FEDERAL RESERVE BANK
OF DALLAS

August 20, 1923.

REGULATIONS OF THE FEDERAL RESERVE BOARD
SERIES OF 1923

To the Member Bank Addressed:

There is enclosed a copy of the Federal Reserve Board's Regulations, Series of 1923, superseding regulations of a previous date promulgated by the Board, except that the effective date of Regulation "J" has been postponed until further notice. In the meantime Regulation "J", Series of 1920, will remain in effect.

As these Regulations contain valuable and important information regarding transactions and relations of member banks with Federal Reserve Banks, it is suggested that they be carefully studied and that the enclosed copy be filed in a convenient place for future reference when necessary.

Very truly yours,

Governor.

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FEDERAL RESERVE BOARD.

WASHINGTON, *July 10, 1923.*

The Federal Reserve Board transmits herewith a new issue of all of its regulations applicable to member banks. Regulations A and B of the new series supersede the corresponding regulations of the series of 1922, and the other regulations of the new series supersede corresponding regulations of the series of 1920. It is to be noted that Regulation J of the new series will not be effective until August 15, 1923.

Regulation A has been materially amended in order to make it conform to the provisions of the Federal Reserve Act as amended by the Agricultural Credits Act of 1923. This regulation has also been amended so as to conform to the amendment to section 9 of the Federal Reserve Act contained in the Act of July 1, 1922, and has also been amended in a few other respects.

Regulation B has been clarified and Section II (*c*) of the old regulation has been omitted because it is no longer necessary in view of the broader provisions with reference to six months' agricultural acceptances contained in the law and in Regulation A as amended.

Regulation C is identically the same as in the series of 1920.

Regulation D has not been changed, except that a slight inaccuracy in the quotation from section 19 has been corrected and section numbers have been inserted.

Regulation E has been rearranged and the appendices heretofore published separately have been incorporated in the body of the regulation. No material change has been made in the substance of the regulation, however, except the elimination of the 10 per cent limitation on the amount of warrants of any municipality which might be purchased by a Federal Reserve Bank with the indorsement of a member bank.

Regulation F is identically the same as in the series of 1920.

Regulation G has been changed only in one respect. Paragraph (g) thereof has been changed so as not to require a note representing a real-estate loan to be canceled at maturity and a new note taken in its place. It now permits the old note to be renewed or extended for an additional period.

Regulation H has been changed materially so as to conform to the amendments to section 9 of the Federal Reserve Act contained in the Agricultural Credits Act of 1923, which make State banks with a capital equal to not less than 60 per cent of the amount required for the organization of a national bank eligible for admission to membership under certain terms and conditions.

Regulation I has been changed so as to conform to the present practice in connection with the applications of newly organized national banks for membership in the Federal Reserve System, and also so as to require the receivers of insolvent member banks and the liquidating agents of member banks in voluntary liquidation to apply for the surrender and cancellation of the Federal Reserve Bank stock held by such banks within six months after their appointment.

Regulation J has been rewritten and brought up to date. This new regulation, however, will not become effective until August 15, 1923.

Regulation K is identically the same as in the series of 1920.

Regulation L has been changed slightly by broadening the definition of the term "national bank" as used in the regulation to include all banking institutions organized or operating under the laws of the United States. A statement of the general principles adopted by the Board for its guidance in determining whether two or more banks are in substantial competition has also been inserted in the regulation.

Instructions which govern only Federal Reserve Agents or Federal Reserve Banks will be covered in separate letters or regulations, as in the past.

By order of the Federal Reserve Board.

WM. W. HOXTON, *Secretary.*

REGULATION A.
Series of 1923.
(Superseding Regulation A of 1922.)

DISCOUNTS UNDER SECTIONS 13 AND 13 (a).

ARTICLE A.

NOTES, DRAFTS, AND BILLS OF EXCHANGE.

SECTION I. GENERAL STATUTORY PROVISIONS.

Any Federal Reserve Bank may discount for any of its member banks any note, draft, or bill of exchange: *Provided*—

(*a*) It has a definite maturity at the time of discount of not more than 90 days, exclusive of days of grace; except that (1) if drawn or issued for an agricultural purpose or based on live stock, it may have a maturity at the time of discount of not more than nine months, exclusive of days of grace, and (2) certain bills of exchange payable at sight or on demand are eligible even though they have no definite maturity (see Section VII, below);

(*b*) It has been issued or drawn for an agricultural, industrial, or commercial purpose, or the proceeds have been used or are to be used for such a purpose, or it is a note, draft, or bill of exchange of a factor issued as such making advances exclusively to producers of staple agricultural products in their raw state;

(*c*) It was not issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States;

(*d*) The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, discounted for any one member bank, whether State or National, shall at no time exceed 10 per cent of the unimpaired capital and surplus of such bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values;

(*e*) It is indorsed by a member bank; and

(*f*) It conforms to all applicable provisions of this regulation.

No Federal Reserve Bank may discount for any member State bank or trust company any of the notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company under the terms of section 5200 of the United States Revised Statutes, as amended, were it a national banking association.

Any Federal Reserve Bank may make advances to its member banks on their promissory notes for a period not exceeding 15 days, provided that they are secured by notes, drafts, bills of exchange, or bankers' acceptances which are eligible for discount or for purchase by Federal Reserve Banks, or by the deposit or pledge of bonds or notes of the United States, or bonds of the War Finance Corporation.

SECTION II. GENERAL CHARACTER OF NOTES, DRAFTS, AND BILLS OF EXCHANGE ELIGIBLE.

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for discount at a Federal Reserve Bank has determined that—

(*a*) It must be a negotiable note, draft, or bill of exchange which has been issued or drawn, or the proceeds of which have been used or are to be used in the first instance, in producing, purchasing, carrying, or marketing goods [1] in one or more of the steps of the process of production, manufacture, or distribution, or for the purpose of carrying or trading in bonds or notes of the United States, and the name of a party to such transaction must appear upon it as maker, drawer, acceptor, or indorser.

(*b*) It must not be a note, draft, or bill of exchange the proceeds of which have been or are to be advanced or loaned to some other borrower, except as to paper described below under Sections VI (*b*) and VIII.

(*c*) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for any other capital purpose.

(*d*) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for investments of a purely speculative character.

(*e*) It may be secured by the pledge of goods or collateral of any nature, including paper which is ineligible for discount, provided it (the note, draft, or bill of exchange) is otherwise eligible.

SECTION III. APPLICATIONS FOR DISCOUNT.

Every application for the discount of notes, drafts, or bills of exchange must contain a certificate of the member bank, in form to be prescribed by the Federal Reserve Bank, that, to the best of its knowledge and belief, such notes, drafts, or bills of exchange have been issued or drawn, or the proceeds thereof have been or are to be used, for such a purpose as to render them eligible for discount under the terms of this regulation, and, in the case of a member State bank or trust company, every application must contain a certificate or guaranty to the effect that the borrower is not liable, and will not be permitted to become liable during the time his paper is held by the Federal Reserve Bank, to such bank or trust company for borrowed money in an amount greater than that which could be borrowed lawfully from such State bank or trust company under the terms of section 5200 of the United States Revised Statutes, as amended, were it a national banking association.

SECTION IV. PROMISSORY NOTES.

(a) **Definition.**—A promissory note, within the meaning of this regulation, is defined as an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

(b) **Evidence of eligibility and requirement of statements.**—A Federal Reserve Bank must be satisfied by reference to the note or otherwise that it is eligible for discount. The member bank shall certify in its application whether the note offered for discount has been discounted for a depositor other than a bank or for a nondepositor and, if discounted for a bank, whether for a member or a nonmember bank. The member bank must also certify whether a financial statement of the borrower is on file with it.

[1] When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

A recent financial statement of the borrower must be on file with the member bank in all cases, unless the note was discounted by a member bank for a depositor (other than a bank) or for another member bank, and—

(1) It is secured by a warehouse, terminal, or other similar receipt covering goods in storage, by a valid prior lien on live stock which is being marketed or fattened for market, or by bonds or notes of the United States; or

(2) The aggregate of obligations of the borrower discounted and offered for discount at the Federal Reserve Bank by the member bank is less than a sum equal to 10 per cent of the paid-in capital of the member bank and is less than $5,000.

A Federal Reserve Bank shall use its discretion in taking the steps necessary to satisfy itself as to eligibility. Compliance of a note with Section II (*c*) may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities. A Federal Reserve Bank may, in all cases, require the financial statement of the borrower to be filed with it.

Section V. Drafts, Bills of Exchange, and Trade Acceptances.

(a) **Definition.**—A draft or bill of exchange, within the meaning of this regulation, is defined as an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and a trade acceptance is defined as a draft or bill of exchange, drawn by the seller on the purchaser of goods sold,[2] and accepted by such purchaser.

(b) **Evidence of eligibility and requirement of statements.**—A Federal Reserve Bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the draft, bill, or trade acceptance offered for discount and may require a recent financial statement of one or more parties to the instrument. The draft, bill, or trade acceptance should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor or drawer in a form satisfactory to the Federal Reserve Bank.

Section VI. Agricultural Paper.

(a) **Definition.**—Agricultural paper, within the meaning of this regulation, is defined as a negotiable note, draft, or bill of exchange issued or drawn, or the proceeds of which have been or are to be used, for agricultural purposes, including the production of agricultural products, the marketing of agricultural products by the growers thereof, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of live stock, and which has a maturity at the time of discount of not more than nine months, exclusive of days of grace.

(b) **Paper of cooperative marketing associations.**—Under the express terms of section 13a, notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agricultural purpose, if the proceeds thereof have been or are to be—

(1) Advanced by such association to any members thereof for an agricultural purpose, or

(2) Used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or

[2] A consignment of goods or a conditional sale of goods can not be considered "goods sold" within the meaning of this clause. The purchase price of goods plus the cost of labor in effecting their installation may be included in the amount for which the trade acceptance is drawn.

(3) Used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members.

These are not the only classes of paper of such associations which are eligible for discount, however, and any other paper of such associations which complies with the applicable requirements of this regulation may be discounted on the same terms and conditions as the paper of any other person or corporation.

Paper of cooperative marketing associations the proceeds of which have been or are to be used (1) to defray the expenses of organizing such associations, or (2) for the acquisition of warehouses, for the purchase or improvement of real estate, or for any other permanent or fixed investment of any kind, are not eligible for discount, even though such warehouses or other property are to be used exclusively in connection with the ordinary operations of the association.

(c) **Eligibility.**—To be eligible for discount, agricultural paper, whether a note, draft, bill of exchange, or trade acceptance, must comply with the respective sections of this regulation which would apply to it if its maturity were 90 days or less.

(d) **Discounts for Federal Intermediate Credit Banks.**—Any Federal Reserve Bank may discount agricultural paper for any Federal Intermediate Credit Bank; but no Federal Reserve Bank shall discount for any Federal Intermediate Credit Bank any such paper which bears the indorsement of any nonmember State bank or trust company which is eligible for membership in the Federal Reserve System under the terms of section 9 of the Federal Reserve Act as amended. In discounting such paper each Federal Reserve Bank shall give preference to the demands of its own member banks and shall have due regard to the probable future needs of its own member banks; and no Federal Reserve Bank shall discount paper for any Federal Intermediate Credit Bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal reserve notes in actual circulation. The aggregate amount of paper discounted by all Federal Reserve Banks for any one Federal Intermediate Credit Bank shall at no time exceed an amount equal to the paid-up and unimpaired capital and surplus of such Federal Intermediate Credit Bank.

(e) **Limitations.**—The Federal Reserve Board prescribes no limitation on the aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by any Federal Reserve Bank; but the aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of six months, but not exceeding nine months, which may be discounted by any Federal Reserve Bank shall not exceed 10 per cent of its total assets.

Section VII. Sight Drafts Secured by Bills of Lading.

A Federal Reserve Bank may discount for any of its member banks bills of exchange payable at sight or on demand which—

(*a*) Are drawn to finance the domestic shipment of nonperishable, readily marketable, staple agricultural products, and

(*b*) Are secured by bills of lading or other shipping documents conveying or securing title to such staples.

All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made promptly, unless the drawer instructs that they be held until arrival of car, in which event they must be presented for payment within a reasonable time after notice of arrival of such staples at their destination has been received. In no event shall any such bill be held by or for the account of a Federal Reserve Bank for a period in excess of 90 days.

In discounting such bills Federal Reserve Banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the amount thus deducted after payment of such bills to conform to the actual life thereof.

Section VIII. Factors' Paper.

Notes, drafts, and bills of exchange of factors issued as such for the purpose of making advances exclusively to producers of staple agricultural products in their raw state are eligible for discount with maturities not in excess of 90 days, exclusive of days of grace, irrespective of the requirements of Sections II(*a*) and II(*b*).

ARTICLE B.

BANKERS' ACCEPTANCES.

Section IX. Definition.

A banker's acceptance within the meaning of this regulation is defined as a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other money, of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged generally in the business of granting bankers' acceptance credits.

Section X. Eligibility.

A Federal Reserve Bank may discount any such bill bearing the indorsement of a member bank and having a maturity at the time of discount not greater than that prescribed by Section XI (*a*), which has been drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving any one of the following:

(1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries, or between dependencies or insular possessions and foreign countries;

(2) The shipment of goods within the United States, provided shipping documents conveying security title are attached at the time of acceptance; or

(3) The storage of readily marketable staples,[3] provided that the bill is secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer, and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (*a*) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (*b*) that a new document, similar to the original one, will be resubstituted within a specified time.

Provided, that acceptances for any one customer in excess of 10 per cent of the capital and surplus of the accepting bank must remain actually secured throughout the life of the acceptance,

[3] A readily marketable staple within the meaning of these regulations may be defined as an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (*a*) the price easily and definitely ascertainable and (*b*) the staple itself easy to realize upon by sale at any time.

and in the case of the acceptances of member banks this security must consist of shipping documents, warehouse receipts, or other such documents, or some other actual security growing out of the same transaction as the acceptance, such as documentary drafts, trade acceptances, terminal receipts, or trust receipts which have been issued under such circumstances, and which cover goods of such a character, as to insure at all times a continuance of an effective and lawful lien in favor of the accepting bank, other trust receipts not being considered such actual security if they permit the customer to have access to or control over the goods.

A Federal Reserve Bank may also discount any bill drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange as provided in Regulation C, provided that it has a maturity at the time of discount of not more than three months, exclusive of days of grace.

Section XI. Maturities.

(a) **Legal requirements.**—No such acceptance is eligible for discount which has a maturity at the time of discount in excess of 90 days' sight, exclusive of days of grace, except that acceptances drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with maturities at the time of discount of not more than six months' sight, exclusive of days of grace.

(b) **General conditions as to maturity of domestic acceptances.**—Although a Federal Reserve Bank may legally discount an acceptance having a maturity at the time of discount not greater than that prescribed under (*a*), it may decline to discount any acceptance the maturity of which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of that period reasonably necessary to finance such transaction. Since the purpose of permitting the acceptance of drafts secured by warehouse receipts or other such documents is to permit of the temporary holding of readily marketable staples in storage pending a reasonably prompt sale, shipment, or distribution, no such acceptance should have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment, or distribution into the process of manufacture or consumption.

Section XII. Evidence of Eligibility.

A Federal Reserve Bank must be satisfied, either by reference to the acceptance itself, or otherwise, that the acceptance is eligible for discount under the terms of the law and the provisions of this regulation. The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal Reserve Bank.

REGULATION B.
Series of 1923.
(Superseding Regulation B of 1922.)

OPEN MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES, AND BANKERS' ACCEPTANCES UNDER SECTION 14.

SECTION I. GENERAL STATUTORY PROVISIONS.

Section 14 of the Federal Reserve Act provides that, under rules and regulations to be prescribed by the Federal Reserve Board, Federal Reserve Banks may purchase and sell in the open market, at home or abroad, from or to domestic or foreign banks, firms, corporations, or individuals, bills of exchange of the kinds and maturities made eligible by the act for discount and bankers' acceptances, with or without the indorsement of a member bank.

SECTION II. GENERAL CHARACTER OF BILLS AND ACCEPTANCES ELIGIBLE.

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, prescribes that—

(*a*) Any banker's acceptance or bill of exchange which is eligible for discount under the terms of Regulation A is eligible for purchase by Federal Reserve Banks in the open market, with or without the indorsement of a member bank, if—

(1) It has been accepted by the drawee prior to purchase; or

(2) It is accompanied or secured by shipping documents or by warehouse, terminal, or other similar receipts conveying security title; or

(3) It bears a satisfactory bank indorsement;

(*b*) A banker's acceptance growing out of a transaction involving the importation or exportation of goods may be purchased if it has a maturity not in excess of six months, exclusive of days of grace, provided that it conforms in other respects to the applicable requirements of Regulation A; and

(*c*) A banker's acceptance growing out of a transaction involving the storage within the United States of goods actually under contract for sale and not yet delivered or paid for may be purchased, provided that the acceptor is secured by the pledge of such goods, and provided further, that the acceptance conforms in other respects to the applicable requirements of Regulation A.

SECTION III. STATEMENTS.

A bill of exchange, unless indorsed by a member bank, is not eligible for purchase until a satisfactory statement has been furnished of the financial condition of one or more of the parties thereto.

A banker's acceptance, unless accepted or indorsed by a member bank, is not eligible for purchase until the acceptor has furnished a satisfactory statement of its financial condition in form to be approved by the Federal Reserve Bank and has agreed in writing with a Federal Reserve Bank to inform it upon request concerning the transaction underlying the acceptance.

REGULATION C.
Series of 1923.
(Superseding Regulation C of 1920.)

ACCEPTANCE BY MEMBER BANKS OF DRAFTS AND BILLS OF EXCHANGE.

ARTICLE A.

Acceptance of drafts or bills of exchange drawn against domestic or foreign shipments of goods or secured by warehouse receipts covering readily marketable staples.

SECTION I. STATUTORY PROVISIONS.

Under the provisions of the sixth paragraph of section 13 of the Federal Reserve Act, as amended, 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.[1] This paragraph limits the amount which any bank shall accept for any one person, company, firm, or corporation, whether in a foreign or domestic transaction, to an amount not exceeding at any time, in the aggregate, more than 10 per cent of its paid-up and unimpaired capital stock and surplus. This limit, however, does not apply in any case where the accepting bank remains secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance. A trust receipt which permits the customer to have access to or control over the goods will not be considered by Federal Reserve Banks to be "actual security" within the meaning of section 13. A bill of lading draft, however, is "actual security" even after the documents have been released, provided that the draft is accepted by the drawee upon or before the surrender of the documents. The law also provides that any bank may accept such bills up to an amount not exceeding at any time, in the aggregate, more than one-half of its paid-up and unimpaired capital stock and surplus; or, with the approval of the Federal Reserve Board, up to an amount not exceeding at any time, in the aggregate, more than 100 per cent of its paid-up and unimpaired capital stock and surplus. In no event, however, shall the aggregate amount of acceptances growing out of domestic transactions exceed 50 per cent of such capital stock and surplus.

SECTION II. REGULATIONS.

1. Under the provisions of the law referred to above the Federal Reserve Board has determined that any member bank, having an unimpaired surplus equal to at least 20 per cent of its paid-up capital, which desires to accept drafts or bills of exchange drawn for the

[1] A readily marketable staple within the meaning of these regulations may be defined as an article of commerce agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (*a*) the price easily and definitely ascertainable and (*b*) the staple itself easy to realize upon by sale at any time.

purposes described above, up to an amount not exceeding at any time, in the aggregate, 100 per cent of its paid-up and unimpaired capital stock and surplus, may file an application for that purpose with the Federal Reserve Board. Such application must be forwarded through the Federal Reserve Bank of the district in which the applying bank is located.

2. The Federal Reserve Bank shall report to the Federal Reserve Board upon the standing of the applying bank, stating whether the business and banking conditions prevailing in its district warrant the granting of such application.

3. The approval of any such application may be rescinded upon 90 days' notice to the bank affected.

ARTICLE B.

Acceptance of drafts or bills of exchange drawn for the purpose of creating dollar exchange.

SECTION III. STATUTORY PROVISIONS.

Section 13 of the Federal Reserve Act also provides that any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn, under regulations to be prescribed by the Federal Reserve Board, by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions.

No member bank shall accept such drafts or bills of exchange for any one bank to an amount exceeding in the aggregate 10 per cent of the paid-up and unimpaired 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. No member bank shall accept such drafts or bills in an amount exceeding at any time in the aggregate one-half of its paid-up and unimpaired capital and surplus. This 50 per cent limit is separate and distinct from and not included in the limits placed upon the acceptance of drafts and bills of exchange as described under Article A of this regulation.

SECTION IV. REGULATIONS.

Any member bank desiring to accept drafts drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange shall first make an application to the Federal Reserve Board setting forth the usages of trade in the respective countries, dependencies, or insular possessions in which such banks or bankers are located.

If the Federal Reserve Board should determine that the usages of trade in such countries, dependencies, or possessions require the granting of the acceptance facilities applied for, it will notify the applying bank of its approval and will also publish in the Federal Reserve Bulletin the name or names of those countries, dependencies, or possessions in which banks or bankers are authorized to draw on member banks whose applications have been approved for the purpose of furnishing dollar exchange.

The Federal Reserve Board reserves the right to modify or on 90 days' notice to revoke its approval either as to any particular member bank or as to any foreign country or dependency or insular possession of the United States in which it has authorized banks or bankers to draw on member banks for the purpose of furnishing dollar exchange.

TIME DEPOSITS AND SAVINGS ACCOUNTS.

SECTION I. STATUTORY PROVISIONS.

Section 19 of the Federal Reserve Act provides, in part, as follows:

"Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits."

SECTION II. TIME DEPOSITS, OPEN ACCOUNTS.

The term "time deposits, open accounts" shall be held to include all accounts, not evidenced by certificates of deposit or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made that neither the whole nor any part of such deposit may be withdrawn by check or otherwise, except on a given date or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than 30 days.

SECTION III. SAVINGS ACCOUNTS.

The term "savings accounts" shall be held to include those accounts of the bank in respect to which, by its printed regulations, accepted by the depositor at the time the account is opened—

(*a*) The pass book, certificate, or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made, and

(*b*) The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made.

SECTION IV. TIME CERTIFICATES OF DEPOSIT.

A "time certificate of deposit" is defined as an instrument evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate payable in whole or in part to the depositor or on his order—

(*a*) On a certain date, specified on the certificate, not less than 30 days after the date of the deposit, or

(*b*) After the lapse of a certain specified time subsequent to the date of the certificate, in no case less than 30 days, or

(*c*) Upon written notice, which the bank may at its option require to be given a certain specified number of days, not less than 30 days, before the date of repayment, and

(*d*) In all cases only upon presentation of the certificate at each withdrawal for proper indorsement or surrender.

PURCHASE OF WARRANTS.

SECTION I. STATUTORY REQUIREMENTS.

Section 14 of the Federal Reserve Act reads in part as follows:

"Every Federal Reserve Bank shall have power—

"(*b*) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board."

SECTION II. DEFINITIONS.

Within the meaning of this regulation—

The term "warrant" shall be construed to mean "bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months."

The term "municipality" shall be construed to mean "State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts."

The term "net funded indebtedness" shall be construed to mean the legal gross indebtedness of the municipality (including the amount of any school district or other bonds which depend for their redemption upon taxes levied upon property within the municipality) less the aggregate of the following items:

(1) The amount of outstanding bonds or other debt obligations made payable from current revenues;

(2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a municipality with public utilities, such as waterworks, docks, electric plants, transportation facilities, etc.: *Provided,* That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on such bonds, and for the accumulation of a sinking fund sufficient for their redemption at maturity;

(3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in amounts sufficient to insure the payment of interest on the bonds and the redemption thereof at maturity: *Provided,* That such bonds are direct obligations of the municipality and included in the gross indebtedness of the municipality; and

(4) The total of all sinking funds accumulated for the redemption of the gross indebtedness of the municipality, except sinking funds applicable to bonds described in (1), (2), and (3) above.

SECTION III. CLASS OF WARRANTS ELIGIBLE FOR PURCHASE.

Any Federal Reserve Bank may purchase warrants issued by a municipality in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues, provided—

(*a*) They are the general obligations of the entire municipality; it being intended to exclude as ineligible for purchase all such obligations as are payable from "local benefit" and "special assessment" taxes when the municipality at large is not directly or ultimately liable;

(*b*) They are issued in anticipation of taxes or revenues which are due and payable on or before the date of maturity of such warrants; but the Federal Reserve Board may waive this condition in specific cases. For the purposes of this regulation, taxes shall be considered as due and payable on the last day on which they may be paid without penalty;

(*c*) They are issued by a municipality—

(1) Which has been in existence for a period of 10 years;

(2) Which for a period of 10 years previous to the purchase has not defaulted for longer than 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it;

(3) Whose net funded indebtedness does not exceed 10 per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes.

SECTION IV. "EXISTENCE" AND "NONDEFAULT."

Warrants will be construed to comply with that part of Section III (*c*) relative to term of existence and nondefault, under the following conditions:

(1) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, consolidated with or merged into an existing political division which meets the requirements of these regulations, will be deemed to be the warrants of such political division: *Provided,* That such warrants were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(2) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, wholly succeeded by a newly organized political division whose term of existence, added to that of such original political division or of any other political division so succeeded, is equal to a period of 10 years will be deemed to be warrants of such succeeding political division: *Provided,* That during such period none of such political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it: *And provided further,* That such warrants were assumed by such new political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund, from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(3) Warrants issued by or in behalf of any municipality which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, preexisting political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of 10 years, will be deemed to be warrants of a political division which has been in existence for a period of 10 years: *Provided,* That during such period none of such original, succeeding, or consolidated political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.

SECTION V. LIMITATIONS.

(*a*) Except with the approval of the Federal Reserve Board, no Federal Reserve Bank shall purchase and hold an amount in excess of 25 per cent of the total amount of warrants outstanding at any time and issued in conformity with provisions of section 14 (*b*), above quoted, and actually sold by a municipality.

(*b*) Except with the approval of the Federal Reserve Board, the aggregate amount invested by any Federal Reserve Bank in warrants of all kinds shall not exceed at the time of purchase a sum equal to 10 per cent of the deposits kept by its member banks with such Federal Reserve Bank.

(*c*) Except with the approval of the Federal Reserve Board, the maximum amount which may be invested at the time of purchase by any Federal Reserve Bank in warrants of any single municipality shall be limited to the following percentages of the deposits kept in such Federal Reserve Bank by its member banks:

Five per cent of such deposits in warrants of a municipality of 50,000 population or over;

Three per cent of such deposits in warrants of a municipality of over 30,000 population, but less than 50,000;

One per cent of such deposits in warrants of a municipality of over 10,000 population, but less than 30,000.

(*d*) Any Federal Reserve Bank may purchase from any of its member banks warrants of any municipality, indorsed by such member bank, with waiver of demand, notice, and protest if such warrants comply with Sections III and V (*b*) of these regulations, except that where a period of 10 years is mentioned in III (*c*) hereof a period of 5 years shall be substituted for the purposes of this clause.

SECTION VI. WARRANTS OF SMALL MUNICIPALITIES.

Warrants of a municipality of 10,000 population or less shall be purchased only with the special approval of the Federal Reserve Board.

The population of a municipality shall be determined by the last Federal or State census. Where it can not be exactly determined the Federal Reserve Board will make special rulings.

SECTION VII. OPINION OF COUNSEL.

Opinion of recognized counsel on municipal issues or of the regularly appointed counsel of the municipality as to the legality of the issue shall be secured and approved in each case by counsel for the Federal Reserve Bank.

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TRUST POWERS OF NATIONAL BANKS.

SECTION I. STATUTORY PROVISIONS.

The Federal Reserve Act as amended by the act of September 26, 1918, provides in part:

SEC. 11. The Federal Reserve Board shall be authorized and empowered:

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this Act.

National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but nothing in this Act shall be construed as authorizing the State authorities to examine the books, records, and assets of the national bank which are not held in trust under authority of this subsection.

No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

National banks in such cases shall not be required to execute the bond usually required of individuals if State corporations under similar circumstances are exempt from this requirement.

National banks shall have power to execute such bond when so required by the laws of the State.

In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more

than $5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: *Provided*, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.

SECTION II. APPLICATIONS.

A national bank desiring to exercise any and all of the powers authorized by section 11 (k) of the Federal Reserve Act, as amended by the Act of September 26, 1918, shall make application to the Federal Reserve Board, on a form approved by said Board, for a special permit authorizing it to exercise such powers. In the case of an original application—that is, where the applying bank has never been granted the right to exercise any of the powers authorized by section 11 (k)—the application should be made on F. R. B. Form 61. In the case of a supplemental application—that is, where the applying bank has already been granted the right to exercise one or more of the powers authorized by section 11 (k)—the application should be made on F. R. B. Form 61–b. Both forms are made a part of this regulation and may be obtained from the Federal Reserve Board or any Federal Reserve Bank.

SECTION III. SEPARATE DEPARTMENTS.

Every national bank permitted to act under this section shall establish a separate trust department, and shall place such department under the management of an officer or officers, whose duties shall be prescribed by the board of directors of the bank.

SECTION IV. CUSTODY OF TRUST SECURITIES AND INVESTMENTS.

The securities and investments held in each trust shall be kept separate and distinct from the securities owned by the bank and separate and distinct one from another. Trust securities and investments shall be placed in the joint custody of two or more officers or other employees designated by the board of directors of the bank and all such officers and employees shall be bonded.

SECTION V. DEPOSIT OF FUNDS AWAITING INVESTMENT OR DISTRIBUTION.

Funds received or held in the trust department of a national bank awaiting investment or distribution may be deposited in the commercial department of the bank to the credit of the trust department, provided that the bank first delivers to the trust department, as collateral security, United States bonds, or other readily marketable securities owned by the bank, which collateral security shall at all times be at least equal in market value to the amount of the funds so deposited.

SECTION VI. INVESTMENT OF TRUST FUNDS.

(*a*) *Private trusts.*—Funds held in trust must be invested in strict accordance with the terms of the will, deed, or other instrument creating the trust. Where the instrument creating the trust contains provisions authorizing the bank, its officers, or its directors to exercise their discretion in the matter of investments, funds held in trust may be invested only in those classes

of securities which are approved by the directors of the bank. Where the instrument creating the trust does not specify the character or class of investments to be made and does not expressly vest in the bank, its officers, or its directors a discretion in the matter of investments, funds held in trust shall be invested in any securities in which corporate or individual fiduciaries in the State in which the bank is located may lawfully invest.

(*b*) *Court trusts.*—Except as hereinafter provided, a national bank acting as executor, administrator, or in any other fiduciary capacity, under appointment by a court of competent jurisdiction, shall make all investments under an order of that court, and copies of all such orders shall be filed and preserved with the records of the trust department of the bank. If the court by general order vests a discretion in the national bank to invest funds held in trust, or if under the laws of the State in which the bank is located corporate fiduciaries appointed by the court are permitted to exercise such discretion, the national bank so appointed may invest such funds in any securities in which corporate or individual fiduciaries in the State in which the bank is located may lawfully invest.

Section VII. Books and Accounts.

All books and records of the trust department shall be kept separate and distinct from other books and records of the bank. All accounts opened shall be so kept as to enable the national bank at any time to furnish information or reports required by the Federal or State authorities, and such books and records shall be open to the inspection of such authorities.

Section VIII. Examinations.

Examiners appointed by the Comptroller of the Currency or designated by the Federal Reserve Board will be instructed to make thorough and complete audits of the cash, securities, accounts, and investments of the trust department of the bank at the same time that examination is made of the banking department.

Section IX. Conformity with State Laws.

Nothing in these regulations shall be construed to give a national bank exercising the powers permitted under the provisions of section 11 (k) of the Federal Reserve Act, as amended, any rights or privileges in contravention of the laws of the State in which the bank is located within the meaning of that Act.

Section X. Revocation of Permits.

The Federal Reserve Board reserves the right to revoke permits granted under the provisions of section 11 (k), as amended, in any case where in the opinion of the Board a bank has willfully violated the provisions of the Federal Reserve Act or of these regulations or the laws of any State relating to the operations of such bank when acting in any of the capacities permitted under the provisions of section 11 (k), as amended.

Section XI. Changes in Regulations.

These regulations are subject to change by the Federal Reserve Board; provided, however, that no such change shall prejudice any obligation undertaken in good faith under regulations in effect at the time the obligation was assumed.

LOANS ON FARM LAND AND OTHER REAL ESTATE.

Section 24 of the Federal Reserve Act provides in part that—

Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank 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.

National banks not located in central reserve cities may, therefore, legally make loans secured by improved and unencumbered farm land or other real estate as provided by this section.

Certain conditions and restrictions must, however, be observed—

(*a*) There must be no prior lien on the land; that is, the lending bank must hold an absolute first mortgage or deed of trust.

(*b*) The amount of the loan must not exceed 50 per cent of the actual value of the land by which it is secured.

(*c*) The maximum amount of loans which a national bank may make on real estate, whether on farm land or on other real estate as distinguished from farm land, is limited under the terms of the Act to an amount not in excess of one-third of its time deposits at the time of the making of the loan, and not in excess of one-third of its average time deposits during the preceding calendar year: *Provided, however,* That if one-third of such time deposits as of the date of making the loan or one-third of the average time deposits for the preceding calendar year, is less than one-fourth of the capital and surplus of the bank as of the date of making the loan, the bank in such event shall have authority to make loans upon real estate under the terms of the Act to the extent of one-fourth of the bank's capital and surplus as of that date.

(*d*) Farm land to be eligible as security for a loan by a national bank must be situated within the Federal reserve district in which such bank is located or within a radius of 100 miles of such bank irrespective of district lines.

(*e*) Real estate as distinguished from farm land to be eligible as security for a loan by a national bank must be located within a radius of 100 miles of such bank irrespective of district lines.

(*f*) The right of a national bank to "make loans" under section 24 includes the right to purchase or discount loans already made as well as the right to make such loans in the first instance: *Provided, however,* That no loan secured by farm land shall have a maturity of more than five years from the date on which it was purchased or made by the national bank and

that no loan secured by other real estate shall have a maturity of more than one year from such date.

(*g*) Though no national bank is authorized under the provisions of section 24 to make a loan on the security of real estate, other than farm land, for a period exceeding one year, nevertheless, at the end of the year, the maturing note may be renewed or extended for another year, and in order to obviate the necessity of making a new mortgage or deed of trust for each renewal the original mortgage or deed of trust may be so drawn in the first instance as to cover possible future renewals of the original note. Under no circumstances, however, must the bank obligate itself in advance to make such a renewal. It must in all cases preserve the right to require payment at the end of the year and to foreclose the mortgage should that action become necessary. The same principles apply to loans of longer maturities secured by farm lands.

(*h*) In order that real estate loans held by a bank may be readily classified, a statement signed by the officers making a loan and having knowledge of the facts upon which it is based must be attached to each note secured by a first mortgage on the land by which the loan is secured, certifying in detail as of the date of the loan that all of the requirements of law have been duly observed.

MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES.

SECTION I. BANKS ELIGIBLE FOR MEMBERSHIP.

1. Incorporation.—In order to be eligible for membership in a Federal Reserve Bank, a State bank or trust company must have been incorporated under a special or general law of the State or district in which it is located.

2. Capital stock.—Under the terms of section 9 of the Federal Reserve Act as amended, no applying bank can be admitted to membership in a Federal Reserve Bank unless—

(*a*) It possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the National Bank Act, or

(*b*) It possesses a paid-up, unimpaired capital of at least 60 per cent of such amount, and, under penalty of loss of membership, complies with the rules and regulations herein prescribed by the Federal Reserve Board fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital required under (*a*).

In order to become a member of the Federal Reserve System, therefore, any State bank or trust company must have a minimum paid-up capital stock at the time it becomes a member, as follows:

If located in a city or town with a population of—	Minimum capital if admitted under clause (*a*).	Minimum capital if admitted under clause (*b*).
Not exceeding 3,000 inhabitants	$25,000	$15,000
Exceeding 3,000 but not exceeding 6,000 inhabitants	50,000	30,000
Exceeding 6,000 but not exceeding 50,000 inhabitants	100,000	60,000
Exceeding 50,000 inhabitants	200,000	120,000

Any bank admitted to membership under clause (*b*) must also, as a condition of membership, the violation of which will subject it to expulsion from the Federal Reserve System, increase its paid-up and unimpaired capital within five years after the approval of its application by the Federal Reserve Board to the amount required under (*a*). For the purpose of providing for such increase, every such bank shall set aside each year in a fund exclusively applicable to such capital increase not less than 50 per cent of its net earnings for the preceding year prior to the payment of dividends, and if such net earnings exceed 12 per cent of the paid-up capital of such bank, then all net earnings in excess of 6 per cent of the paid-up capital shall be carried to such fund, until such fund is large enough to provide for the necessary increase in capital. Whenever such fund shall be large enough to provide for the necessary increase in capital, or at such other time as the Federal Reserve Board may require, such fund or as much thereof as may be necessary shall be converted into capital by a stock dividend or used in any other manner permitted by State law to increase the capital of such bank to the amount required

under (*a*): *Provided, however,* That such bank may be excused in whole or in part from compliance with the terms of this paragraph if it increases its capital through the sale of additional stock: *Provided, further,* That nothing herein contained shall be construed as requiring any such bank to violate any provision of State law, and in any case in which the requirements of this paragraph are inconsistent with the requirements of State law the requirements of this paragraph may be waived and the subject covered by a special condition of membership to be prescribed by the Federal Reserve Board.

Section II. Application for Membership.

Any eligible State bank or trust company may make application on F. R. B. Form 83a, made a part of this regulation, to the Federal Reserve Board for an amount of capital stock in the Federal Reserve Bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such State bank or trust company. This application must be forwarded direct to the Federal Reserve Agent of the district in which the applying bank or trust company is located and must be accompanied by Exhibits I, II, and III, referred to on page 1 of the application blank.

Section III. Approval of Application.

In passing upon an application the Federal Reserve Board will consider especially—

1. The financial condition of the applying bank or trust company and the general character of its management;

2. Whether the corporate powers exercised by the applying bank or trust company are consistent with the purposes of the Federal Reserve Act; and

3. Whether the laws of the State or district in which the applying bank or trust company is located contain provisions likely to prevent proper compliance with the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board made in conformity therewith.

If, in the judgment of the Federal Reserve Board, an applying bank or trust company conforms to all the requirements of the Federal Reserve Act and these regulations, and is otherwise qualified for membership, the Board will issue a certificate of approval subject to such conditions as it may deem necessary to insure compliance with the act and these regulations. When the conditions imposed by the Board have been accepted by the applying bank or trust company the Board will issue a certificate of approval, whereupon the applying bank or trust company shall make a payment to the Federal Reserve Bank of its district of one-half of the amount of its subscription, i. e., 3 per cent of the amount of its paid-up capital and surplus, and upon receipt of this payment the appropriate certificate of stock will be issued by the Federal Reserve Bank. The remaining half of its subscription shall be subject to call when deemed necessary by the Federal Reserve Board.

Section IV. Powers and Restrictions.

Every State bank or trust company while a member of the Federal Reserve System—

1. Shall retain its full charter and statutory rights as a State bank or trust company, subject to the provisions of the Federal Reserve Act and to the regulations of the Federal Reserve Board;

2. Shall maintain such improvements and changes in its banking practice as may have been specifically required of it by the Federal Reserve Board as a condition of its admission and shall not lower the standard of banking then required of it;

3. Shall enjoy all the privileges and observe all those requirements of the Federal Reserve Act and of the regulations of the Federal Reserve Board made in conformity therewith which are applicable to State banks and trust companies which have become member banks; and

4. Shall comply at all times with any and all conditions of membership prescribed by the Federal Reserve Board at the time of the admission of such member bank to the Federal Reserve System.

Section V. Examinations and Reports.

Every State bank or trust company, while a member of the Federal Reserve System, shall be subject to examinations made by direction of the Federal Reserve Board or of the Federal Reserve Bank by examiners selected or approved by the Federal Reserve Board.

In order to avoid duplication, examinations of State banks and trust companies made by State authorities will be accepted in lieu of examinations by examiners selected or approved by the Board wherever these are satisfactory to the directors of the Federal Reserve Bank, and examiners from the staff of the Board or of the Federal Reserve Banks will, whenever desirable, be designated by the Board to act with the examination staff of the State in order that uniformity in the standard of examination may be assured.

Every State bank or trust company, while a member of the Federal Reserve System, shall be required to make in each year not less than three reports of condition on F. R. B. Form 105. Such reports shall be made to the Federal Reserve Bank of its district on call of such bank, on dates to be fixed by the Federal Reserve Board. They shall also make semiannual reports of earnings and dividends on F. R. B. Form 107. As dividends may be declared from time to time, each State bank or trust company member shall also furnish to the Federal Reserve Bank of its district a special notification of dividend declared on F. R. B. Form 107a. F. R. B. Forms 105, 107, and 107a are made a part of this regulation.

INCREASE OR DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS AND CANCELLATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES.

SECTION I. INCREASE OF CAPITAL STOCK.

(a) **New national banks.**—Each new national bank, while in process of organization (including each nonmember State bank converting into a national bank,[1] while in process of such conversion) shall file with the Federal Reserve Bank of its district an application to the Federal Reserve Board on F. R. B. Form 30 (or as to a nonmember State bank converting into a national bank, on F. R. B. Form 30a), made a part of this regulation, for an amount of capital stock of the Federal Reserve Bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such new national bank. Such application shall be forwarded promptly to the Federal Reserve Board, and if it is found to be in proper form the Federal Reserve Board will grant its approval effective if and when the Comptroller of the Currency issues to such bank his certificate of authority to commence business. If its application is approved, the applying bank shall thereupon make a payment to the Federal Reserve Bank of its district of one-half of the amount of its subscription, i. e., 3 per cent of the amount of its paid-up capital and surplus; and upon receipt of this payment the Federal Reserve Bank will issue a receipt therefor, place the amount in a suspense account, and notify the Federal Reserve Board that it has been received. When the Comptroller of the Currency issues to such applying bank his certificate of authority to commence business the Federal Reserve Bank shall issue a stock certificate to the applying bank, and the capital stock of the Federal Reserve Bank represented by such certificate shall be considered as issued as of the date upon which the Comptroller of the Currency issues his certificate of authority to commence business. The remaining half of the subscription of the applying bank shall be subject to call when deemed necessary by the Federal Reserve Board.

(b) **State banks becoming members.**—Any State bank or trust company desiring to become a member of the Federal Reserve System shall make application as provided in Regulation H, and when such application has been approved by the Federal Reserve Board and all requirements of Regulation H have been complied with the Federal Reserve Bank shall issue an appropriate certificate of stock as provided in Regulation H.

(c) **Increase of capital or surplus by member banks.**—Whenever any member bank shall increase the aggregate amount of its paid-up capital stock and surplus, it shall file with the Federal Reserve Bank of which it is a member an application on F. R. B. Form 56, made a part of this regulation, for an additional amount of the capital stock of the Federal Reserve

[1] Whenever any State member bank is converted into a national bank under section 5154 of the Revised Statutes, as amended by section 8 of the Federal Reserve Act, it may continue to hold as a national bank its shares of Federal Reserve Bank stock previously held as a State bank, and need not file any application for Federal Reserve Bank stock, unless the aggregate amount of its capital and surplus is increased, in which event it should file an application for additional stock, as provided in Section I (*c*). The certificate of stock issued in the old name of the member bank, however, should be surrendered and canceled, and a new certificate should be issued in lieu thereof, in the new name of the member bank, as provided in Section III.

Bank of its district equal to 6 per cent of such increase. After such application has been approved by the Federal Reserve Agent and by the Federal Reserve Board, the applying member bank shall pay to the Federal Reserve Bank of its district one-half of the amount of its additional subscription, and when this amount has been paid the appropriate certificate of stock shall be issued by the Federal Reserve Bank. The remaining half of such additional subscription shall be subject to call when deemed necessary by the Federal Reserve Board.

(d) **Consolidation of member banks.**—Whenever two or more member banks consolidate and such consolidation results in the consolidated bank acquiring by operation of law [2] the Federal Reserve Bank stock owned by the other consolidating bank or banks, and which also results in the consolidated bank having an aggregate capital and surplus in excess of the aggregate capital and surplus of the consolidating member banks, such consolidated bank shall file an application for additional stock, as provided in Section I (*c*).

(e) **Certifying increases of Federal Reserve Bank stock.**—Whenever the capital stock of any Federal Reserve Bank shall be increased the board of directors of such Federal Reserve Bank shall certify such increase to the Comptroller of the Currency on F. R. B. Form 58, which is made a part of this regulation. Such certifications shall be made quarterly as of the last days of December, March, June, and September of each year. A duplicate copy of each certificate shall be forwarded to the Federal Reserve Board.

Section II. Decrease of Capital Stock.

(a) **Reduction of capital by member bank.**—Whenever a member bank reduces the amount of its paid-up capital stock and, in the case of reduction of the paid-up capital of a national bank, such reduction has been approved by the Comptroller of the Currency and by the Federal Reserve Board in accordance with the provisions of section 28 of the Federal Reserve Act, it shall file with the Federal Reserve Bank of which it is a member an application for the surrender and cancellation of stock on F. R. B. Form 60, which is made a part of this regulation. When this application has been approved by the Federal Reserve Agent and the Federal Reserve Board, the Federal Reserve Bank shall accept and cancel the stock which the applying bank is entitled to surrender and shall refund to the member bank the proportionate amount due such bank on account of the stock canceled.

(b). **Insolvency of member bank.**—Whenever a member bank shall be declared insolvent and a receiver appointed by the proper authorities, such receiver shall, within six months from the date of his appointment, file with the Federal Reserve Bank of which the insolvent bank is a member an application on F. R. B. Form 87, which is made a part of this regulation, for the surrender and cancellation of the stock held by such insolvent member bank, and for the refund of all balances due to it. If the receiver shall fail to make such application within the time

[2] Section 5 of the Federal Reserve Act provides that "Shares of the capital stock of Federal Reserve Banks owned by member banks shall not be transferred or hypothecated." This provision prevents a transfer of Federal Reserve Bank stock by purchase, but does not prevent a transfer by operation of law. When there is a merger of member banks involving the liquidation of one of such banks and the purchasing of the assets of the liquidating bank by the bank continuing in existence, it is necessary for the liquidating bank to surrender its Federal Reserve Bank stock and for the purchasing bank to apply for new stock. On the other hand, if member banks consolidate, under a statute which does not require the liquidation of any of the consolidating banks, and the assets and obligations of the consolidating banks are transferred to the consolidated bank by operation of law, the consolidated bank becomes the owner of the Federal Reserve Bank stock of the consolidating banks as soon as the consolidation takes effect and such stock technically need not be surrendered. The certificates of stock issued in the names of the consolidating banks, however, should be surrendered and canceled, and a new certificate should be issued in lieu thereof, in the new name of the consolidated bank, as provided in Section III. A consolidation of national banks under the Act of Congress entitled "An Act to provide for the consolidation of national banking associations," approved November 7, 1918, meets all of these conditions.

specified, the Federal Reserve Agent shall report the facts to the Federal Reserve Board with a recommendation as to the action to be taken, whereupon the Federal Reserve Board will either issue an order to cancel such stock or, if the circumstances warrant it, grant the receiver additional time in which to file such an application. Upon approval of such an application by the Federal Reserve Agent and the Federal Reserve Board, or upon the issuance of such an order by the Federal Reserve Board, the Federal Reserve Bank shall cancel such stock and shall adjust accounts between the member bank and the Federal Reserve Bank by applying to any indebtedness of the insolvent member bank to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per cent per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized receiver of such insolvent member bank.

(c) **Voluntary liquidation of member bank.**—Whenever a member bank goes into voluntary liquidation and a liquidating agent is appointed, such agent shall, within six months from the date of his appointment, file with the Federal Reserve Bank of which the liquidating bank is a member an application on F. R. B. Form 86, if a national bank, and on F. R. B. Form 143, if a State bank, which forms are made a part of this regulation, for the surrender and cancellation of the stock held by it and for the refund of all balances due to such liquidating member bank. If the liquidating agent shall fail to make such application within the time specified, the Federal Reserve Agent shall report the facts to the Federal Reserve Board with a recommendation as to the action to be taken, whereupon the Federal Reserve Board will either issue an order to cancel such stock, or, if the circumstances warrant it, grant the liquidating agent additional time in which to file such an application. Upon approval of such an application by the Federal Reserve Agent and the Federal Reserve Board, or upon the issuance of such an order by the Federal Reserve Board, the Federal Reserve Bank shall cancel such stock and shall adjust accounts between the liquidating member bank and the Federal Reserve Bank by applying to the indebtedness of the liquidating member bank to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per cent per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized liquidating agent of such liquidating member bank.

(d) **Consolidation of member banks.**—Whenever there is a consolidation of two or more member banks which results in the consolidated bank acquiring by operation of law (see note 2 on p. 25) the Federal Reserve Bank stock owned by the other consolidating banks, and which also results in the consolidated bank having a paid-up capital less than the aggregate paid-up capital of the consolidating member banks, the consolidated bank shall file with the Federal Reserve Bank of which it is a member an application for the surrender and cancellation of stock on F. R. B. Form 60a, which is made a part of this regulation. Upon the approval of this application by the Federal Reserve Agent and the Federal Reserve Board, the Federal Reserve Bank shall accept and cancel the stock which the applying bank is entitled to surrender, and shall refund to the applying bank the proportionate amount due such bank on account of the stock canceled.

(e) **Certifying reductions of Federal Reserve Bank stock.**—All reductions of the capital stock of a Federal Reserve Bank shall, in accordance with the provisions of section 6 of the Federal Reserve Act, be certified to the Comptroller of the Currency by the board of directors of such Federal Reserve Bank on F. R. B. Form 59, which is made a part of this regulation. Such certifications shall be made quarterly as of the last days of December, March, June, and September of each year. A duplicate copy of each certificate shall be forwarded to the Federal Reserve Board.

SECTION III. CANCELLATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES.

Whenever a member bank changes its name or, by consolidation with another member bank acquires by operation of law (see note 2 on p. 25) the Federal Reserve Bank stock previously held by such other member bank, it shall surrender to the Federal Reserve Bank the certificate of Federal Reserve Bank stock which was issued to it under its old name, or which was issued to such other member bank. The certificate so surrendered shall be indorsed by the member bank surrendering it or by the member bank to which it was originally issued and shall be accompanied by proper proof of the change of name or consolidation. Upon receipt of such certificate of stock so indorsed, together with such proof, the Federal Reserve Bank shall cancel the certificate so surrendered and shall issue in lieu thereof to and in the name of the member bank surrendering it a new certificate for the number of shares represented by the certificate so surrendered, or if the member bank is entitled to surrender some of the stock which is represented by the surrendered certificate, and an application for the surrender and cancellation of such stock is at the same time made in accordance with this regulation, the new certificate shall be for the number of shares represented by the surrendered certificate less the number of shares canceled pursuant to such application. All cases where certificates of stock are surrendered and new certificates issued in lieu thereof and in a different name shall be reported to the Federal Reserve Board by the Federal Reserve Agent.

(Effective August 15, 1923.)

REGULATION J.
Series of 1923.
(Superseding Regulation J of 1920.)

CHECK CLEARING AND COLLECTION.

SECTION I. STATUTORY PROVISIONS.

Section 16 of the Federal Reserve Act authorizes the Federal Reserve Board to require each Federal Reserve Bank to exercise the functions of a clearing house for its member banks, and section 13 of the Federal Reserve Act, as amended by the act approved June 21, 1917, authorizes each Federal Reserve Bank to receive from any nonmember bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such nonmember bank or trust company maintains with its Federal Reserve Bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve Bank.

SECTION II. GENERAL REQUIREMENTS.

In pursuance of the authority vested in it under these provisions of law, the Federal Reserve Board, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve Bank exercise the functions of a clearing house for such of its member banks as desire to avail themselves of its privileges and for such nonmember State banks and trust companies as may maintain with the Federal Reserve Bank balances sufficient to qualify them under the provisions of section 13 to send items to Federal Reserve Banks for purposes of exchange or of collection. Such nonmember State banks and trust companies will hereinafter be referred to as nonmember clearing banks.

Each Federal Reserve Bank shall exercise the functions of a clearing house under the general terms and conditions hereinafter set forth.

SECTION III. CHECKS RECEIVED FOR COLLECTION.

(*a*) Each Federal Reserve Bank will receive at par from its member banks and from nonmember clearing banks in its district, checks [1] drawn on all member and nonmember clearing banks and on all other nonmember banks which agree to remit at par in acceptable funds through the Federal Reserve Bank of their district.

(*b*) Each Federal Reserve Bank will receive at par from other Federal Reserve Banks, and from all member and nonmember clearing banks in other Federal Reserve Districts authorized to route direct for the credit of their accounts with their respective Federal Reserve Banks, checks drawn upon all member and nonmember clearing banks of its district and upon all other nonmember banks of its district which agree to remit at par in acceptable funds.

[1] A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to a certain person therein named, or to him or his order, or to bearer, and payable on demand.

(*c*) No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any nonmember bank which refuses to remit at par in acceptable funds.

(*d*) Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, indorsed by, or emanating from, any nonmember bank which refuses to remit at par in acceptable funds, it shall make a charge for the service of collecting such check of one-tenth of 1 per cent, the minimum charge to be 10 cents for each item.

Section IV. Time Schedule and Availability of Credits.

Each Federal Reserve Bank will publish a time schedule showing the time at which any item sent to it will be counted as reserve and become available to meet checks drawn. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule, and as provided below.

For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal Reserve Bank at full face value in the reserve account or clearing account upon day of receipt, and the proceeds will at once be counted as reserve and become available to meet checks drawn.

For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal Reserve Bank at full face value, but the proceeds will not be counted as reserve nor become available to meet checks drawn until such time as may be specified in such time schedule, at which time credit will be transferred from the deferred account to the reserve account or clearing account and will then be counted as reserve and become available to meet checks drawn.

Section V. Manner of Collection.

The Federal Reserve Board hereby authorizes, and each member and nonmember clearing bank will be required to authorize, the Federal Reserve Banks to handle checks received on deposit or for collection as follows:

(1) A Federal Reserve Bank will act as agent only and will assume no liability except for its own negligence and its guaranty of prior indorsements.

(2) A Federal Reserve Bank is authorized to present or send checks for payment in cash or exchange draft direct to the bank on which they are drawn or at which they are payable, or to forward them to any suitably selected subagent with authority to present or send them for payment in cash or exchange draft direct to the bank on which they are drawn or at which they are payable.

(3) Checks received by a Federal Reserve Bank on its member or nonmember clearing banks will be forwarded or presented direct to such banks, and such banks will be required to remit therefor at par in funds acceptable to the Federal Reserve Bank, or to authorize the Federal Reserve Bank to charge their reserve accounts or clearing accounts; provided, however, that in case such remittance or authorization is not received by the Federal Reserve Bank from any such bank at the expiration of the agreed transit time between the Federal Reserve Bank and such bank, the Federal Reserve Bank reserves the right to charge such items to the reserve account or clearing account of such bank at the expiration of such time.

(4) Checks received by a Federal Reserve Bank payable in other districts will be forwarded to the Federal Reserve Bank of the district in which such items are payable.

(5) A Federal Reserve Bank will charge back the amount of any check for which payment either in cash or in the proceeds of an exchange draft has not actually been received, regardless of whether or not the check itself can be returned.

Section VI. Penalties for Deficiencies in Reserves.

(a) **Statutory provisions.**—Section 19 of the Federal Reserve Act provides that—

The required balance carried by a member bank with a Federal Reserve Bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

(b) **Computation of reserves.**—Items can not be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve Bank until such time as may be specified in the appropriate time schedule referred to in Section IV. If a member bank draw against items before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to all the penalties provided by the Act.

(c) **Basic penalty.**—Inasmuch as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal Reserve Act, hereby prescribes a basic penalty for deficiencies in reserves according to the following rules:

1. Deficiencies in reserve balances of member banks in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven days. Deficiencies in reserve balances of other member banks will be computed on the basis of average daily net deposit balances covering a semimonthly period.

2. Penalties for deficiencies in reserves will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding month.

3. A basic rate of 2 per cent per annum above the Federal Reserve Bank discount rate on 90-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

(d) **Progressive penalty.**—The Federal Reserve Board will also prescribe for any Federal Reserve District, upon the application of the Federal Reserve Bank of that district, an additional progressive penalty for continued deficiencies in reserves, in accordance with the following rules:

1. When a member bank in a central reserve or reserve city has had an average deficiency in reserves for six consecutive weekly periods, a progressive penalty, increasing at the rate of one-fourth of 1 per cent for each week thereafter during which the average reserve balance is deficient, will be assessed on weekly deficiencies until the required reserve has been restored and maintained for four consecutive weekly periods, provided that the maximum penalty charged will not exceed 10 per cent.

2. When a member bank outside of a central reserve or reserve city has had an average deficiency in reserves for three consecutive semimonthly periods, a progressive penalty, increasing at the rate of one-half of 1 per cent for each half month thereafter during which the average reserve balance is deficient, will be assessed on semimonthly deficiencies until the required reserve has been restored and maintained for two consecutive semimonthly periods, provided that the maximum penalty charged will not exceed 10 per cent.

Section VII. Other Rules and Regulations.

Any further requirements that the Board may deem necessary will be set forth by the Federal Reserve Banks in their letters of instruction to their member and nonmember clearing banks. Each Federal Reserve Bank will also promulgate rules and regulations governing the details of its operations as a clearing house, such rules and regulations to be binding upon all member and nonmember banks which are clearing through the Federal Reserve Bank.

BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS UNDER THE TERMS OF SECTION 25 (a) OF THE FEDERAL RESERVE ACT.

I. Organization.

Any number of natural persons, not less in any case than five, may form a Corporation under the provisions of section 25 (a) for the purpose of engaging in international or foreign banking or other international or foreign financial operations or in banking or other financial operations 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.

II. Articles of Association.

Any persons desiring to organize a corporation for any of the purposes defined in section 25 (a) shall enter into articles of association (see F. R. B. Form 151 which is suggested as a satisfactory form of articles of association) which shall specify in general terms the objects for which the Corporation is formed, and may contain any other provisions not inconsistent with law which the Corporation may see fit to adopt for the regulation of its business and the conduct of its affairs. The articles of association shall be signed by each person intending to participate in the organization of the Corporation and when signed shall be forwarded to the Federal Reserve Board in whose office they shall be filed.

III. Organization Certificate.

All of the persons signing the articles of association shall under their hands make an organization certificate on F. R. B. Form 152, which is made a part of this regulation, and which shall state specifically:

First. The name assumed by the Corporation.

Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.

Fourth. The amount of its capital stock and the number of shares into which it shall be divided.

Fifth. The names and places of business or residences of persons executing the organization certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same and all other persons, firms, companies, and corporations who or which may thereafter subscribe to or purchase shares of the capital stock of such Corporation to avail themselves of the advantages of this section.

The persons signing the organization certificate shall acknowledge the execution thereof before a judge of some court of record or notary public who shall certify thereto under the seal of such court or notary. Thereafter the certificate shall be forwarded to the Federal Reserve Board to be filed in its office.

[1] Whenever these regulations refer to a Corporation spelled with a capital C, they relate to a corporation organized under section 25 (a) of the Federal Reserve Act.

IV. Title.

Inasmuch as the name of the Corporation is subject to the approval of the Federal Reserve Board, a preliminary application for that approval should be filed with the Federal Reserve Board on F. R. B. Form 150, which is made a part of this regulation. This application should state merely that the organization of a Corporation under the proposed name is contemplated and may request the approval of that name and its reservation for a period of 30 days. No Corporation which issues its own bonds, debentures, or other such obligations will be permitted to have the word "bank" as a part of its title. No Corporation which has the word "Federal" in its title will be permitted also to have the word "bank" as a part of its title. So far as possible the title of the Corporation should indicate the nature or reason of the business contemplated and should in no case resemble the name of any other corporation to the extent that it might result in misleading or deceiving the public as to its identity, purpose, connections, or affiliations.

V. Authority to Commence Business.

After the articles of association and organization certificate have been made and filed with the Federal Reserve Board, and after they have been approved by the Federal Reserve Board and a preliminary permit to begin business has been issued by the Federal Reserve Board, the association shall become and be a body corporate, but none of its powers except such as are incidental and preliminary to its organization shall be exercised until it has been formally authorized by the Federal Reserve Board by a final permit generally to commence business.

Before the Federal Reserve Board will issue its final permit to commence business, the president or cashier, together with at least three of the directors, must certify (*a*) that each director elected is a citizen of the United States; (*b*) that a majority of the shares of stock is owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (*c*) that of the authorized capital stock specified in the articles of association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter the cashier shall certify to the payment of the remaining installments as and when each is paid in, in accordance with law.

VI. Capital Stock.

No Corporation may be organized under the terms of section 25 (a) with a capital stock of less than $2,000,000. The par value of each share of stock shall be specified in the articles of association, and no Corporation will be permitted to issue stock of no par value. If there is more than one class of stock, the name and amount of each class and the obligations, rights, and privileges attaching thereto shall be set forth fully in the articles of association. Each class of stock shall be so named as to indicate to the investor as nearly as possible what is its character and to put him on notice of any unusual attributes.

VII. Transfers of Stock.

Section 25 (a) provides in part that—

A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by the citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States.

In order to insure compliance at all times with the requirements of this provision after the organization of the Corporation, shares of stock shall be issuable and transferable only on the books of the Corporation. Every application for the issue or transfer of stock shall be accompanied by an affidavit of the party to whom it is desired to issue or transfer stock, or by his or its duly authorized agent, stating—

In the case of an individual.—(*a*) Whether he is or is not a citizen of the United States and if a citizen of the United States, whether he is a natural born citizen or a citizen by naturalization, and if naturalized, whether he remains for any purpose in the allegiance of any foreign sovereign or state; (*b*) Whether there is or is not any arrangement under which he is to hold the shares or any of the shares which he desires to have issued or transferred to him, in trust for or in any way under the control of any foreign state or any foreigner, foreign corporation, or any corporation under foreign control, and if so, the nature thereof.

In the case of a corporation.—(*a*) Whether such corporation is or is not chartered under the laws of the United States or of a State of the United States. If it is not, no further declaration is necessary, but if it is, it must also be stated (*b*) whether the controlling interest in such corporation is or is not owned by citizens of the United States, and (*c*) whether there is or is not any arrangement under which such corporation will hold the shares or any of the shares if issued or transferred to such corporation, in trust for or in any way under the control of any foreign state or any foreigner or foreign corporation or any corporation under foreign control, and if so, the nature thereof.

In the case of a firm or company.—(*a*) Whether the controlling interest in such firm or company is or is not owned by citizens of the United States and, if so, (*b*) whether there is or is not any arrangement under which such firm or company will hold the shares or any of the shares if issued or transferred to such firm or company in trust for or in any way under the control of any foreign state or any foreigner or foreign corporation or any corporation under foreign control and if so, the nature thereof.

The board of directors of the Corporation, whether acting directly or through an agent, may, before making any issue or transfer of stock, require such further evidence as in their discretion they may think necessary in order to determine whether or not the issue or transfer of the stock would result in a violation of the law. No issue or transfer of stock which would cause 50 per cent or more of the total amount of stock issued or outstanding to be held contrary to the provisions of the law or these regulations shall be made upon the books of the Corporation. The decision of the board of directors in each case shall be final and conclusive and not subject to any question by any person, firm, or corporation on any ground whatsoever.

If at any time by reason of the fact that the holder of any shares of the Corporation ceases to be a citizen of the United States, or, in the opinion of the board of directors, becomes subject to the control of any foreign state or foreigner or foreign corporation or corporation under foreign control, 50 per cent or more of the total amount of capital stock issued or outstanding is held contrary to the provisions of the law or these regulations, the board of directors may, when apprised of that fact, forthwith serve on the holder of the shares in question a notice in writing requiring such holder within two months to transfer such shares to a citizen of the United States, or to a firm, company, or corporation approved by the board of directors as an eligible stockholder. When such notice has been given by the board of directors the shares of stock so held shall cease to confer any vote until they have been transferred as required above and if on the expiration of two months after such notice the shares shall not have been so transferred, the shares shall be forfeited to the Corporation.

The board of directors shall prescribe in the by-laws of the Corporation appropriate regulations for the registration of the shares of stock in accordance with the terms of the law and these

regulations. The by-laws must also provide that the certificates of stock issued by the Corporation shall contain provisions sufficient to put the holder on notice of the terms of the law and the regulations of the Federal Reserve Board defining the limitations upon the rights of transfer.

VIII. Operations in the United States.

No Corporation shall carry on any part of its business in the United States except such as shall be incidental to its international or foreign business. Agencies may be established in the United States with the approval of the Federal Reserve Board for specific purposes, but not generally to carry on the business of the Corporation.

IX. Investments in the Stock of Other Corporations.

It is contemplated by the law that a Corporation shall conduct its business abroad either directly or indirectly through the ownership or control of corporations, and it is accordingly provided that a Corporation may invest in the stock, or other certificates of ownership, of any other corporation organized—

(*a*) Under the provisions of section 25 (a) of the Federal Reserve Act;

(*b*) Under the laws of any foreign country or a colony or dependency thereof;

(*c*) Under the laws of any State, dependency, or insular possession of the United States;

provided, first, that such other corporation is not engaged in the general business of buying or selling goods, wares, merchandise, or commodities in the United States; and second, that it is not transacting any business in the United States except such as is incidental to its international or foreign business.

Except with the approval of the Federal Reserve Board, no Corporation shall invest an amount in excess of 15 per cent of its capital and surplus in the stock of any corporation engaged in the business of banking, or an amount in excess of 10 per cent of its capital and surplus in the stock of any other kind of corporation.

No Corporation shall purchase any stock in any other corporation organized under the terms of section 25 (a) or under the laws of any State, which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing Corporation. This restriction, however, does not apply to corporations organized under foreign laws.

X. Branches.

No Corporation shall establish any branches except with the approval of the Federal Reserve Board, and in no case shall any branch be established in the United States.

XI. Issue of Debentures, Bonds, and Promissory Notes.

Approval of the Federal Reserve Board.—No Corporation shall make any public or private issue of its debentures, bonds, notes, or other such obligations without the approval of the Federal Reserve Board, but this restriction shall not apply to notes issued by the Corporation in borrowing from banks or bankers for temporary purposes not to exceed one year. The approval of the Federal Reserve Board will be based solely upon the right of the Corporation to make the issue under the terms of this regulation and shall not be understood in any way to imply that the Federal Reserve Board has approved or passed upon the merits of such obligations as an investment. The Federal Reserve Board will consider the general character and scope of the business of the Corporation in determining the amount of debentures, bonds, notes, or other such obligations of the Corporation which may be issued by it.

Application.—Every application for the approval of any such issue by a Corporation shall be accompanied by (1) a statement of the condition of the Corporation in such form and as of such date as the Federal Reserve Board may require; (2) a detailed list of the securities by which it is proposed to secure such issue, stating their maturities, indorsements, guaranties, or collateral, if any, and in general terms the nature of the transaction or transactions upon which they were based; and (3) such other data as the Federal Reserve Board may from time to time require.

Advertisements.—No circular, letter, or other document advertising the issue of the obligations of a Corporation shall state or contain any reference to the fact that the Federal Reserve Board has granted its approval of the issue to which the advertisement relates. This requirement will be enforced strictly in order that there may be no possibility of the public's misconstruing such a reference to be an approval by the Federal Reserve Board of the merits or desirability of the obligations as an investment.

XII. Sale of Foreign Securities.

Approval of the Federal Reserve Board.—No Corporation shall offer for sale any foreign securities with its indorsement or guaranty, except with the approval of the Federal Reserve Board, but such approval will be based solely upon the right of the Corporation to make such a sale under the terms of this regulation and shall not be understood in any way to imply that the Federal Reserve Board has approved or passed upon the merits of such securities as an investment.

Application.—Every application for the approval of such sale shall be accompanied by a statement of the character and amount of the securities proposed to be sold, their indorsements, guaranties, or collateral, if any, and such other data as the Federal Reserve Board may from time to time require.

Advertisements.—No circular, letter, or other document advertising the sale of foreign securities by a Corporation with its indorsement or guaranty shall state or contain any reference to the fact that the Federal Reserve Board has granted its approval of the sale of the securities to which the advertisement relates.

XIII. Acceptances.

Kinds.—Any Corporation may accept (1) drafts and bills of exchange drawn upon it which grow out of transactions involving the importation or exportation of goods, and (2) drafts and bills of exchange which are drawn by banks or bankers located in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, and possessions, provided, however, that, except with the approval of the Federal Reserve Board and subject to such limitations as it may prescribe, no Corporation shall exercise its power to accept drafts or bills of exchange if at the time such drafts or bills are presented for acceptance it has outstanding any debentures, bonds, notes, or other such obligations issued by it.

Maturity.—Except with the approval of the Federal Reserve Board, no Corporation shall accept any draft or bill of exchange which grows out of a transaction involving the importation or exportation of goods with a maturity in excess of six months, or shall accept any draft or bill of exchange drawn for the purpose of furnishing dollar exchange with a maturity in excess of three months.

Limitations.—(1) Individual drawers: No acceptances shall be made for the account of any one drawer in an amount aggregating at any time in excess of 10 per cent of the subscribed capital and surplus of the Corporation, unless the transaction be fully secured or represents

an exportation or importation of commodities and is guaranteed by a bank or banker of undoubted solvency. (2) Aggregates: Whenever the aggregate of acceptances outstanding at any time (*a*) exceeds the amount of the subscribed capital and surplus, 50 per cent of all the acceptances in excess of the amount shall be fully secured; or (*b*) exceeds twice the amount of the subscribed capital and surplus, all the acceptances outstanding in excess of such amount shall be fully secured. (The Corporation shall elect whichever requirement (*a*) or (*b*) calls for the smaller amount of secured acceptances.) In no event shall any Corporation have outstanding at any one time acceptances drawn for the purpose of furnishing dollar exchange in an amount aggregating more than 50 per cent of its subscribed capital and surplus.

Reserves.—Against all acceptances outstanding which mature in 30 days or less a reserve of at least 15 per cent shall be maintained, and against all acceptances outstanding which mature in more than 30 days a reserve of at least 3 per cent shall be maintained. Reserves against acceptances must be in liquid assets of any or all of the following kinds: (1) cash; (2) balances with other banks; (3) bankers' acceptances; and (4) such securities as the Federal Reserve Board may from time to time permit.

XIV. Deposits.

In the United States.—No Corporation shall receive in the United States any deposits except such as are incidental to or for the purpose of carrying out transactions in foreign countries or dependencies of the United States where the Corporation has established agencies, branches, correspondents, or where it operates through the ownership or control of subsidiary corporations. Deposits of this character may be made by individuals, firms, banks, or other corporations, whether foreign or domestic, and may be time deposits or on demand.

Outside the United States.—Outside the United States a Corporation may receive deposits of any kind from individuals, firms, banks, or other corporations, provided, however, that if such corporation has any of its bonds, debentures, or other such obligations outstanding it may receive abroad only such deposits as are incidental to the conduct of its exchange, discount, or loan operations.

Reserves.—Against all deposits received in the United States a reserve of not less than 13 per cent must be maintained. This reserve may consist of cash in vault, a balance with the Federal Reserve Bank of the district in which the head office of the Corporation is located, or a balance with any member bank. Against all deposits received abroad the Corporation shall maintain such reserves as may be required by local laws and by the dictates of sound business judgment and banking principles.

XV. General Limitations and Restrictions.

Liabilities of one borrower.—The total liabilities to a Corporation of any person, company, firm, or corporation for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed 10 per cent of the amount of its subscribed capital and surplus, except with the approval of the Federal Reserve Board: *Provided, however,* That the discount of bills of exchange drawn in good faith against actually existing values and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as money borrowed within the meaning of this paragraph. The liability of a customer on account of an acceptance made by the Corporation for his account is not a liability for money borrowed within the meaning of this paragraph unless and until he fails to place the Corporation in funds to cover the payment of the acceptance at maturity or unless the Corporation itself holds the acceptance.

Aggregate liabilities of the Corporation.—The aggregate of the Corporation's liabilities outstanding on account of acceptances, average domestic and foreign deposits, debentures, bonds, notes, guaranties, indorsements, and other such obligations shall not exceed at any one time ten times the amount of the Corporation's subscribed capital and surplus except with the approval of the Federal Reserve Board. In determining the amount of the liabilities within the meaning of this paragraph, indorsements of bills of exchange having not more than six months to run, drawn and accepted by others than the Corporation, shall not be included.

Operations abroad.—Except as otherwise provided in the law and these regulations, a Corporation may exercise abroad not only the powers specifically set forth in the law but also such incidental powers as may be usual in the determination of the Federal Reserve Board in connection with the transaction of the business of banking or other financial operations in the countries in which it shall transact business. In the exercise of any of these powers abroad a Corporation must be guided by the laws of the country in which it is operating and by sound business judgment and banking principles.

XVI. Management.

The directors, officers, or employees of a Corporation shall exercise their rights and perform their duties as directors, officers, or employees, with due regard to both the letter and the spirit of the law and these regulations. For the purpose of these regulations the Corporation shall, of course, be responsible for all acts of omission or commission of any of its directors, officers, employees, or representatives in the conduct of their official duties. The character of the management of a Corporation and its general attitude toward the purpose and spirit of the law and these regulations will be considered by the Federal Reserve Board in acting upon any application made under the terms of these regulations.

XVII. Reports and Examinations.

Reports.—Each Corporation shall make at least two reports annually to the Federal Reserve Board at such times and in such form as it may require.

Examinations.—Each Corporation shall be examined at least once a year by examiners appointed by the Federal Reserve Board. The cost of examinations shall be paid by the Corporation examined.

XVIII. Amendments to Regulations.

These regulations are subject to amendment by the Federal Reserve Board from time to time, provided, however, that no such amendment shall prejudice obligations undertaken in good faith under regulations in effect at the time they were assumed.

INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT.

SECTION I. DEFINITIONS.

Within the meaning of this regulation—

The term "member bank" shall apply to any national bank and any State bank or trust company which is a member of the Federal Reserve System.

The term "national bank" shall be construed to apply not only to national banking associations but also to banks, banking associations, and trust companies organized or operating under the laws of the United States, including all banks and trust companies doing business in the District of Columbia, regardless of the sources of their charters.

The term "resources" shall be construed to mean an amount equal to the sum of the deposits, capital, surplus, and undivided profits.

The term "State bank" shall include any bank, banking association, or trust company incorporated under State law.

The term "private banker" shall apply to any unincorporated individual engaging in one or more phases of the banking business as that term is generally understood and to any member of an unincorporated firm engaging in such business.

The term "Edge Act" shall mean section 25 (*a*) of the Federal Reserve Act as amended December 24, 1919.

The term "Edge Corporation" shall mean any corporation organized under the provisions of the Edge Act.

The term "city of over 200,000 inhabitants" includes any city, incorporated town, or village of more than 200,000 inhabitants, as shown by the last preceding decennial census of the United States. Any bank located anywhere within the corporate limits of such city is located in a city of over 200,000 inhabitants within the meaning of the Clayton Act, even though it is located in a suburb or an outlying district at some distance from the principal part of the city.

SECTION II. PROHIBITIONS OF CLAYTON ACT.

Under section 8 of the Clayton Antitrust Act—

(1) No person who is a director or other officer or employee of a national bank having resources aggregating more than $5,000,000 can legally serve at the same time as director, officer, or employee of any other national bank, regardless of its location.

(2) No person who is a director in a State bank or trust company having resources aggregating more than $5,000,000 or who is a private banker having resources aggregating more than $5,000,000 can legally serve at the same time as director of any national bank, regardless of its location.

(3) No person can legally be a director, officer, or employee of a national bank located in a city of more than 200,000 inhabitants who is at the same time a private banker in the same city or a director, officer, or employee of any other bank (State or national) located in the same city, regardless of the size of such bank.

The eligibility of a director, officer, or employee under the foregoing provisions is determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of the Clayton Act it is lawful for him to continue as such for one year thereafter under said election or employment.

When any person elected or chosen as a director, officer, or employee of any bank is eligible at the time of his election or selection to act for such bank in such capacity his eligibility to act in such capacity is not affected by reason of any change in the affairs of such bank from whatsoever cause until the expiration of one year from the date of his election or employment.

SECTION III. EXCEPTIONS.

The provisions of section 8 of the Clayton Act—

(1) Do not apply to mutual savings banks not having a capital stock represented by shares.

(2) Do not prohibit a person from being at the same time a director, officer, or employee of a national bank and not more than one other national bank, State bank, or trust company, where the entire capital stock of one is owned by the stockholders of the other.

(3) Do not prohibit a person from being at the same time a class A director of a Federal Reserve Bank and also an officer or director, or both an officer and a director, in one member bank.

(4) Do not prohibit a person who is serving as director, officer, or employee of a national bank, even though it has resources aggregating over $5,000,000, from serving at the same time as director, officer, or employee of any number of State banks and trust companies, provided such State institutions are not located in the same city of over 200,000 inhabitants as the national bank and do not have resources aggregating in the case of any one bank more than $5,000,000.

(5) Do not prohibit a person from serving at the same time as director, officer, or employee of any number of national banks, provided no two of them are located in the same city of over 200,000 inhabitants and no one of them has resources aggregating over $5,000,000.

(6) Do not prohibit a person who is not a director, officer, or employee of any national bank from serving at the same time as officer, director, or employee of any number of State banks or trust companies, regardless of their locations and resources.

(7) Do not prohibit a person who is an officer or employee but not a director of a State bank from serving as director, officer, or employee of a national bank, even though either or both of such banks have resources aggregating over $5,000,000, provided both banks are not located in the same city of over 200,000 inhabitants.

(8) Do not prohibit a person who is an officer or employee but not a director of a national bank from serving at the same time as director, officer, or employee of a State bank, even though either or both of such banks have resources aggregating over $5,000,000, provided both banks are not located in the same city of over 200,000 inhabitants.

(9) Do not apply to persons who have obtained the consent or approval of the Federal Reserve Board under the provisions of the Kern amendment, section 25 of the Federal Reserve Act, or the Edge Act, as hereinafter provided.

Exceptions cumulative.—The above exceptions are cumulative.

Section IV. Permission of the Federal Reserve Board Under Kern Amendment.

By the Kern amendment, approved May 15, 1916, as amended May 26, 1920, the Clayton Act was amended so as to authorize the Federal Reserve Board to permit any private banker or any officer, director, or employee of any member bank or class A director of a Federal Reserve Bank to serve as director, officer, or employee of not more than two other banks, banking associations, or trust companies coming within the prohibitions of the Clayton Act, provided such other banks are not in substantial competition with such private banker or member bank.

Substantial competition.—If the institutions involved are not in substantial competition, the Board is authorized, in its discretion, to grant, withhold, or revoke such consent; but if they are in substantial competition, the Board has no discretion in the matter and must refuse such consent.

The Board has adopted the following statement of general principles for its guidance in determining whether banks are in substantial competition within the meaning of the Kern amendment to the Clayton Act:

"In general, two banks will be deemed to be in substantial competition if they actually compete for a considerable amount of business, i. e., if a considerable portion of the business of each is of the same character and in doing or seeking such business they actually compete for the same customers or prospective customers, regardless of whether or not it is probable or possible that an interlocking directorate between them would result in injury to the public by making credit less available. If the statements of two banks show that each has a considerable amount of the same class of deposits or loans and it appears from the evidence submitted that they are so located as to be in a position to serve the same customers conveniently, the Board will presume, in the absence of evidence to the contrary, that they are in substantial competition. This presumption may be rebutted, however, by any evidence showing that they are not actually competing for such business, e. g., that they actually serve different classes of customers, that the business in question is not actually sought by one bank but is merely incidental to its other business, or that competition has already been eliminated through common stock ownership. The existence of substantial competition, however, may be shown by evidence other than that described above."

This is not intended as a precise definition of the term "substantial competition," but merely as a broad statement of the general principles which will be observed by the Federal Reserve Board in determining whether banks are in substantial competition. Whether or not substantial competition exists in any particular case is a question of fact which must be determined in the light of all the facts and circumstances involved in such case.

When obtained.—Inasmuch as the Kern amendment excepts from the prohibitions of the Clayton Act only those "who shall first procure the consent of the Federal Reserve Board," it is a violation of the law to serve two or more institutions in the prohibited classes before such consent has been obtained. Such consent should be obtained, therefore, before becoming an officer, director, or employee of more than one bank in the prohibited classes. Such consent may be procured before the person applying therefor has been elected as a class A director of a Federal Reserve Bank or as a director of any member bank.

Applications for permission.—A person wishing to obtain the permission of the Federal Reserve Board to serve banks coming within the prohibitions of the Clayton Act should—

(1) Make formal application on F. R. B. Form 94, or, if a private banker, on F. R. B. Form 94d. Each of these forms is made a part of this regulation.

(2) Obtain from each of the banks involved a statement on F. R. B. Form 94a, which is made a part of this regulation, showing the character of its business, together with a copy of

its last published statement of condition, and, if a private banker, make a statement on F. R. B. Form 94e showing the character of his or his firm's business.

(3) Forward all these papers to the Federal Reserve Agent of his district, who will attach his recommendation on F. R. B. Form 94b, which is made a part of this regulation, and forward them in due course to the Federal Reserve Board.

Approval or disapproval.—As soon as an application is acted upon by the Board, the applicant will be advised of the action taken.

If the Board approves the application, a formal certificate of permission to serve on the banks involved will be issued to the applicant.

Rehearing.—If the Board decides that the banks are in substantial competition and that it can not approve the application, it will, upon petition of the applicant, reconsider its decision and afford him every opportunity to present any additional facts or arguments bearing on the subject.

Effect of permits.—Permission once granted is continuing until revoked, and need not be renewed.

Revocation.—All permits, however, are subject to revocation at any time in the discretion of the Federal Reserve Board. The issuance of a permit to any person shall have the effect of revoking any or all permits which may have been issued previously to that person.

Section V. Permits Under Section 25 of the Federal Reserve Act.

With the approval of the Federal Reserve Board any director, officer, or employee of a member bank which has invested in the stock of any corporation principally engaged in international or foreign banking or financial operations or banking in a dependency or insular possession of the United States, under the provisions of section 25 of the Federal Reserve Act, may serve as director, officer, or employee of any such foreign bank or financial corporation.

Applications for approval.—The approval of the Federal Reserve Board for such interlocking directorates may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the officer, director, or employee involved, or in his behalf by one of the banks which he is serving. Such application should be sent directly to the Federal Reserve Board.

Section VI. Permits to Serve Edge Corporations.

With the approval of the Federal Reserve Board—

(1) Any officer, director, or employee of any member bank may serve at the same time as director, officer, or employee of any Edge Corporation in whose capital stock the member bank shall have invested.

(2) Any officer, director, or employee of any Edge Corporation may serve at the same time as officer, director, or employee of any other corporation in whose capital stock such Edge Corporation shall have invested under the provisions of the Edge Act.

Applications for approval.—Such approval may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the director, officer, or employee involved, or in his behalf by one of the banks or corporations involved. Such applications should be sent directly to the Federal Reserve Board.

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