

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Weg
Office Correspondence

Date January 18, 1945.

Chairman Eccles

Subject: Legislation on reserve require-
ments and collateral for Federal
Reserve notes.

From Mr. Vest

There is attached a draft of a bill reducing to 25 per cent the reserve requirements of the Federal Reserve Banks and making permanent the eligibility of direct obligations of the United States as collateral for Federal Reserve notes, prepared in accordance with the discussion at the meeting of the Executive Committee of the Open Market Committee with the Treasury representatives on Tuesday.

I am advised by Mr. O'Connell, General Counsel of the Treasury, that the draft of legislation in the attached form is entirely satisfactory to the Treasury. He also said that he would be getting in touch with you today with regard to further steps in this matter.

Attachment

GB ✓

January 16, 1945.

The attached bill makes the following changes in the law:

(1) Reduces the reserve requirements of Federal Reserve Banks from 35 per cent against deposits and 40 per cent against Federal Reserve notes to 25 per cent against each, and requires that such reserve be in gold certificates and not in lawful money.

(2) Makes corresponding changes in the provisions relating to a tax on deficiencies in reserves against Federal Reserve notes, and, where the law now requires an increased rate of tax to begin when the reserve falls below 32-1/2 per cent, the amendment would require such an increased rate to begin when the reserve falls below 20 per cent.

(3) Strikes out the word "gold" before "reserve" in the provision for tax on reserve deficiencies, as this word is not now appropriate.

(4) Makes direct obligations of the United States permanently eligible as collateral security for Federal Reserve notes. Authority for this would otherwise expire June 30th of this year.

A B I L L

To amend sections 11(c) and 16 of the Federal Reserve Act, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives
of the United States of America in Congress assembled, That (a) the third paragraph of section 16 of the Federal Reserve Act, as amended, is amended by changing the first sentence of such paragraph to read as follows:

"Every Federal Reserve bank shall maintain reserves in gold certificates of not less than 25 per centum against its deposits and reserves in gold certificates of not less than 25 per centum against its Federal Reserve notes in actual circulation: Provided, however, That when the Federal Reserve Agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(b) The first sentence of the fourth paragraph of section 16 of the Federal Reserve Act, as amended, is amended by striking therefrom the words "40 per centum reserve hereinbefore required" and by inserting in lieu thereof the words "25 per centum reserve hereinbefore required to be maintained against Federal Reserve notes in actual circulation."

(c) Subsection (c) of section 11 of the Federal Reserve Act, as amended, is amended to read as follows:

"(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: Provided, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: And provided further, That when the reserve held against Federal Reserve notes falls below twenty-five per

centum, the Board of Governors of the Federal Reserve System shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to twenty per centum, and when said reserve falls below twenty per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below twenty per centum. The tax shall be paid by the Reserve Bank, but the Reserve Bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Board of Governors of the Federal Reserve System."

SEC. 2. The second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal Reserve Bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates, or direct obligations of the United States. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve agent shall each day notify the Board of Governors of the Federal Reserve System of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Board of Governors of the Federal Reserve System may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it."

1/16/45

Bill 8 510

January 22, 1945.

The attached bill makes the following changes in the law:

(1) Reduces the reserve requirements of Federal Reserve Banks from 35 per cent against deposits and 40 per cent against Federal Reserve notes to 25 per cent against each, and requires that such reserve be in gold certificates and not in lawful money.

(2) Makes corresponding changes in the provisions relating to a tax on deficiencies in reserves against Federal Reserve notes, and, where the law now requires an increased rate of tax to begin when the reserve falls below 32-1/2 per cent, the amendment would require such an increased rate to begin when the reserve falls below 20 per cent.

(3) Strikes out the word "gold" before "reserve" in the provision for tax on reserve deficiencies, as this word is not now appropriate.

(4) Makes direct obligations of the United States permanently eligible as collateral security for Federal Reserve notes. Authority for this would otherwise expire June 30th of this year.

A B I L L

To amend sections 11(c) and 16 of the Federal Reserve Act, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives
of the United States of America in Congress assembled, That (a) the third paragraph of section 16 of the Federal Reserve Act, as amended, is amended by changing the first sentence of such paragraph to read as follows:

"Every Federal Reserve bank shall maintain reserves in gold certificates of not less than 25 per centum against its deposits and reserves in gold certificates of not less than 25 per centum against its Federal Reserve notes in actual circulation: Provided, however, That when the Federal Reserve Agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(b) The first sentence of the fourth paragraph of section 16 of the Federal Reserve Act, as amended, is amended by striking therefrom the words "40 per centum reserve hereinbefore required" and by inserting in lieu thereof the words "25 per centum reserve hereinbefore required to be maintained against Federal Reserve notes in actual circulation."

(c) Subsection (c) of section 11 of the Federal Reserve Act, as amended, is amended to read as follows:

"(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: Provided, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: And provided further, That when the reserve held against Federal Reserve notes falls below twenty-five per

centum, the Board of Governors of the Federal Reserve System shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to twenty per centum, and when said reserve falls below twenty per centum, a tax at the rate increasing of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below twenty per centum. The tax shall be paid by the Reserve Bank, but the Reserve Bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Board of Governors of the Federal Reserve System."

SEC. 2. The second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal Reserve Bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates, or direct obligations of the United States. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve agent shall each day notify the Board of Governors of the Federal Reserve System of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Board of Governors of the Federal Reserve System may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it."