

September 7, 1916.
[H. R. 13391.]
[Public, No. 270.]

Federal Reserve Act.
Amendments.

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amended.

Reserve banks.
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Vol. 38, p. 263,
amended.

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deal in foreign trade
paper.

CHAP. 461.—An Act To amend certain sections of the Act entitled "Federal Reserve Act," approved December twenty-third, nineteen hundred and thirteen.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act entitled "Federal Reserve Act," approved December twenty-third, nineteen hundred and thirteen, be, and is hereby, amended as follows:

At the end of section eleven insert a new clause as follows:

"(m) Upon the affirmative vote of not less than five of its members the Federal Reserve Board shall have power, from time to time, by general ruling, covering all districts alike, to permit member banks to carry in the Federal reserve banks of their respective districts any portion of their reserves now required by section nineteen of this Act to be held in their own vaults."

That section thirteen be, and is hereby, amended to read as follows:

"Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing bills; or solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing bills payable within its district.

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

"The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

"Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank.

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of

days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per cent of its paid-up and unimpaired capital stock and surplus unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus.

Limit of acceptances.

Additional, if with collateral.

"Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States."

Advances by reserve to member banks.

Collateral required.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: "No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

National banks. Indebtedness limited. R. S., sec. 5202, p. 1006, amended.

"First. Notes of circulation.

Exceptions. Circulating notes.

"Second. Moneys deposited with or collected by the association.

Deposits. Drafts, etc.

"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Dividends, etc.

"Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Federal reserve liabilities.

"Fifth. Liabilities incurred under the provisions of the Federal reserve Act.

Discounts, etc., by reserve banks restricted. Vol. 38, p. 264, amended.

"The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

National banks. Insurance business allowed by, in small localities.

"That in addition to the powers now vested by law in national banking associations organized under the laws of the United States any such association located and doing business in any place the population of which does not exceed five thousand inhabitants, as shown by the last preceding decennial census, may, under such rules and regulations as may be prescribed by the Comptroller of the Currency, act as the agent for any fire, life, or other insurance company authorized by the authorities of the State in which said bank is located to do business in said State, by soliciting and selling insurance and collecting premiums on policies issued by such company; and may receive for services so rendered such fees or commissions as may be agreed upon between the said association and the insurance company for which it may act as agent; and may also act as the broker or agent for others in making or procuring loans on real estate located within one hundred miles of the place in which said bank may be located, receiving for such services a reasonable fee or commission: *Provided, however,* That no such bank shall in any case guarantee either the principal or interest of any such loans or assume or guarantee the payment of any premium on insurance policies issued

Act as agents for real estate loans.

Provisions. Guarantees forbidden.

- Insurance applica- through its agency by its principal: *And provided further*, That the
tions. bank shall not guarantee the truth of any statement made by an
assured in filing his application for insurance.
- Acceptances of for- "Any member bank may accept drafts or bills of exchange drawn
sign paper for dollar upon it having not more than three months' sight to run, exclusive
exchange. of days of grace, drawn under regulations to be prescribed by the
By member banks. Federal Reserve Board by banks or bankers in foreign countries or
dependencies or insular possessions of the United States for the pur-
pose of furnishing dollar exchange as required by the usages of trade
in the respective countries, dependencies, or insular possessions.
- By reserve banks. Such drafts or bills may be acquired by Federal reserve banks in
such amounts and subject to such regulations, restrictions, and limita-
tions as may be prescribed by the Federal Reserve Board: *Provided,*
however, That no member bank shall accept such drafts or bills of
exchange referred to this paragraph for any one bank to an amount
exceeding in the aggregate ten per centum of the paid-up and unim-
paired capital and surplus of the accepting bank unless the draft or
bill of exchange is accompanied by documents conveying or securing
title or by some other adequate security: *Provided further*, That no
member bank shall accept such drafts or bills in an amount exceed-
ing at any time the aggregate of one-half of its paid-up and unim-
paired capital and surplus."
- Practises.* Restriction on a c- That subsection (e) of section fourteen, be, and is hereby, amended
ceptances from one per- to read as follows:
son.
- With collateral. "(e) To establish accounts with other Federal reserve banks for
exchange purposes and, with the consent of the Federal Reserve
Board, to open and maintain accounts in foreign countries, appoint
correspondents, and establish agencies in such countries wheresoever
it may deem best for the purpose of purchasing, selling, and collect-
ing bills of exchange, and to buy and sell, with or without its indorse-
ment, through such correspondents or agencies bills of exchange
arising out of actual commercial transactions which have not more
than ninety days to run, exclusive of days of grace, and which bear
the signature of two or more responsible parties, and, with the consent
of the Federal Reserve Board, to open and maintain banking accounts
for such foreign correspondents or agencies."
- Maximum. That the second paragraph of section sixteen be, and is hereby,
amended to read as follows:
- Open market opera- "Any Federal reserve bank may make application to the local
tions. 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 col-
lateral security thus offered shall be notes, drafts, bills of exchange,
or acceptances rediscounted under the provisions of section thirteen
of this Act, or bills of exchange indorsed by a member bank of any
Federal reserve district and purchased under the provisions of section
fourteen of this Act, or bankers' acceptances purchased under the
provisions of said section fourteen. The Federal reserve agent shall
each day notify the Federal Reserve Board of all issues and with-
drawals of Federal reserve notes to and by the Federal reserve bank
to which he is accredited. The said Federal Reserve Board may at
any time call upon a Federal reserve bank for additional security to
protect the Federal reserve notes issued to it."
- Reserve banks. That section twenty-four be, and is hereby, amended to read as
Accounts and agen- follows:
cies of, in foreign coun- "SEC. 24. Any national banking association not situated in a
tries. central reserve city may make loans secured by improved and un-
Vol. 38, p. 265, encumbered farm land situated within its Federal reserve district or
amended. within a radius of one hundred miles of the place in which such bank
- Accounts for foreign correspondents.
- Federal reserve notes.
- Applications for, by reserve banks. Vol. 38, p. 265, amended. Collateral.
- Classes of paper ex- tended. A note, p. 752. Vol. 38, p. 264.
- Daily notices of is- sues and withdrawals.
- Additional security.
- Real estate loans. Vol. 38, p. 273, amended. By national banks not in central reserve cities. On farm lands.

is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

"The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section."

That section twenty-five be, and is hereby, amended to read as follows:

"SEC. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, either or both of the following powers:

"First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

"Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

"Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking operations proposed are to be carried on. The Federal Reserve Board shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

"Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described under subparagraph two of the first paragraph of this section shall be required to furnish information concerning the condition of such banks or corporations to the Federal Reserve Board upon demand, and the Federal Reserve Board may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

"Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Federal Reserve Board to rest its operations or conduct its business in such manner or under such limitations and restrictions as the said board may prescribe for the

Other real estate.

Time and value limitations.

Permissible amounts.

Extension of restriction.

Foreign branches of national banks. Vol. 38, p. 273, amended. Capital required. Applications.

Object of branches.

May invest in other banks engaged in foreign business.

Details in applications.

Full authority of Board.

Information to be furnished Comptroller.

To Reserve Board.

Restrictions on purchasing stock in other banks.

Investigation whether regulations are complied with.

place or places wherein such business is to be conducted. If at any time the Federal Reserve Board shall ascertain that the regulations prescribed by it are not being complied with, said board is hereby authorized and empowered to institute an investigation of the matter and to send for persons and papers, subpoena witnesses, and administer oaths in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Federal Reserve Board, such national banks may be required to dispose of stock holdings in the said corporation upon reasonable notice.

Disposal of interest for noncompliance.

Separation of accounts.

“Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

Member bank officials, etc., may serve in such banks.

“Any director or other officer, agent, or employee of any member bank may, with the approval of the Federal Reserve Board, be a director or other officer, agent, or employee of any such bank or corporation above mentioned in the capital stock of which such member bank shall have invested as hereinbefore provided, without being subject to the provisions of section eight of the Act approved October fifteenth, nineteen hundred and fourteen, entitled ‘An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes.’”

Vol. 38, p. 732.

Approved, September 7, 1916.

September 8, 1916. [H. R. 16763.]

CHAP. 463.—An Act To increase the revenue, and for other purposes.

[Public, No. 271.]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Revenue Act, 1916. Income tax.

TITLE I.—INCOME TAX.

On individuals.

PART I.—ON INDIVIDUALS.

Two per cent levied on net incomes. Vol. 38, p. 166.

SEC. 1. (a) That there shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources by every individual, a citizen or resident of the United States, a tax of two per centum upon such income; and a like tax shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources within the United States by every individual, a nonresident alien, including interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise.

Nonresident aliens from United States sources.

Additional tax if exceeding \$20,000.

(b) In addition to the income tax imposed by subdivision (a) of this section (herein referred to as the normal tax) there shall be levied, assessed, collected, and paid upon the total net income of every individual, or, in the case of a nonresident alien, the total net income received from all sources within the United States, an additional income tax (herein referred to as the additional tax) of one per centum per annum upon the amount by which such total net income exceeds \$20,000 and does not exceed \$40,000, two per centum per annum upon the amount by which such total net income exceeds \$40,000 and does not exceed \$60,000, three per centum per annum upon the amount by which such total net income exceeds \$60,000 and does not exceed \$80,000, four per centum per annum upon the amount by which such total net income exceeds \$80,000 and does

Rates.