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June 6, 1935

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

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My dear Senator Fletcher:

I am inclosing for the consideration of your Committee a memorandum containing certain suggested amendments to H. R. 7617 in the form in which it passed the House of Representatives.

The memorandum contains a brief explanation of the purpose and effect of each amendment; but I desire to invite special attention to the statement which I made before the Subcommittee and which appears on pages 301 and 302 of the transcript of the Senate hearings suggesting a compromise provision with regard to the compulsory membership in the Federal Reserve System of banks whose deposits are insured by the Federal Deposit Insurance Corporation. The first amendment in the inclosed memorandum would effectuate the compromise on this subject which I suggested.

For convenience, the inclosed memorandum also contains the substitutes for sections 307 and 329 of the bill revising section 32 of the Banking Act of 1933 and the provisions of the Clayton Antitrust Act relating to interlocking bank directorates, which were approved by the Federal Reserve Board some time ago and transmitted to you by Vice Governor Thomas during my absence from the city this morning.

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

I am sending a similar letter and a copy of the inclosed memorandum to Senator Glass.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles,
Governor.

Inclosure

WW:kp

cc sent to Hon. Henry B. Steagall

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**AMENDMENTS PROPOSED BY GOVERNOR ECCLES.
TO H. R. 7617 AS PASSED BY THE HOUSE OF REPRESENTATIVES.**



**Submitted to
Senate Committee on Banking and Currency**

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Page 43, between line 13 and line 14, insert the following paragraph:

"(y) (1) No State bank organized after the effective date shall be an insured bank or continue to have any part of its deposits insured after July 1, 1937, unless such bank shall be a member of the Federal Reserve System. No State bank organized on or before the effective date which during the calendar year 1936 or any succeeding calendar year shall have average deposits of \$500,000 or more shall be an insured bank or continue to have any part of its deposits insured after July 1 of the year following any such calendar year during which it shall have had such amount of average deposits, unless such bank shall be a member of the Federal Reserve System: Provided, That for the purposes of this paragraph the term 'State bank' shall not include (a) a mutual savings bank, or (b) a Morris Plan Bank, or (c) a bank located in the Territory of Hawaii or Alaska."

(Note: This amendment is intended only as a compromise in the event that it is impossible to retain the provisions of existing law or the provisions of the original bill (p. 37, line 13), which require nonmember banks to become members of the Federal Reserve System by July 1, 1937 in order to retain the benefits of deposit insurance. The above compromise amendment would exempt from this requirement banks having average deposits of less than \$500,000, thus eliminating the chief ground for opposition to the compulsory membership requirement. It would exempt 5,644 banks and would only require 2,038 of the present insured banks to become members of the Federal Reserve System.)

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Page 43, line 14, strike out "(1)" and substitute "(2)".

Page 43, line 21, strike out "(2)" and substitute "(3)".

Section 201(a)

Page 44, lines 9 to 14, inclusive, strike out the sentence beginning with the word "Each" in line 9 and ending with the words "Vice Governor" in line 14 and insert in lieu thereof the following:

"The term of office of each class C director shall be three years but the Governor shall cease to be a class C director when he ceases to be Governor of the bank even though he may not have served his entire term as class C director and, if the Vice Governor be designated as a class C director, he shall cease to be a class C director when he ceases to be Vice Governor even though he may not have served his entire term as class C director."

(Note: This is merely a clarifying amendment intended to remove any ambiguity as to the term of office of a Governor or a Vice Governor appointed to fill a vacancy. At present the section provides that the Governor's term as a class C director "shall expire" when he ceases to be Governor of the bank. The section also provides that a person appointed to fill a vacancy in the office of Governor shall hold office until the expiration of the term of his predecessor. Since the section provides that the Governor's term as a class C director "shall expire" when he ceases to be Governor, it could be argued that there would be no unexpired term for his successor to fill. This amendment changes the provision that the Governor's term as a class C director "shall expire" when he ceases to be Governor to a provision that he "shall cease to be a class C director" when he ceases to be Governor. The same provisions are applicable to the term of the Vice Governor.)

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Page 44, lines 20 and 21, strike out the words: "Effective ninety days after the enactment of the Banking Act of 1935" and substitute the words "Effective January 1, 1936".

Page 46, lines 9 and 10, make the same change.

(Note: The purpose of these changes is to postpone the effective date of the combination of the offices of Governor and Chairman so as to allow ample time for the directors of the banks to select the persons to be appointed to the combined office and to obtain the Federal Reserve Board's approval of such appointments.)

Page 46, line 19, insert after the word "each" and before the comma the following:

"(excluding any service prior thereto for an unexpired portion of a term as the result of a vacancy)"

(Note: The purpose of this amendment is to make it clear that the two consecutive terms of three years each which a director may serve do not include prior service during an unexpired portion of a term as the result of a vacancy. Thus, a director who had served during the last year of a term as the result of a vacancy would be eligible to serve thereafter two three year terms, or a total service of seven years.)

Section 203

Page 49, after line 18, insert the following:

"(2) By adding at the end of the first paragraph the following: 'Beginning with the date upon which the person who is first hereafter appointed or reappointed as an appointive member of the Federal Reserve Board makes and subscribes to the oath of office, the appointive members of the Federal Reserve Board shall each receive a salary at the same rate as that of the heads of Executive Departments who are members of the

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President's Cabinet, together with actual necessary traveling expenses, in lieu of the salary provided for such appointive members in the preceding sentence. Each appointive member of the Federal Reserve Board heretofore appointed may retire from service upon reaching the age of seventy or at any time thereafter, and all members hereafter appointed shall retire upon reaching the age of seventy. Each member of the Board so retired from service who shall have served for as long as twelve years shall, during the remainder of his life, receive an annual retirement pay in an amount equal to the annual salary heretofore paid to appointive members: Provided, That, if he shall have served for as long as five years, but less than twelve years, his annual retirement pay shall be at the rate of one-twelfth of the annual salary heretofore paid to appointive members for each year served and for any fraction of an additional year of such service: Provided further, That any member whose term expires and who is not reappointed shall receive retirement pay upon the same basis as if he had been retired under the provisions of this paragraph, except that, if his term expire before he reaches the age of sixty-five and he be offered and decline to accept reappointment, he shall not receive any retirement pay. The funds necessary for such retirement pay shall be provided by the Federal Reserve banks in such manner as the Federal Reserve

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Board shall prescribe. Nothing in this section shall prevent the President from reappointing any member of the Federal Reserve Board holding office on the date of enactment of the Banking Act of 1935."

(Note: The first portion of this amendment would restore the provisions of the original bill which would have increased the salaries of the members of the Federal Reserve Board to an amount equal to that paid the members of the President's Cabinet and would make the amendment applicable to members heretofore appointed as well as to members hereafter appointed. The remainder of the proposed amendment would restore to the bill the provisions for the retirement of members of the Federal Reserve Board in the form approved by the Committee on Banking and Currency of the House of Representatives. The provision for increasing the salaries of the Board members was stricken out by the House Committee on Banking and Currency. The provision for retirement of Board members was approved by the House Committee on Banking and Currency, but it was stricken out by an amendment offered from the floor of the House of Representatives and adopted by a vote of 92 to 81.)

Page 48, line 19, change the figure 2 in the parentheses to the figure 3.

(Note: This amendment merely changes the numbering of the paragraph.)

Page 48, line 24, change the comma following the word "President" to a period and strike out everything from that point through the period following the word "Governor" on page 49, line 1.

(Note: This is a perfecting amendment designed to bring this section into conformity with the provision that the Governor may continue to serve as a member of the Board after the termination of his designation as Governor. By restoring the applicability of the third sentence of section 10 of the Federal Reserve Act, the Governor's term as a member of the Board will remain fixed at 12 years.)

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Page 49, line 9, change the figure 3 in the parentheses to the figure 4.

(Note: This amendment merely changes the numbering of the paragraph.)

Section 208

Page 55, line 11, immediately after the words "Sec. 208." insert the words "Effective 90 days after the enactment of the Banking Act of 1935," .

(Note: This is intended to allow reasonable time for the Board to issue regulations regarding the issuance of Federal Reserve notes and for the Secretary of the Treasury to prescribe the form of such notes before the amended provisions of law become effective.)

Section 210

Page 56, line 21, strike out the sentence beginning with the words "No bank shall" and ending with the word "greater" in line 1 on page 57.

Page 57, line 12, insert after the period and before the quotation marks the following: "On and after the date on which the regulations first adopted under this section shall become effective, no State bank or trust company which is a member of the Federal Reserve System shall make new real estate loans except to the same extent and under the same regulations and limitations as national banking associations are permitted to do so."

(Note: These amendments would restore section 210 to the form recommended by Governor Essles to the House Committee on Banking and Currency by striking out the limitation on the aggregate amount of real estate loans

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which any national bank may have outstanding and by restoring the provision requiring State member banks to comply with the same regulations and limitations regarding real estate loans as are applicable to national banks.)

Section 307

Page 61, line 3, strike all of section 307 and substitute the following:

"Sec. 307. Effective February 1, 1936, section 32 of the Banking Act of 1933 is amended to read as follows:

"Sec. 32. No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, 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, shall serve at the same time as an officer, director, or employee of any member bank. The Federal Reserve Board is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose."

(Note: This amendment omits the provision that the Federal Reserve Board may, by general regulations in limited classes of cases, make exceptions to the prohibition of the section against interlocking directorates between member banks and dealers in securities, and adds the provision that the Board is authorized and directed to enforce compliance with the section. The word "primarily" before the word "engaged" in line 8 is also omitted by the amendment.)

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Section 329

Page 82, line 14, strike all of section 329 and substitute the following:

"Sec. 329. Effective January 1, 1936, section 25 of the Federal Reserve Act, as amended, is further amended by striking out the last paragraph of such section; the paragraph of section 25(a) of the Federal Reserve Act, as amended, which commences with the words 'A majority of the shares of the capital stock of any such corporation' is amended by striking out all of said paragraph except the first sentence thereof; and the Act entitled 'An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes' (38 Stat. 730), approved October 15, 1914, as amended, is further amended (a) by striking out section 8A thereof and (b) by substituting for the first three paragraphs of section 8 thereof the following:

"Section 8. No director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time a private banker or 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 the laws of any State or of the District of Columbia, or any branch thereof, except any one or more of the following or any branch thereof:

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"(1) A bank, banking association, savings bank, or trust company, more than 90 per cent of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per cent of the stock.

"(2) A bank, banking association, savings bank or trust company which has been placed formally in liquidation or which is in the hands of a receiver, conservator or other official exercising similar functions.

"(3) A corporation principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Federal Reserve Board pursuant to section 25 of the Federal Reserve Act.

"(4) A bank, banking association, savings bank, or trust company, more than 50 per cent of the stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per cent of the stock of such member bank.

"The Federal Reserve Board is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose."

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(Note: This amendment enumerates the limited classes of cases in which there may be interlocking directors between member banks and other banks under section 3 of the Clayton Act. It eliminates the provision that the Board may allow interlocking directorates by general regulations where banks are not in substantial competition, and provides that the Board is authorized and directed to enforce compliance with the section and to prescribe such rules and regulations as it deems necessary for such purpose. Conflicting provisions of section 25 and section 25(a) relating to foreign or international banking corporations are repealed. The provision repealing section 8A of the Clayton Act is not changed by this amendment.)

Additional section

At the end of the bill add a new section reading as follows:

"SEC. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby."

(Note: This is merely the usual saving clause attached to bills of this character and is believed to be desirable in view of the large number of technical amendments to the existing law contained in this bill.)

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