SENATE SUBCOMMITTEE CHANGES IN TITLE II OF BANKING BILL

1. Open market operations are placed in control of a committee of twelve consisting of seven members of the Board, five representatives of the banks elected by them. Apart from the unwieldy size of this committee, a shift of one Board Member vote could result in a tie vote, preventing action in an emergency. Stated otherwise, unless the Board were unanimous it could not out-vote the representatives of the banks.

2. Government bonds can be sold by the Banks only in the open market and cannot be bought from the Treasury, a serious limitation on quick, effective action to prevent runaway inflation or deflation.

3. The Board can change reserve ratios, but only on an affirmative vote of five. Nothing could be done if only four were present; with five present, one could block action and at any time three could block action.

   Reserve ratios cannot be less than they are now, nor more than twice what they are now. Either limitation might put a serious curb on effective action at the extreme up-swings and down-swings of credit changes.

4. The boards of Federal Reserve Banks elect their presidents subject to veto by the Federal Reserve Board. The term of office of the presidents has been changed from one year to five years, thus reducing centralized control.

5. The objective of the Federal Reserve Board was stated in the House Bill to be the elimination of unhealthy fluctuations in business activity, prices and employment. This objective has been changed to that, primarily, of operating for the accommodation of commerce and business.

6. The Sub-Committee's draft requires keeping full record, with annual reports to Congress, of all open market operations, the votes thereon and the reasons therefor.

7. On underwriting by banks, the Sub-Committee's draft is reported to authorize such underwriting, but without relieving the banks of their liability under sections 11 and 12 of the Securities Act.

If banks are to be permitted to underwrite, and if it is objected that the Comptroller of the Currency could not certify the solvency of banks subject to the contingent liabilities implicit in sections 11 and 12 of the Securities Act, it could be provided that banks whose deposits are <u>not</u> insured in F.D.I.C. could underwrite only with fill liability under sections 11 and 12 of the Securities Act and that banks whose deposits are so insured should not be liable under these sections but their officers and directors should be personally liable.