in the law. (53 Stat. \_\_\_\_\_)

✓ ACT OF JUNE 30, 1939

Obligations of the United States as collateral for Federal Reserve notes. - Section 16 was amended so as to extend until June 30, 1941, the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes. (53 Stat. \_\_\_\_\_)