Mr. Eccles

December 22, 1948

To Board of Governors

From Mr. Vest

Subject: Bill regarding reserve requirements of member and nonmember banks.

Attached is a draft of bill which would authorize the Board to prescribe additional reserve requirements of 10 per cent on demand deposits and 4 per cent on time deposits, such requirements to be applicable to all insured banks. The bill is in substantially the same form as that presented by the Board to Congress last August, except that it now applies only to insured banks and provides for the payment of interest on reserve balances, in accordance with the tentative decisions of the Board last week.

There is also attached a list of certain questions that need to be decided in connection with the provisions of this proposed bill. The staff of the Budget Bureau have requested a draft of a tentative bill on this subject not later than tomorrow, December 23rd, and it is understood that the matter is to be taken up at the meeting of the Board tomorrow morning.

QUESTIONS REGARDING BILL PRESCRIBING RESERVE REQUIREMENTS

1. What should be the penalty for deficiencies in reserves? Should it be merely a penalty on the deficiency at a rate prescribed by the Board or should it also include a loss of interest on the entire reserve balance?

2. Should the bill prescribe a maximum penalty rate on the deficiency or should it be left completely to the discretion of the Board?

3. The maximum rate of interest payable on balances would be the going rate on Treasury bills. What should be the basis for determining the going rate -- should it be, for example, the average rate at which Treasury bills were sold over the three calendar months preceding the fixing of the rate by the Board?

4. The bill provides that the Board may authorize interest on reserves at such rate and during such periods as it may prescribe. Should the bill specifically provide that interest may in no event be paid unless it can be paid out of the net earnings of the Federal Reserve Banks (or of the particular Federal Reserve Bank) or should this be left to Board discretion?

5. The bill provides that certification as to compliance by nonmember insured banks may be made by the State banking authorities. Should this provision be continued? In view of the fact that the bill is applicable only to insured banks, it would be possible to give this function to the FDIC.

6. Should the bill include a provision for the Board to notify the FDIC of substantial or repeated deficiencies in reserves so that the FDIC, if it wished, could institute proceedings for the termination of insurance because of such deficiencies?

7. The bill provides that reserve requirements which it imposes shall be superimposed upon other reserve requirements to which banks are already subject under State or Federal law. Should these requirements be superimposed upon State law requirements as they may be changed from time to time by State legislatures, or should they be superimposed on State law requirements existing on the date of enactment of the new law?

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