

COMMENTS ON TENTATIVE AMENDMENTS PREPARED BY
STAFF OF FEDERAL DEPOSIT INSURANCE CORPORATION.

Under existing law, a bank's membership in the Permanent Insurance Fund depends upon its approval by the Federal Reserve Board for membership in the Federal Reserve System; whereas, under the tentative amendments, the situation would be reversed and a bank's membership in the Federal Reserve System would depend upon its approval by the Federal Deposit Insurance Corporation for insurance.

Under existing law, a bank loses its membership in the Permanent Fund if the Federal Reserve Board expels it from membership in the Federal Reserve System; whereas, under the tentative amendments, the situation would be reversed and a bank would lose its membership in the Federal Reserve System ⁽¹⁾ if the Federal Deposit Insurance Corporation terminates its membership in the Insurance Fund.

Control over membership in the Federal Reserve System, therefore, would apparently be transferred from the Federal Reserve Board to the Federal Deposit Insurance Corporation.

Except for a somewhat ambiguous paragraph tacked on near the end, where it could easily be dropped off, it would appear that, under the tentative amendments, any nonmember bank which is a member of the Temporary Fund would automatically become a member of the Permanent Fund and could remain such indefinitely.

The paragraph tacked on near the end appears to deny insurance to nonmember banks after July 1, 1937; but it is worded in such a way that it could be construed as leaving it to the discretion of the Federal Deposit Insurance Corporation whether or not to cancel the insurance of a nonmember bank which fails to become a member of the Federal Reserve System by that date.

The memorandum dated December 10, 1934, received from the staff of the Federal Deposit Insurance Corporation, contains this statement in parentheses: "In amended bill as it now stands nonmember State banks are insured up to July 1, 1937 only. They must then become members of the Federal Reserve System."

It is not clear whether the staff of the Federal Deposit Insurance Corporation really proposes to continue the requirement of compulsory membership in the Federal Reserve System as a prerequisite to ^{deposit insurance} deposit insurance; and it would seem very important to reach a definite understanding on this question.

WW/sad 12 14 34

(1) Fed. Res. Bd. shall terminate etc. P.V.