

Confidential

STATEMENT OF REASONS FOR PROPOSALS

Proposals 1, 2 -- Federal Reserve banks

The purpose of the first three proposals is to increase the authority of the Federal Reserve Board over the Federal Reserve banks without giving up the advantages of the regional character of the Federal Reserve System.

By combining the offices of chairman of the board and governor of the Reserve banks and providing that the appointment to the combined office be made by the Federal Reserve Board, as the appointment of the chairman has always been, this proposal would strengthen the influence of the Board over the Federal Reserve banks, but since the method of selecting the banks' directors would remain unchanged, regional management in local matters would be retained. Provisions about the vice-governor are similar to those in regard to the governor. Repeal of the requirement that these officials be residents of the district would remove an obstacle in the selection of the best available men.

Provision for rotation in the boards of directors is for the purpose of preventing the crystallization in the banks' management of the influence of any special interests.

Proposals 3, 4, 5 -- Federal Reserve Board

With the increased powers to be vested in the Board, it becomes essential to make service on the Board more attractive to men of the highest caliber. For this purpose it is proposed to repeal all geographical restrictions on membership, to specify the qualifications that Board members must have, and to lay down the principle that at least two of the members should have had practical experience as executive officers of Federal Reserve banks.

It is further proposed that the members of the Board to be appointed in the future shall receive a compensation adequate for dignified living in Washington and the assurance of a pension upon retirement. The salary and pension provisions for members of the Board would be similar to those that now apply to members of the Supreme Court.

Authority for the Board to delegate specific powers and duties not involving the determination of national or system policies to individual members of the Board or to its representatives is for the purpose of relieving the Board of a large mass of details and thus to give it an opportunity to concentrate on problems of policy. This provision will also tend to expedite the business of the Board and to make immediate action possible in matters where it is essential.

Proposals 6, 7, 8, 9, 10 -- Credit control

Proposal 6, which provides for an open-market committee consisting of three members of the Board, including the Governor, and two governors of Federal Reserve banks, elected by the banks, is for the purpose of concentrating the responsibility for the formulation of national credit policies in a small body that could act effectively, and in which the point of view of the banks would be represented, but control would be in the Board.

Proposal 7 is for the purpose of placing obligations fully guaranteed by the United States Government on the same basis with direct obligations of the Government in respect to eligibility for purchase by the Federal Reserve Banks.

Proposal 8 is for the purpose of empowering the Board to relax or tighten eligibility requirements in accordance with changes in economic and credit conditions, and to remove mandatory limitations on maturity of advances

to member banks. Existing limitations had to be suspended during the emergency, but only after they had done a great deal of harm.

Proposal 9 would repeal the present provisions for collateral against Federal Reserve notes on the theory that, since these notes are prior liens on the assets of the Federal Reserve banks, specific pledging of collateral adds nothing to their safety. At the same time the collateral requirements have hampered open-market operations and have had to be belatedly relaxed during the emergency to admit United States Government obligations. The prohibition against paying out of Federal Reserve notes of other Reserve banks is to be repealed because it has served no useful purpose and has caused the System a considerable unnecessary expense.

Proposal 10 represents a clarification and modification of a power which the Board now possesses under the Thomas amendment. It is essential in view of the possibility of dangerous credit expansion on the basis of existing reserves.

Proposal 11 --- Suspension of capital requirements for membership

In order to make it possible for thousands of small nonmember banks to join the System, authority is given to the Board to waive until July, 1937, when all insured banks must become members of the Federal Reserve System, capital requirements for admission to membership and to make such arrangements as it deems best for ultimate compliance with these requirements.

Proposal 12 --- Real estate loans

Proposal 12 would remove the arbitrary requirements about maturity and percentage of value of permissible real estate loans. This proposal would enable national banks better to meet the credit needs of many communities and would remove the necessity of organizing other institutions to perform this service.

Proposal 13 -- Power to carry out the intent of the Act

In order to make it possible for the Federal Reserve Board to make personnel and other changes necessary to carry out the intent of these proposals without delay, authority to take all action required for that purpose is proposed.

Proposal 14 -- Technical provisions

(1) Is for the purpose of eliminating undesirable technical provisions in existing reserve requirements, which work to the disadvantage of country banks, to place deposits of the United States Government on the same basis as regards reserves as other deposits, and to give the Federal Reserve Board authority to define different classes of deposits. (2) The purpose of this proposal is to relieve the Board of the burden of passing on innumerable individual applications for permits by providing that the matter be dealt with through general regulations. (3) and (4) Are for the purpose of placing State member banks on the same basis as national banks in regard to lending on security of Government bonds and in regard to publication of reports. (5) Is for the purpose of making it unnecessary to require examinations and reports of bank affiliates when the affiliation has no bearing on the condition of the banks. (6) Is in the nature of clarification of the legal provisions relating to the payment of interest on deposits by member banks and for the purpose of placing all insured banks on the same basis in regard to maximum interest rates. It is clearly undesirable to give insured non-member banks a competitive advantage in this respect over member banks. (7) Is for the purpose of relieving the Board of the expensive and time-consuming burden of passing on a large number of applications for voting permits, and providing for other means of regulating

holding company affiliates. (8) Provides for the repeal of criminal provisions in Section 21 of the Banking Act of 1933 and Section 22(g) of the Federal Reserve Act and thereby makes it possible for the Board to regulate certain bank practices by regulation - without the possibility of subjecting them to prosecution by the Department of Justice in case that Department should interpret the law differently from the Federal Reserve Board.